

OIL AND GAS CONSERVATION COMMISSION

MINUTES OF MEETING

JUNE 28, 1961

This meeting was called to order by the Chairman at 9:30 A. M. in Suite 221, 3500 North Central, Phoenix, Arizona.

PRESENT:

COMMISSIONERS

Anthony T. Deddens  
R. Keith Walden  
Charles Kalil, M. D.  
Lynn Lockhart  
Robert B. Heward

OTHERS

D. A. Jerome, Executive Secretary  
Brooks Pierce, Petroleum Geologist  
Lawrence Huerta, Asst. Attorney General  
Senator Simms  
Mr. Kipling and Mr. Klopke  
Bill King, Republic Reporter

The Executive Secretary read the minutes of the previous meeting and since no corrections or additions were proffered, Mr. Walden moved they be approved, as read - seconded by Mr. Lockhart - no opposition - so ordered.

Mr. Walden, as in the previous meeting, asked what was the status of the highway use tax and Mr. Deddens replied that he had written a letter to Mr. Clyde Killingsworth, of the Motor Vehicles Division, asking him to meet today with this Commission at around 10:30 or 11 A. M.

The question of loyalty oaths was raised - if all had been signed, if