



OIL & GAS CONSERVATION COMMISSION
— MINUTES OF MEETING / FEBRUARY 9, 1996
STEVEN L. RAUZI, PROGRAM ADMINISTRATOR





Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

NOTICE OF COMBINED PUBLIC MEETING AND POSSIBLE EXECUTIVE SESSION

OIL AND GAS CONSERVATION COMMISSION

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Oil and Gas Conservation Commission and to the general public that the Oil and Gas Conservation Commission will hold a meeting open to the public on February 9, 1996, at 10:00 a.m. in Room 111 at 416 West Congress, Tucson, Arizona 85701. As indicated in the agenda, the Oil and Gas Conservation Commission may vote to go into executive session which will not be open to the public to discuss certain matters.

The agenda for the meeting is as follows:

1. Call to Order
2. Approval of the Minutes of Meeting of September 15, 1995
3. Statement of Director and State Geologist
4. Report of Oil & Gas Program Administrator
5. Status of Sunset Review
6. Status of incentive legislation
7. Forfeiture of bonds
8. Call to the public
9. Announcements
10. Adjournment

The Oil and Gas Conservation Commission may vote to go into executive session, pursuant to A.R.S. § 38-431.03(A)(3), which will not be open to the public to consult with its attorney and receive legal advice with respect to any regular agenda item listed on this agenda.

A copy of the agenda background material provided to Commission members (with the exception of material relating to possible executive sessions) is available for public inspection at the Oil and Gas Program Administrator's office, 416 West Congress, Suite 100, Tucson, Arizona 85701.

The public will be afforded an opportunity to comment on any item on the agenda; however, at the beginning of the meeting, the Commission may vote to set up a time limit on individual comments.

Dated this 26th day of January 1996.

OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Program Administrator



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

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OIL AND GAS CONSERVATION COMMISSION

Steven L. Rauzi
Oil and Gas Program Administrator

PLEASE ADVISE THIS OFFICE ASAP IF YOU WILL NOT BE ATTENDING THIS MEETING

Title II of the Americans with disabilities Act prohibits the Oil and Gas Conservation Commission from discriminating on the basis of disability in its public meetings. Individuals with disabilities who need a reasonable accommodation to attend or communicate in the Commission's meeting, or who require this information in an alternate format, may contact the Program Administrator to make their needs known. Requests must be made at least 72 hours in advance so that the Commission will have sufficient time to respond.



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Larry D. Fellows
Director and State Geologist

January 26, 1996

To: Oil and Gas Conservation Commissioners
From: *SLR* Steven L. Rauzi, Oil and Gas Program Administrator
Re: Activity Report for February 9, 1996, Meeting

I am pleased to announce that Governor Symington reappointed Dale Nations to the Commission on January 10. This is Dale's fourth reappointment to the Commission since January 1976. A new roster is attached.

Five permits to drill were issued since your last meeting on September 15, 1995. One to Premco Western for an 8,500-foot test about 14 miles southeast of St. George, Utah, and four to Ridgeway Arizona Oil Corporation for confirmation wells at its St. Johns carbon dioxide play. The Premco hole is shut in at a depth of 825 feet, and Ridgeway plans to start drilling in early February. The Arzon hole near San Simon is still shut in pending further analysis.

On January 17, the Senate Committee on Natural Resources, Agriculture and Environment initiated SB 1075 to continue the Commission through July 2006. SB 1075 continues several natural resource agencies. A copy of this bill is attached.

SB 1126, apparently to reduce the tax rate on produced oil from 100 percent of assessed value to about 29 percent of assessed value (the assessed value on mine production) is scheduled to be heard on January 29. As we understand it, Senator Henderson, Window Rock, sponsored this bill on behalf of Mountain States Petroleum, the operator at Dineh-bi-Keyah Field. Larry and I plan to attend the hearing, get a copy of the bill, testify if appropriate, and advise you at your February 9 meeting.

In response to the discussion about archeological surveys on State Trust Land in your last meeting on September 15, 1995, I advised Mr. Rozen by letter of October 3 that we would remind applicants for a permit to drill on State Trust Land to consult with the Land Department regarding any archeological studies that may be required under the terms of the oil and gas lease. Mr. Rozen has not expressed any dissatisfaction with this arrangement.

We are holding a cash bond for a well that was plugged & abandoned in 1981 in compliance with all applicable rules yet the operator never requested release of this bond. I wrote two letters to the operator about this but I received no response. One letter was returned, addressee unknown. This money should be transferred to our forfeited bond account where it may be used for enforcement when needed.

The Attorney General certified the rules you adopted in March 1993 on December 29, 1995. Just in time too, because we received notice from the Governor's Regulatory Review Council that the next five-year review of oil and gas rules is scheduled for later this year. There is no need to discuss specifics at this time, but one issue you may want to consider is lowering the performance bond to \$5,000 dollars for wells drilled to a depth less than 1,000 feet.

OIL AND GAS CONSERVATION COMMISSION

416 West Congress #100
Tucson, Arizona 85701

Minutes of Meeting
September 15, 1995

Present:

Dr. J. Dale Nations, Chairman
Ms. Lisa C. Worthington, Vice-Chair
Dr. Donald C. Clay, Member
Mr. James C. Lanshe, Member
Mr. Zed Veale, Member
Dr. Larry D. Fellows, State Geologist
Mr. Steven L. Rauzi, Oil and Gas Program Administrator

The regular Commission Meeting of September 15, 1995, was called to order by Dr. J. Dale Nations, Chairman, at 10:00 a.m. in Room 500, State Capitol Tower, Phoenix, Arizona.

On behalf of the Commission, Dr. Nations welcomed Dr. Clay to the Commission as a member and presented him with Governor Symington's certificate of appointment.

APPROVAL OF MINUTES OF MEETING OF MARCH 17, 1995

Mr. Veale moved, seconded by Ms. Worthington:

THAT THE MINUTES OF THE MEETING OF MARCH 17, 1995, BE
ACCEPTED AS PRESENTED

Motion carried unanimously.

STATEMENT OF DIRECTOR AND STATE GEOLOGIST

Dr. Fellows reported that the AZGS is in the first year of its biannual budget, which is approved through fiscal year 1997. He reported that Mr. Rauzi had put together information for the Sunset Review, that a hearing will be scheduled sometime in October, and that legislation will be drafted to continue the Commission. Dr. Fellows noted the drilling at St. John's, and that drilling has been active this year.

REPORT OF THE OIL AND GAS PROGRAM ADMINISTRATOR

The activity report of Mr. Rauzi was sent to the Commissioners and has been made a part of these minutes. Mr. Rauzi reported that testing of the Arzon hole is expected to begin

soon, that the Ridgeway 3-1 well was drilled to 1813 feet and they plan to drill five more wells, that an individual expressed interest in drilling on the Arizona Strip, and that Hunt Oil expressed interest in analyzing samples and leasing State Land. Unitization of the St. Johns structure was discussed with Mr. Barry Moody, State Land Department.

Ms. Worthington asked about the meeting with the Governor that was discussed in the last meeting. Mr. Rauzi advised that it had fallen through but that he understood the Governor would support a bill if the Commission obtained a sponsor. Dr. Fellows noted that this was his understanding as advised by Mr. Joe Lane of the Governor's staff.

Mr. Lanshe stated for the record that he was a principal shareholder in an Arizona corporation leasing land on the Arizona Strip. He advised that he would abstain from acting on any future matter with respect to this project to avoid any conflict of interest.

SUNSET REVIEW 1996

Mr. Rauzi gave a chronological background of the Sunset Review and discussed the material sent to Ms. Victoria Tafoya of the Senate Research staff. The material included a report addressing the 12 factors in ARS § 41-2354, an agency questionnaire, annual reports for fiscal years 1991-94, and copies of Commission minutes for fiscal years 1984-94.

Dr. Fellows discussed the Sunset Review process, noting that the AZGS went through its Sunset Review in 1992. He suggested that Commission members review the draft reports and plan on testifying, either individually or through the Chairman, at the hearing, which will probably be scheduled in October. Discussion ensued. Dr. Fellows advised that Legislation will have to be introduced in the next session to continue the Commission.

Mr. Dulsky discussed the time frame of the Sunset Review and advised that time is late so to expect pressure. The Commission has 40 days according to ARS § 41-2953(C).

INCENTIVES

Mr. Moody distributed "Issues Regarding Oil and Gas and Geothermal Exploration on State Trust Land." He discussed the acreage limitation; the Condemnation Clause, which is triggered, and compensated for, by action of the Federal Government; A.R.S. § 37-108, dealing with the \$200 per lease assignment fee; A.R.S. § 27-555 about rental rates; and geothermal applications, which require public auction. Discussion followed. Mr. Moody introduced Mr. Ken Rozen, to discuss archeological matters.

Mr. Rozen stated that in his opinion State agencies have an obligation to the State Historic Preservation Act to allow archaeologists 30 days to view and comment on plans of Agencies in the event of significant ground disturbance to archaeologically important sites. He suggested the survey be done by a staff archeologist, provided they knew in advance when a permit would be issued. Mr. Rauzi questioned a 30-day waiting period in areas

determined to contain no archaeologically important sites, and asked if the 30-day period applied to water wells. Mr. Rozen confirmed that it did.

Mr. Lanshe moved, seconded by Dr. Clay:

THAT STAFF OPEN DISCUSSION WITH THE LAND DEPARTMENT
TO DETERMINE HOW THE COMMISSION CAN INCORPORATE THE
ARCHEOLOGY REQUIREMENT IN THE DRILLING PERMIT PROCESS

Motion carried unanimously.

Ms. Worthington asked what was being done to pursue the legislative incentives discussed in the last meeting. Mr. Rauzi answered that even though the meeting with the Governor did not occur, the material prepared for the meeting is available including the recommendations for a tax credit for move-in, move-out costs and a tax waiver on production from a discovery well until drilling and completion costs were recovered. He noted that the credit or waiver made sense because they would only be available if production were established. If production were not established, there would be no cost to the State, so there was nothing to lose by adopting them.

Dr. Fellows advised that if the Commission wanted to pursue this legislatively, he would try to find a sponsor for it, starting with the Chair of the House Natural Resources Committee. Mr. Rauzi stated that it was probably too late to initiate a bill for the next session. Mr. Lanshe noted that the issue has been on the table for about a year and that it dovetailed nicely with the bill to continue the Commission. A discussion followed on the timing and feasibility of initiating the bill and combining it with the Sunset Review process.

Mr. Lanshe moved, seconded by Ms. Worthington:

THAT STAFF INITIATE THE PROCESS TO MOVE THE INCENTIVE
SUGGESTIONS THROUGH THE UPCOMING LEGISLATIVE SESSION

Motion carried unanimously.

CALL TO THE PUBLIC

None

ANNOUNCEMENTS

The next meeting was scheduled for 10:00 a.m. on December 8, 1995, in room 500 of the Capitol Tower.

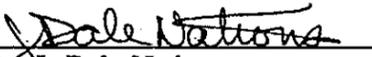
ADJOURNMENT

Mr. Lanshe moved, seconded by Ms. Worthington:

THAT THE MEETING BE ADJOURNED

Motion carried unanimously. Time of adjournment was 11:50 a.m.

APPROVED


D. J. Dale Nations
Chairman

GUESTS IN ATTENDANCE:

Beryl I. Dulsky	Chief Council, Attorney General's Office
Barry Moody	State Land Department
Ken Rozen	State Land Department

Termination Under Sunset Law

The oil and gas conservation commission shall terminate on July 1, 1996, unless continued. See §§ 41-2996.11 and 41-2955.

Title 27, Chapter 4, Article 1, relating to production and conservation of oil and gas, is repealed on January 1, 1997 by § 41-2996.11.

- 7/31/95 Victoria Tafoya, Senate Research Staff, 542-3171, called to request mailing addresses for individual commission members. Faxed her public roster of members.
- 8/3/95 Victoria Tafoya called to request oil and gas groups or organizations having dealings with the oil and gas commission. The research staff is preparing for the sunset review on July 1, 1996. (1) Harken Southwest (Rachelle Montgomery), (2) Mountain States Petroleum (Roger Slayton), (3) Dry Mesa Corporation (Ken Hand), (4) Merrion Oil & Gas Corporation (T. Greg Merrion), (5) Amerigas (David Harbushka), (6) Ferrelgas (Dale Thompson), (7) Intermountain Refining Company (Rick Hurt), (8) High Plains Petroleum (John B. Somers), (9) Arzon Corporation (John Tessari), (10) The Townsend Company (Irvin Townsend), (11) Ridgeway Arizona Oil Company c/o Walsh Engineering (Paul Thompson), (12) Ridgeway Arizona Oil Company (Walter Ruck), (13) Medallion Oil Company (Jereld McQueen), (14) Shields Exploration Company (Jay Shields).
- 8/9/95 LDF receives Senator Buster's letter requesting response to 12 factors in letter and attached agency questionnaire, copies of minutes 1984-94, an annual report. Agency questionnaire mailed to each commissioner.
- 8/16/95 Agency questionnaire mailed to commissioners in error, second short questionnaire mailed instead.
- 8/30/95 Call commissioners to request copy of completed second questionnaire. Clay returned blank form with note no meeting attended yet. Lisa already mailed both forms, Dale already mailed second form, left message for Zed and James.
- 9/1/95 Complete and mail draft copy of reports in response to Buster's 8/1/95 letter to commissioners with agenda mailing.
- 9/11/95 Mail reports, annual reports, and minutes of meetings with cover letter to Victoria.
- 9/15/95 Commission moves to dovetail incentive legislation with sunset review
- 9/25/95 Mail incentive memo and Utah incentive legislation to Victoria Tafoya
- 10/5/95 Larry gets word from Victoria that hearing to be scheduled after Thanksgiving. No word on status of incentive legislation.
- 11/17/95 Larry calls to advise hearing scheduled for Thursday, November 30.
- 11/27/95 Call Ginnette Karabees to solicit words of support at Thursday's hearing.
- 11/28/95 Ginnette calls, John in Europe, conflict with tree festival, will fax statement of support to Victoria.
- 11/30/95 Committee of Reference votes unanimously to continue. Larry, Lisa, Don, & myself present.
- 12/19/95 Larry receives final sunset report on Oil & Gas Conservation Commission

Page 2

1/5/96 Susan Anable, Senate Research Staff, advises Larry that Senate Natural Resources, Agriculture, & Environment Committee will sponsor SB 1075 (Omnibus Agency Continuation Bill). Bill continues four agencies including Oil & Gas, Mines & Mineral Resources, Power Authority, and Outdoor Recreation Commission.

1/17/96 Senate Natural Resources, Agriculture, & Environment Committee passes SB 1075 by unanimous vote.

2/06/96 House Natural Resources & Agriculture Committee passes SB 1075 by majority vote. Representatives Pat Conner, Yuma, David Farnsworth, Snowflake, and Jerry Overton, Litchfield Park, vote no.

REFERENCE TITLE: natural resource agencies; continuation

State of Arizona
Senate
Forty-second Legislature
Second Regular Session
1996

SB 1075

Introduced By
Committee on Natural Resources, Agriculture and Environment

AN ACT

REPEALING SECTIONS 41-2996.09, 41-2996.10, 41-2996.11 AND 41-2996.25, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 27, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 41-3006.01 THROUGH 41-3006.04; RELATING TO NATURAL RESOURCE AGENCIES.

- 1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Repeal
3 Sections 41-2996.09, 41-2996.10, 41-2996.11 and 41-2996.25, Arizona
4 Revised Statutes, are repealed.
5 Sec. 2. Title 41, chapter 27, article 2, Arizona Revised Statutes, is
6 amended by adding sections 41-3006.01 through 41-3006.04, to read:
7 41-3006.01. Arizona outdoor recreation coordinating commission:
8 termination July 1, 2006
9 A. THE ARIZONA OUTDOOR RECREATION COORDINATING COMMISSION TERMINATES
10 ON JULY 1, 2006.
11 B. TITLE 41, CHAPTER 3, ARTICLE 1.2 IS REPEALED ON JANUARY 1, 2007.
12 41-3006.02. Department of mines and mineral resources:
13 termination July 1, 2006
14 A. THE DEPARTMENT OF MINES AND MINERAL RESOURCES TERMINATES ON
15 JULY 1, 2006.
16 B. TITLE 27, CHAPTER 1, ARTICLE 1 IS REPEALED ON JANUARY 1, 2007.
17 41-3006.03. Oil and gas conservation commission: termination
18 July 1, 2006
19 A. THE OIL AND GAS CONSERVATION COMMISSION TERMINATES ON JULY 1, 2006.

SB 1075

1 B. TITLE 27, CHAPTER 4, ARTICLE 1 IS REPEALED ON JANUARY 1, 2007.
2 41-3006.04. Arizona power authority: conditional
3 termination July 1, 2006

4 A. THE ARIZONA POWER AUTHORITY TERMINATES ON JULY 1, 2006, AND TITLE
5 30, CHAPTER 1, ARTICLE 1 IS REPEALED ON JANUARY 1, 2007, IF THE AUTHORITY:
6 1. HAS NO OUTSTANDING CONTRACTUAL OBLIGATIONS WITH THE UNITED STATES
7 OR ANY UNITED STATES AGENCY.

8 2. HAS NO OUTSTANDING DEBTS OR OBLIGATIONS THAT WERE ISSUED TO FINANCE
9 THE COST OF THE HOOVER POWER PLANT MODIFICATIONS PROJECT OR THE HOOVER POWER
10 PLANT UPRATING PROJECT.

11 3. HAS OTHERWISE PROVIDED FOR PAYING OR RETIRING THESE DEBTS OR
12 OBLIGATIONS.

13 B. IF ANY CONTRACTUAL DEBT OR OBLIGATION LISTED IN SUBSECTION A EXISTS
14 AND NO SATISFACTORY PROVISION HAS BEEN MADE TO PAY OR RETIRE THE DEBT OR
15 OBLIGATION, THE AUTHORITY, AND TITLE 30, CHAPTER 1, ARTICLE 1, SHALL CONTINUE
16 IN EXISTENCE UNTIL THE DEBT OR OBLIGATION IS FULLY SATISFIED.

17 Sec. 3. Purpose of Arizona outdoor recreation coordinating
18 commission

19 The purpose of the Arizona outdoor recreation coordinating commission
20 is to provide for the distribution of federal and state monies for
21 recreational projects and to assist and advise the Arizona state parks board.

22 Sec. 4. Purpose of the department of mines and mineral
23 resources

24 The purpose of the department of mines and mineral resources is to
25 assist in the exploration and development of this state's resources.

26 Sec. 5. Purpose of the oil and gas conservation commission

27 The purpose of the oil and gas conservation commission is to regulate
28 the drilling for and production of oil, gas, helium and geothermal resources,
29 to promote the conservation of these resources, to protect their ownership
30 rights, to safeguard the public health and to otherwise effect the public
31 policy of this state pursuant to section 27-502, Arizona Revised Statutes.

32 Sec. 6. Purpose of the Arizona power authority

33 The purpose of the Arizona power authority is to bargain for, take and
34 receive electrical or other forms of energy and make these forms of energy
35 available for the benefit of this state.

36 Sec. 7. Retroactivity

37 Sections 1 and 2 of this act are effective retroactively to July 1,
38 1996.



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416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

25 September 1995

Victoria Tafoya, Research Assistant
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Victoria:

The Oil and Gas Conservation Commission believes these incentives would help increase drilling in Arizona. If you have any questions, please call.

Sincerely yours,

Larry D. Fellows
Director and State Geologist



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
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(520) 770-3500



Larry D. Fellows
Director and State Geologist

September 25, 1995

Memo: Larry Fellows, Director
From: *SR* Steve Rauzi, Oil & Gas Program Administrator
Re: Tax incentives proposed by the Oil and Gas Conservation Commission

Tax-incentive legislation has been enacted in surrounding states to stimulate increased production and revenue from existing oil and gas fields by (1) a tax exemption on incremental production from new wells and (2) a tax credit for workover or drilling costs.

Arizona has no existing oil or gas production on State Trust or fee land. As a result, tax-incentive legislation for Arizona must be aimed at stimulating a new discovery. Two tax incentives that may spur drilling in Arizona and result in a discovery include:

- (1) Severance tax or royalty exemption on production from a discovery well, and
- (2) Tax credit from future production for move in/move out costs.

A tax exemption on production from a discovery well could be for five years, one or two times payout of the well, or permanent. Development wells may have better production than the initial discovery well and will be taxed. The royalty exemption may spur drilling on State Trust land. The tax credit for move in/move out costs will help defray the very high cost of moving in the necessary drilling equipment for deep wells.

These incentives would not be available unless a discovery is made and production is established. The State of Arizona, therefore, has nothing to lose by adopting them. The benefits of a discovery far outweigh a tax exemption or credit on a single well. A discovery may produce hydrocarbons and generate revenue for 20 to 30 years, and create jobs and other benefits to the economy.

A copy of the tax-incentive legislation for Utah is attached. This includes the annual exemption incentive, § 59-5-102(2), and the tax credit incentive, § 59-5-102(3).

the oil or gas produced, saved, and sold or transported from the field where the substance was produced.

(b) Beginning January 1, 1992, the severance tax rate for oil is as follows:

- (i) 3% of the value up to and including the first \$12 per barrel for oil; and
- (ii) 5% of the value from \$13.01 and above per barrel for oil.

(c) Beginning January 1, 1992, the severance tax rate for natural gas is as follows:

- (i) 3% of the value up to and including the first \$1.50 per MCF for gas; and
- (ii) 5% of the value from \$1.51 and above per MCF for gas.

(d) Beginning January 1, 1992, the severance tax rate for natural gas liquids is 4% of the taxable value for natural gas liquids.

(e) If the oil or gas is shipped outside the state, this constitutes a sale, and the oil or gas is subject to the severance tax.

(f) If the oil or gas is stockpiled, the tax is not applicable until it is sold, transported, or delivered. However, oil or gas that is stockpiled for more than two years is subject to the severance tax.

(2) No tax is imposed upon:

(a) the first \$50,000 annually in gross value of each well or wells as defined in this part, to be prorated among the owners in proportion to their respective interests in the production or in the proceeds of the production;

(b) stripper wells, unless the exemption prevents the severance tax from being treated as a deduction for federal tax purposes;

(c) the first six months of production for wells started after January 1, 1984, but before January 1, 1990;

(d) the first 12 months of production for wildcat wells started after January 1, 1990; or

(e) the first six months of production for development wells started after January 1, 1990.

(3) (a) A working interest owner who pays for all or part of the expenses of a recompletion or workover is entitled to a tax credit equal to 20% of the amount paid.

(b) The tax credit for each recompletion or workover may not exceed \$50,000 per well during each calendar year through December 31, 1994, and beginning January 1, 1995, \$30,000 per well during each calendar year through December 31, 1999. The tax credit shall apply to the taxable year in which the recompletion or workover is completed and shall be claimed quarterly beginning on the third quarter after recompletion or workover is completed under rules made by the commission.

(c) This subsection shall terminate at midnight on December 31, 1999.

(4) These taxes are in addition to all other taxes provided by law and are delinquent, unless otherwise deferred, on June 1 next succeeding the calendar year when the oil or gas is produced, saved, and sold or transported from the premises.

(5) With respect to the tax imposed by this chapter on each owner of oil or gas or in the proceeds of the production of those substances produced in the state, each owner is liable for the tax in proportion to the owner's interest in the production or in the proceeds of the production.

(6) The tax shall be reported and paid by each producer who takes oil or gas in kind pursuant to agree-

ment on behalf of the producer and on behalf of each owner entitled to participate in the oil or gas sold by the producer or transported by the producer from the field where the oil or gas is produced.

(7) Each producer shall deduct the tax from the amounts due to other owners for the production or the proceeds of the production. 1993

59-5-103. Valuation of oil or gas — Alternatives — Exceptions — Controversies on value to be determined by commission.

(1) For purposes of computing the severance tax, the value of oil or gas at the well is the value established under an arm's-length contract for the purchase of production at the well, or in the absence of such a contract, by the value established in accordance with the first applicable of the following methods:

(a) the value at the well established under a non-arm's-length contract for the purchase of production at the well, provided that the value is equivalent to the value received under comparable arm's-length contracts for purchases or sales of like-quality oil or gas in the same field;

(b) the value at the well determined by consideration of information relevant in valuing like-quality oil or gas at the well in the same field or nearby fields or areas such as: posted prices, prices received in arm's-length spot sales, or other reliable public sources of price or market information;

(c) the value established using the net-back method as defined in Section 59-5-101.

(2) Oil or gas used in drilling operations in the same oil or gas field and in producing operations in this field or for repressuring or recycling purposes may not be included with the other products in arriving at the gross value for tax purposes.

(3) Any contract between a parent and a subsidiary company, or between companies wholly or partially owned by a common parent, or between companies otherwise affiliated that specifies the value of oil or gas is not arm's-length unless the value of oil or gas specified is comparable to its fair market value as defined under Section 59-2-102. If there is a controversy, the commission shall determine the value of the oil or gas. 1990

59-5-104. Statements filed — Contents — Falsification as perjury.

(1) Every producer engaged in the production of oil or gas from any well or wells in the state shall file with the commission, on or before June 1 of each year, on forms furnished by the commission, a statement containing the following information relating to the oil or gas produced, saved, and sold or transported from the oil or gas field where produced during the preceding calendar year:

(a) the name, description, and location of every well or wells and every field in which the well or wells are located;

(b) the number of barrels of oil, the cubic feet of gas, and quantity of other hydrocarbon substances produced;

(c) the value of this production at the well; and

(d) any other reasonable and necessary information required by the commission.

(2) The statements or reports required to be filed with the commission shall be signed and sworn to by the producer or a designee.

(3) Any willful false swearing as to the purported material fact set out in this report constitutes the

REFERENCE TITLE: oil, gas and geothermal taxation

State of Arizona
Senate
Forty-second Legislature
Second Regular Session
1996

SB 1126

Introduced By
Senators Henderson: Goudinoff, Soltero

AN ACT

AMENDING SECTION 42-162, ARIZONA REVISED STATUTES; AMENDING SECTION 42-227, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 1995, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 2; REPEALING SECTION 42-227, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 1995, CHAPTER 294, SECTION 5; BLENDING MULTIPLE ENACTMENTS; RELATING TO PROPERTY TAX ASSESSMENT.

- 1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-162, Arizona Revised Statutes, is amended to
3 read:
4 42-162. Classification of property for taxation
5 A. There are established the following classes of property for
6 taxation:
7 1. Class one:
8 (a) Producing mines and mining claims, the personal property used
9 thereon, the improvements thereto and the mills and smelters operated in
10 conjunction therewith valued under the provisions of section 42-143.
11 (b) Standing timber.
12 (c) PRODUCING OIL, GAS AND GEOTHERMAL RESOURCE INTERESTS VALUED UNDER
13 SECTIONS 42-143 AND 42-227.01 THROUGH 42-227.04.
14 2. Class two:
15 (a) All real and personal property used to provide local
16 telecommunications service valued under chapter 4, article 5 of this title.
17 (b) All property, both real and personal, of gas, water and electric
18 utility companies and pipeline companies valued under the provisions of
19 section 42-144 or 42-201, whichever is applicable.

1 (iii) That both the improvements and the federal, state, county or
2 municipal property are located on a state, county, city or town airport or
3 a public airport operating pursuant to sections 2-311, 2-312 and 2-313.

4 (c) Property that is leased to or acquired by the government and used
5 to perform a government contract and that is defined as "contractor-acquired
6 property" or "government-furnished property" in the federal acquisition
7 regulations (48 Code of Federal Regulations section 45.101, as amended or
8 superseded by federal law or regulation).

9 (d) Property of a corporation organized by or at the direction of this
10 state or a county, city or town to develop, construct, improve, repair,
11 replace or own any property, improvement, building or other facility to be
12 used for public purposes that the state, county, city or town pledges to
13 lease or lease-purchase with state, county or municipal special or general
14 revenues and not otherwise exempt under section 42-271.

15 B. For the purposes of classification of property under this section,
16 partially completed or vacant improvements on the land including improved
17 common area tracts shall be classified according to their intended use as
18 demonstrated by objective evidence. For property not valued by the
19 department, an improvement on the land is considered to be partially
20 completed when the foundation of the structure or structures to be located
21 on the property is in place. The only portion affected by the
22 reclassification is the improvement on the land and that portion of the land
23 that is necessary to support the use of the structure or structures, except
24 that common area tracts in residential developments associated with partially
25 completed improvements shall receive the same classification as the partially
26 completed improvements. Property that is not valued by the department, that
27 does not have a structure or structures and that is actively used for
28 commercial purposes shall be classified as prescribed by subsection A of this
29 section. This subsection does not apply to property that is classified as
30 agricultural pursuant to section 42-167.

31 Sec. 2. Section 42-227, Arizona Revised Statutes, as amended by Laws
32 1995, first special session, chapter 9, section 2, is amended to read:

33 42-227. Determination of assessed valuation

34 A. As a basis for determining the assessed valuation for the different
35 classes of property specified in section 42-162, the following percentages
36 shall apply:

37 1. Class one: For tax year 1990 through tax year 1994, thirty per
38 cent of its full cash value. For tax year 1995, twenty-nine per cent of its
39 full cash value. For tax year 1996, twenty-eight per cent of its full cash
40 value. For tax year 1997, twenty-seven per cent of its full cash value. For
41 tax year 1998, twenty-six per cent of its full cash value. For tax year 1999
42 and each tax year thereafter, twenty-five per cent of its full cash value.

43 2. Class two: For tax year 1990 through tax year 1994, thirty per
44 cent of its full cash value. For tax year 1995, twenty-nine per cent of its

SB 1126

- 1 8. Class eight: Five per cent of its full cash value.
2 9. Class nine: The percentage of full cash value prescribed for class
3 three property by this section, except that the assessed valuation of
4 modifications intended to restore and rehabilitate the historic property as
5 approved by the historic preservation officer under section 42-164 is one per
6 cent of the full cash value for up to ten years.
7 10. Class ten: The percentage of full cash value prescribed for class
8 six property by this section, except that the assessed valuation of
9 modifications intended to restore and rehabilitate the historic property as
10 approved by the historic preservation officer under section 42-164 is one per
11 cent of the full cash value for up to ten years.
12 11. Class eleven: One per cent of its full cash value.
13 ~~12. Class twelve: One per cent of its full cash value.~~
14 ~~B. The valuation determined for producing oil, gas and geothermal~~
15 ~~resource interests valued under the provisions of sections 42-143 and~~
16 ~~42-227.01 through 42-227.04 shall be the assessed valuation for such~~
17 ~~property.~~
18 ~~B.~~ B. Upon preparation of the rolls, the assessor shall apply the
19 appropriate percentage to the full cash value and limited property value of
20 all property so that the assessed valuation will be shown.
21 ~~B.~~ C. If a parcel of property has more than one percentage applied
22 to its full cash value due to multiple uses pursuant to this section, the
23 percentages shall be applied to the limited property value of the parcel in
24 the same proportion and in the same manner as they were applied to the full
25 cash value of the parcel.
26 Sec. 3. Repeal
27 Section 42-227, Arizona Revised Statutes, as amended by Laws 1995,
28 chapter 294, section 5, is repealed.

shall encompass gradually increasing professional standards and qualifications.

H. On or before December 31 of each year, the department shall submit an assessor education training and certification plan to the committee established by this section and to the president of the senate, the speaker of the house of representatives, the chairman of the senate finance committee or its successor and the chairman of the house ways and means committee or its successor. The plan shall outline the previous year's achievements and problems and specify the coming year's expected education, training and certification activities. The plan shall contain at least the following elements:

1. Requirements and procedures for admission to the education, training and certification programs offered by the department.
 2. Levels of achievement and requirements for attaining provisional certification, basic certification, intermediate certification and advanced certification.
 3. A discussion of course content of all courses offered by the department or courses offered by professional appraisal organizations approved as substitute courses for those offered by the department.
 4. A discussion of certification implications for compensation systems of the state and counties, including possible options for building incentives into the compensation schedules of the state and counties for continued professional certification.
 5. Procedures for ongoing evaluation of course content, student and instructor proficiency evaluations.
- I. The provisions of subsection A shall not apply to elected officials, clerical and secretarial personnel.

1985

42-143. Determination of valuation of producing and closed mines, mills and smelters and producing oil, gas and geothermal resource interests; changing valuation

A. On or before the first Monday in June the department shall find the full cash value of all patented and unpatented producing mines, the personal property used thereon, the improvements thereto and the mills and smelters operated in conjunction therewith within the state and on or before the third Monday of June transmit to the several boards of supervisors the valuation thereof.

B. On or before the first Monday in June the department shall determine the valuation of all patented and unpatented mines which were producing mines on the first Monday in January of any of the three preceding tax years but which are no longer producing mines. The department shall value such non-producing mines for a period of three tax years subsequent to the tax year in which production terminated.

C. The department shall determine the valuation of all producing oil, gas and geothermal resource interests within the state in the manner provided in §§ 42-227.01 through 42-227.04 and on or before the third Monday of June the department shall furnish to the board of supervisors of the county in which oil or gas has been produced the valuation of the oil, gas or geothermal resource interests of each producer for each of his properties in the county as of January 1 of the year.

D. After the determination of the valuation of any producing oil, gas or geothermal resource interest and before certification of the valuation to the county the department may on the application of the pro-

ducer, or on its own motion, change the valuation to properly reflect the gross yield therefrom.

E. The valuations required by this section are the values determined as of January 1 of the tax year.

1985

42-144. Determination of location, description and valuation of gas, water and electric utilities and pipelines; definitions

A. On or before the first Monday in June the department shall find within each taxing district of the state the location and full cash value of the property of all gas, water and electric utilities and pipelines operating within the state and, on or before the third Monday in June, transmit to the several boards of supervisors the location, description and valuation thereof within such taxing district. Such transmission shall also include an estimate of the net valuation of those properties subject to voluntary contributions pursuant to § 48-242, which shall be utilized by the taxing district to estimate the voluntary contributions to be received for the purpose of finalizing budget and property tax levies pursuant to §§ 42-302 and 42-303. The full cash value is the value determined as of January 1 of the tax year.

B. All electric, gas distribution and combination gas distribution and electric utility property subject to valuation for property taxation purposes, except the property of member-owned rural electric cooperatives, shall be valued as provided in this section.

C. As used in this section:

1. "Construction work in progress" means the total of the balances of work orders for an electric, gas distribution or combination electric and gas distribution plant in process of construction on the last day of the preceding calendar year exclusive of land rights and licensed vehicles.

2. "Depreciation" means straight line depreciation over the useful life of the item of property.

3. "Environmental protection facilities" means the acquisition or construction cost of any building, structure, equipment, facility or improvement designed and constructed solely for control, reduction, prevention or abatement of discharges or releases into the environment of gaseous, liquid or solid substances, heat or noise or for the control, reduction, prevention or abatement of any other adverse impact of an activity on the environment.

4. "Materials and supplies" means the cost, including sales, use and excise taxes, and transportation costs to point of delivery in this state, less purchases and trade discounts, of all unapplied material and supplies on hand in this state as of December 31 of the preceding calendar year.

5. "Original plant in service cost" means the actual cost of acquisition or construction of property including additions, retirements, adjustments and transfers, but without deduction of related accumulated provision for depreciation, amortization or other purposes.

6. "Plant" means all property situated in this state used or useful for the generation, transmission or distribution of electric power or distribution of natural gas, but does not include land rights, materials and supplies and licensed vehicles.

7. "Utility property" means an electric, gas distribution or combination electric and gas distribution plant, construction work in progress, materials and supplies and environmental protection facilities.

D. An electric and gas utility shall be valued as follows:

1. The department shall value the plant in service as of January 1 of the tax year.

2. The original value shall be reduced by the depreciation. The further reduced value shall be the state or federal or partial physical value in excess of such value caused by a total or partial use of utility property restricted property.

E. The value of such property shall be fifty per cent of the value as of December 31 of the preceding calendar year.

F. The value of such property shall be the value as of the preceding calendar year.

G. The value of such property shall be the value required by law.

H. The unit value of such property shall be allocated in proportion to the value of such property in each jurisdiction in which the property is located.

I. The unit value of such property shall be allocated in proportion to the value of such property in each jurisdiction in which the property is located.

J. All terms not otherwise defined shall be interpreted as near their plain meaning, as contained in the commission report.

K. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

L. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

M. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

N. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

O. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

P. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

Q. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

R. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

S. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

T. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

U. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

V. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

W. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

X. The commission report shall take effect on January 1 of the year in which the commission report is adopted.

(b) The total assessed valuation of all property for primary tax purposes in classes 1, 2 and 3 bears to the total limited valuation used for primary tax purposes of such property and such ratio shall be used for primary tax purposes as required by federal law.

8. Class eight: Five per cent of its full cash value.

C. The valuation determined for producing oil, gas and geothermal resource interests valued under the provisions of §§ 42-143 and 42-227.01 through 42-227.04 shall be the assessed valuation for such property.

D. Upon preparation of the rolls, the assessor shall apply the appropriate percentage to the full cash value and limited property value of all property so that the assessed valuation will be shown.

E. If a parcel of property has more than one percentage applied to its full cash value due to multiple uses pursuant to this section, the percentages shall be applied to the limited property value of the parcel in the same proportion and in the same manner as they were applied to the full cash value of the parcel. 1987

42-227.01. Definitions

In §§ 42-143 and 42-227.01 through 42-227.04 unless the context otherwise requires:

1. "Gas" means all natural gas, including casing-head gas, and all other hydrocarbons not defined as oil in paragraph 5 of this section and helium and other non-hydrocarbon substances of a gaseous nature.

2. "Geothermal resource" shall have the meaning given such term in § 27-651.

3. "Gross production" means all oil, gas or geothermal resources produced and saved except:

(a) Any interest of the United States or the state of Arizona or any other person or entity exempt under the laws of the United States or the constitution or laws of the state of Arizona in any oil, gas or geothermal resources or in the proceeds thereof.

(b) Oil, gas or geothermal resources used in producing operations or for repressuring or recycling purposes by the producer for the development and operation of his interests in oil, gas or geothermal resource wells in the area within Arizona.

4. "Gross yield" means the amount for which the gross production is sold in the immediate vicinity of the well or, if not sold on the property, the field or posted price or representative market price at the well of oil, gas or geothermal resources transported from the property.

5. "Oil" means crude petroleum oil and other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods and which are not the results of condensation of gas after it leaves the reservoir.

6. "Produced", "producing" or "production" means any taking of oil or gas from any lands within the state of Arizona or under its jurisdiction.

7. "Producer" means any person owning, controlling, leasing, either as lessor or lessee, or having any other interest in oil, gas or geothermal resource lands or oil, gas or geothermal resource wells on January 1 of each year, if there was produced by any person in any manner from said lands or wells during the preceding calendar year any oil, gas or geothermal resources, and shall include any person owning any royalty or other interest in any oil, gas or geothermal resources, or its value, whether produced by him or by some other person on his behalf, either by lease, contract or otherwise. 1985

42-227.02. Basis of valuation of producing oil, gas and geothermal resource interests

A. Producing oil, gas or geothermal resource interests shall be valued for tax purposes at the amount of the gross yield therefrom for the preceding calendar year. Such gross yield shall be the valuation of the oil, gas or geothermal resource interests of the lands from which such oil, gas or geothermal resource is produced as of the first day of January of the following year. This shall not affect the basis of valuation of property other than producing oil, gas or geothermal resource interests.

B. The basis of valuation of producing oil, gas or geothermal resource interests set forth in this section shall be in lieu of any method of valuation of such interests and the oil, gas and geothermal resource deposits subject thereto for ad valorem tax purposes, notwithstanding any other provision of law to the contrary. 1977

42-227.03. Annual report by oil, gas and geothermal resource producers; classification

A. Every producer shall annually, on or before the last day of February of each year, make and file with the department a return showing his gross production and gross yield thereof from each of his producing properties for the calendar year immediately preceding the year in which said return is required to be made. The return shall show the county in which the production took place and the description of the property from which the oil, gas or geothermal resource was produced. The return shall be verified by the producer or by some authorized representative of the producer. The department may upon request and for good cause grant a thirty-day extension of time for the filing of the annual return.

B. Any producer who knowingly fails to file the return as provided by this section or who knowingly files a false return is guilty of a class 2 misdemeanor. 1978

42-227.04. Producing oil, gas and geothermal resource interests listed, assessed and taxed separately from land

Producing oil, gas and geothermal resource interests shall be listed, the valuation shall be determined and they shall be taxed individually as separate parcels of real estate separate and apart from the rest of the land where they are owned by a person other than the owner of the rest of the land. 1977

42-229. Valuation of contiguous real properties owned by same person

If two or more contiguous lots, tracts of land or patented mines are owned by the same person, they may be jointly assessed and one valuation fixed for the whole. 1967

42-230. Liability for items of personal property

Each item of property in an assessment shall be liable for the taxes on all items of personal property in the same assessment. 1967

42-231. Presumption of ownership in assessment of trust funds and personal property mortgaged or pledged

Personal property in possession of a fiduciary, and personal property mortgaged or pledged, for purposes of taxation, shall be deemed to be the property of the person who has possession thereof. 1967

42-232. Deduction of solvent

When solvent is against whom they from his liabilities.

42-233. Valuation of roads

A. The valuation of mining, manufacturing roads shall be real estate at a rate lying in each county listed by each county separating the land property in either thereof.

B. The valuation wholly owned by part thereof on their own part of the land.

42-234. Listing of on sale

A. Range livestock the taxes levied and collected as taxes upon constitute a lien for the same brand.

B. If the owner of less than the entire the taxes are due, sold proportioned to brand, and the amount due under such brand, under such brand, upon be released.

C. Feeder livestock yard for fattening livestock and dairy and valued as of December shall be based preceding twelve months not require information more often than once may provide, under department of revenue by the operator of taxes imposed under

42-235. Valuation

A. Transient herds purposes of this section goats that range, or the county in which part of the calendar personal property.

B. Upon determination of livestock in a file with the assessor many copies thereof the owner's livestock which shall set forth such livestock range thereupon pay state that the fraction livestock range in year.

C. At the time of on such cattle, sheep a receipt therefor taxes paid, the number

For Committee on FIN

For Caucus and Floor Action

As Passed by the Senate

ARIZONA STATE SENATE
Phoenix, Arizona

CORRECTED
FACT SHEET FOR S.B. 1126

oil, gas and geothermal taxation

file copy

Purpose

Effective for tax year 1997 reduces, from 100 to 27 per cent, the property tax assessment ratio for producing oil, gas and geothermal resource interests.

Background

In Arizona, parcels of property are segregated into separate classifications for property tax purposes. This concept was first introduced into the Arizona property tax structure in 1967 as a mechanism for differentiating the tax burden among the various classes of property. This differentiation of the tax burden is accomplished through the use of assessment ratios assigned to each class. Specifically, the assigned assessment ratio identifies the percentage of the property value that is used in the calculation of the tax burden for that parcel.

As an example, assuming a total tax rate of \$10 per \$100 of assessed valuation, a parcel of property valued at \$100,000 with a 15 per cent assessment ratio has a \$1,500 tax liability. The same property with a 20 per cent assessment ratio faces a \$2,000 tax liability. Presently, the state has 12 different classes of property with assessment ratios ranging from one to 100 per cent.

Property class C includes producing oil, gas and geothermal resource interests and is subject to a 100 per cent assessment ratio. S.B. 1126 eliminates property class C and incorporates producing oil, gas and geothermal resource interests into property class 1. This has the effect of reducing the assessment ratio on these parcels for tax year 1997 from 100 to 27 per cent. The class 1 assessment ratio is scheduled to phase down to 25 per cent beginning for tax year 1999.

Although there is heightened interest in further exploration and development in this area, currently three parcels of class C property exist in the state. The total value of these parcels (for both primary and secondary purposes) for tax year 1995 is \$853,334. Because all three parcels are located in the same school district, Red Mesa Unified in Apache County, all are subject to the same tax rate. For FY 1995-1996, the applicable combined tax rate is \$3.1582 per \$100 of assessed valuation and the total tax liability is \$26,950. The fiscal impact on the state general fund (increased state aid and reduced education tax rates collections) of reducing the assessment ratio, assuming a static situation, is approximately \$40,000 per year. Additionally, there will be some minor burden shifts among classes of property in Apache County.

FACT SHEET
S.B. 1126
Page 2

Provisions

1. For property tax purposes, reclassifies producing oil, gas and geothermal resource interests from class C (with a 100 per cent assessment ratio) to class 1 (with a tax year 1997 assessment ratio of 27 per cent).
2. Makes technical changes.
3. Contains a general effective date.

Prepared by Senate Staff
January 26, 1996

*Passed Senate Finance Committee February 5 by
unanimous vote.*

*Speaking in Support were Senator James Henderson, Window Rock;
Mr. Russell Smoldon, Lobbyist Salt River Project, Mr. John Somers,
High Plains Petroleum; Representative Jack Brown, St. Johns;
and Dr. Larry Fellows, State Geologist*



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

01 February 1996

The Honorable Mark Spitzer
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Dear Senator Spitzer:

I have a few comments about SB 1126, which addresses taxation of oil, gas, helium, and geothermal properties.

I believe there is potential for one or more of these resources in Arizona, both on and outside of the Indian reservations. Incentives for prudent exploration and drilling would be helpful in assessing the resources. Even if nothing was discovered, the information obtained from drilling would help us understand what is present in the subsurface.

Arizona currently has 20 producing oil wells and 6 gas wells, all on the Navajo Reservation. In the past there were several helium wells near the Petrified Forest. That resource was depleted. Because Arizona is not a major oil or gas producer, we do not have many residents who are in the business. Most of those who explore and drill for oil or gas are from one of the states that have a sizeable industry.

The Arizona Oil and Gas Conservation Commission, which regulates the drilling and production of oil, gas, helium, and geothermal resources, is attached administratively to the Arizona Geological Survey. One of our statutory objectives is to promote the drilling for these resources.

If my staff or I can provide additional information, please contact us. I will be present at the hearing for SB 1126, if one is held, to answer appropriate questions that might come up.

Sincerely yours,

Larry D. Fellows
Director and State Geologist



High Plains Petroleum Corporation

3860 Carlock Dr. Boulder, CO 80303 303-494-4529

January 8, 1996

Senator Marc Spitzer
Chairman, Senate Finance Committee
Arizona State Senate
1700 W. Washington
Phoenix, Arizona 85007

Re: Important Tax Legislation

Dear Senator Spitzer,

It is our understanding that Senator James Henderson, Jr. will be introducing a bill to remedy an inequity in the taxation of oil and gas properties, which is presently discouraging drilling, economic development and the conservation and recovery of vital natural resources in Arizona. This letter is to request that Senator Henderson's bill, which is to be cosponsored by senators and representatives from both parties, be given consideration by your committee in this session of the legislature.

Please notify me as to any hearing(s) that may be scheduled so that I may have the opportunity to present testimony. This matter is of concern to all of those who are receiving a copy of this letter, and many other companies that are considering doing business in Arizona.

Sincerely,

John B. Somers II
John B. Somers II
President
High Plains Petroleum

cc: Senator James Henderson, Jr.

The Salt River Project

✓ Mr. Paul Slayton
President
Mountain States Petroleum Corp.

Mr. Jay Platt

⊙ Mr. J.D. Sphar
Vice President - Minerals
New Mexico and Arizona Land Co.

⊙ Mr. Irv Townsend
Townsend Co.

⊙ Mr. Walter B. Ruck
Chairman
Ridgeway Arizona Oil Corp.

✓ Mr. Larry Fellows
Director
Arizona Geological Survey

⊙ Mr. Gordon M. LeBlanc, Jr.
President
Grayhawk Oil & Gas, Inc.

01/24/96

11:27

403

5294

RIDGEWAY PETRO

001-001



RIDGEWAY PETROLEUM CORP.

1080, 700 - 4th AVENUE S.W., CALGARY, ALBERTA T2P 3J4
TELEPHONE: (403) 266-6362 FAX: (403) 262-5294

STEVE

Ridgeway

F.Y.I.

WR

NEWS RELEASE

Symbol: RGW
Listed: VSE
January 23, 1996

"ARIZONA PROJECT"

"Land position increased to cover potential 6.4 trillion cubic feet of CO₂/Helium gas reserve"

Ridgeway Petroleum Corp. (RGW) has been advised by Arizona Resources Industries, Inc. (ARI) (the owner and operator of the project) that as a result of new geological information, interpretation and consultation with the Arizona Geological Survey, leases have been obtained on an additional 144,000 acres bringing the total under lease to 186,000 acres.

The current leasing program is to acquire up to a total of 250,000 acres and should be completed within 15 days.

RGW controls in excess of 50% of ARI by share ownership and Guaranteed Convertible Notes.

ON BEHALF OF THE BOARD

Walter B. Ruck, Chairman

THE VANCOUVER STOCK EXCHANGE HAS NEITHER APPROVED NOR DISAPPROVED THE INFORMATION CONTAINED HEREIN.

UNCLAIMED BOND

Options:

1. Try to obtain current address for operator through AG's access to computer database and write certified letter to operator about release of bond.
2. If no address is found, no response is received, or certified letter is returned then:
3. Call Department of Revenue, explain our situation, and provide copies of relevant authorities (it appears that this type of abandoned property is to be referred over to the ADOR, which will take the necessary legal steps regarding the handling of the bond)



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
Tucson, Arizona 85701
(520) 770-3500



Larry D. Fellows
Director and State Geologist

January 23, 1996

Ms. Anne Hamilton, Director
Boards & Commissions
1700 West Washington
Phoenix, Arizona 85007

Dear Ms. Hamilton:

Thank you for sending the updated membership roster for the Oil and Gas Conservation Commission with Dr. J. Dale Nations' reappointment through January 15, 2001. I will advise the Commission of Governor Symington's reappointment in the Commission's next meeting on February 9 here in Tucson.

Please note that Commissioner Lisa Worthington's address has changed. Her new address is 1501 E. Captain Dreyfus Avenue, Phoenix AZ 85022, phone 863-3096 (H).

Sincerely,

Steven L. Rauzi
Oil and Gas Program Administrator

c Larry D. Fellows



STATE OF ARIZONA

OFFICE OF THE ATTORNEY GENERAL

1275 WEST WASHINGTON, PHOENIX 85007

GRANT WOODS
ATTORNEY GENERAL

MAIN PHONE: 542-5025
TELECOPIER: 542-4085

December 29, 1995

J. Dale Nations, Chairman
Arizona Oil and Gas Conservation Commission
845 North Park Avenue, Room 100
Tucson, Arizona 85719

RE: A.G. Rule No. R93-028; A.A.C. R12-7-101 through -119, -122,
-125 through -129, -175, through -182 and -201 through -294

Dear Dr. Nations:

We have reviewed the above-referenced rule adopted by the Arizona Oil and Gas Conservation Commission on March 12, 1993. We have determined that the rule is in proper form, is clear, concise and understandable, within the power of the agency to adopt and within legislative standards, and was adopted in compliance with appropriate procedures.

Accordingly, pursuant to A.R.S. § 41-1041, I have affixed my certification to the original Form R102 and have forwarded it together with the original rule and concise explanatory statement and two copies of each to the Secretary of State.

We have enclosed a copy for your reference.

Sincerely,

A handwritten signature in cursive script, appearing to read "Grant Woods".

Grant Woods
Attorney General

Copy to OGCC w/ Nov prod. rpt 1/11/96

Memo: Oil & gas rules pending certification
From: Steven L. Rauzi, Oil & Gas Program Administrator
Date: December 12, 1995

Re: Oil & gas rules discussed and revised today

Jon Fiegen, Attorney General's Office called @ about 8:00 a.m. to discuss the oil and gas rules still pending certification. He and Beryl Dulsky are scheduled to meet with Robert B. Carey, First Assistant Attorney General (last signature before Grant Woods), and Elizabeth Stewart, Rules Section, to discuss these rules @ 9:00 a.m.

We reviewed my memos of February 3 and 28, 1995, about permitting geothermal wells; the revisions and issues of February 6, 1995; interpretations of A.R.S. §§ 27-655, 27-659, and 27-651(6) and rules R12-7-122(C) and R12-7-181(I); and the terms stimulate, induce, and create. I faxed a copy of my February 28 memo to Beryl to Jon.

After the 9:00 a.m. meeting, Jon called back with three remaining issues, namely R12-7-122(C), R12-7-176(A), and R12-7-181(C) and (C)(1). After discussing these issues with Jon, I revised these rules as follows:

1. **R12-7-122(C)**; on page 10, lines 16 & 17 remove the phrase "which are carried out in accordance with R12-7-117."
2. **R12-7-176(A)**; on page 19, lines 8 & 9 add the phrase "for routine well operations" and strike the phrase "however, for substances utilized in formation fracturing, acidization or other well stimulation techniques."
3. **R12-7-181(C)**; on page 30, lines 14 through 20 strike the phrase "Exceptions to this procedure must have prior approval of the Commission" and replace with "The Commission may administratively grant an exception to the requirement for two strings of cemented casing if the applicant can show that the exception is reasonable, justified by site-specific geologic or engineering parameters, is no less stringent, and consistent with the intent of these rules regarding physical and environmental safety, conservation of the resource, and the prevention of waste."
4. **R12-7-181(C)(1)**; page 30, lines 24 & 25 strike "Exceptions to this cementing program must have prior approval of the Commission."

We also discussed the revised CES noting changes made after consultation with the attorney General. I faxed a copy of the agenda, my activity report, and the Minutes of the March 17, 1995, meeting in which Chairman Nations signed the revised CES. Finally, I called to discuss and faxed the revised rules to Chairman Nations on December 13. He agreed the changes improved the clarity of the rules.

ARIZONA OIL AND GAS CONSERVATION COMMISSION LEGAL COUNSEL

Leslie C. Hardy	05/60 to 07/60
Arthur E. Ross	07/60 to 02/61
C. Lawrence Huerta	02/61 to 04/62
Ross Anderson	04/62 to 09/62
David Lueri	09/62 to 12/62
Ross Anderson	12/62 to 02/63
Edward I. Kennedy	02/63 to 11/64
Merton E. Marks (one meeting only)	October 1963
Sydney Rosen	11/64 to 04/65
Jerry W. Lawson	04/65 to 02/67
Jordan Green (resigned, Bannister rpt 12/5/67)	02/67 to 11/67
Joeseph E. Clifford	June 1968
John M. McGowan II (Bannister report 10/11/66, 4/67; Allen report 9/9/70)	11/74 to 01/75
Craig Musel (prepared Order 47 to show cause, Bannister report 12/3/74)	December 1974
Charles S. Pierson	June 1979
Russell A. Kolsrud	11/81 to 03/85
Timothy L. Pierson (certification of rules)	02/82 to 11/82
Melinda Garrahan (AOGCC - ADHS agreement on class II wells)	01/83 to 07/83
John Wactor	02/84 to 10/85
Joeseph E. Clifford	10/85 to 08/87
Jon B. Fiegen	08/87 to 01/88
Sheldon H. Muller	01/88 to 01/89
Carol B. Lewin	01/89 to 02/91
Katherine L. Mead	09/91 to 07/92
Karen A. Clark [Elizabeth Stewart] (certification of rules, groups 1 and 2)	07/92 to 01/94
Beryl I. Dulsky, Civil Unit Chief (retired 12/31/95)	03/93 to 12/95
Jon B. Fiegen [Elizabeth Stewart] (certification of rules, group 3)	05/93 to
Edward B. Truman, Civil Unit Chief	01/96 to

ARIZONA OIL AND GAS CONSERVATION COMMISSION LEGAL COUNSEL

Leslie C. Hardy	05/60 to 07/60
Arthur E. Ross	07/60 to 02/61
C. Lawrence Huerta	02/61 to 04/62
Ross Anderson	04/62 to 09/62
David Lueri	09/62 to 12/62
Ross Anderson	12/62 to 02/63
Edward I. Kennedy	02/63 to 11/64
Merton E. Marks (one meeting only)	October 1963
Sydney Rosen	11/64 to 04/65
Jerry W. Lawson	04/65 to 02/67
Jordan Green (resigned, Bannister rpt 12/5/67)	02/67 to 11/67
Joeseeph E. Clifford	June 1968
John M. McGowan II (Bannister report 10/11/66, 4/67; Allen report 9/9/70)	11/74 to 01/75
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Edward B. Truman, Civil Unit Chief	01/96 to



Fife Symington
Governor

State of Arizona
Arizona Geological Survey

416 W. Congress, Suite 100
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(520) 770-3500



Larry D. Fellows
Director and State Geologist

December 11, 1995

Mr. Beryl I. Dulsky
Chief, Environmental Enforcement Unit
Attorney General's Office
1275 West Washington
Phoenix, Arizona 85007

Dear Beryl,

I received word today that you will be retiring later this month. On behalf of the Oil and Gas Conservation Commission and the Arizona Geological Survey allow me to congratulate you on your retirement and extend our sincere appreciation for your capable legal assistance.

Sincerely,

OIL & GAS CONSERVATION COMMISSION

J. Dale Nations

J. Dale Nations
Chairman

c Commissioners & Larry Fellows



Fife Symington
Governor

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Larry D. Fellows
Director and State Geologist

December 1, 1995

Memo: Oil & Gas Commissioners
From: *sf* Steve Rauzi, Oil and Gas Program Administrator
Re: Postpone January 26, 1996 meeting to February 9, 1996

The Sunset Review hearing held yesterday, November 30, went well. The Committee of Reference voted unanimously to continue the Oil and Gas Conservation Commission for another 10 years. The Committee of Reference will now prepare a bill, which will go through the normal legislative process including hearings before both the House and Senate Committees on Natural Resources. Commissioners Lisa Worthington and Don Clay attended the hearing. The proposed incentive legislation was not discussed at the continuation hearing but Larry plans to discuss them with Becky Jordan, Chair of the House Natural Resources Committee. I will keep you advised of the progress of both the continuation bill and proposed incentive legislation.

While discussing the January 26, 1996, meeting (rescheduled from December 8) at the continuation hearing, we realized that January 26 was the weekend of the Super Bowl in Phoenix. I called Chairman Nations on my return to Tucson to discuss this, and he agreed that it would probably not be a good idea to meet in Phoenix on Super Bowl weekend. He proposed that we reschedule the January 26 meeting for February 9, 1996, in Tucson. This is the weekend of the Gem & Mineral Show in Tucson, which will be held at the Tucson Convention Center, just a block or so south of our offices. Meeting at our offices in Tucson on February 9 provides a good opportunity for you to see our new offices and attend the Gem & Mineral Show.

Again, the January 26, 1996 meeting has been rescheduled for February 9, 1996, in Tucson, the second Friday in February. Please let me know as soon as possible if you have any conflict with the February, 9, 1996, date in Tucson. Thank you.



Fife Symington
Governor

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Larry D. Fellows
Director and State Geologist

November 27, 1995

Memo: Oil & Gas Commissioners
From: *SR* Steve Rauzi, Oil and Gas Program Administrator
Re: Postpone December 8, 1995 meeting to January 26, 1996

The Sunset Review hearing is scheduled for this Thursday, November 30, at 1:30 p.m. in House Hearing Room #2. Chairman Nations will attend the hearing, and I understand, has advised each of you about the hearing. Larry and I will also attend the hearing.

I discussed the hearing and the Commission's next meeting on December 8 with Chairman Nations today. He felt that the December 8, 1995, meeting should be postponed to January 26, 1996, because the results of the hearing would not be available by December 8, and because there is nothing new to discuss on the recommended incentive legislation provided to Victoria Tafoya after your last meeting.

Again, the December 8 meeting has been rescheduled for January 26, 1996, the fourth Friday in January. Please let me know as soon as possible if you have any conflict with the January 26, 1996, date. Thank you.



Fife Symington
Governor

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Larry D. Fellows
Director and State Geologist

October 3, 1995

Mr. Ken Rozen
State Land Department
1616 West Adams Street
Phoenix, Arizona 85007

Dear Ken:

A copy of the minutes of the Oil and Gas Commission's September 15, 1995, meeting in which archeological studies were discussed is enclosed.

Because the archeological study is a condition of the oil and gas lease, the Oil and Gas Conservation Commission will assist the State Land Department by reminding applicants for a permit to drill to contact the Land Department regarding any archeological studies required under the terms of the oil and gas lease.

Please let me know if this arrangement is satisfactory.

Sincerely,

Steven L. Rauzi
Oil and Gas Program Administrator

c Commissioners Nations, Worthington, Clay, Lanshe, Veale, Hassell
Larry Fellows

September 26, 1995

Memo: Commissioners
From: *SR* Steve Rauzi

The enclosed cover letter by Larry, memo by myself, and Utah statute were sent to Victoria Tafoya yesterday. Victoria advised Larry to send this material in to be considered somewhat along with the sunset review material previously sent. Its progress now depends on the reaction of Senator Jim Buster, Chairman of the Committee of Reference.

The schedule of future IOGCC meeting dates is enclosed for your information.

September 22, 1995

Memo: Dale Nation, Chairman
From: Steve Rauzi SR

A copy of the minutes of the September 15 meetings is enclosed for your review and signature. A self-addressed, stamped, return envelope is enclosed for your convenience. Thank you.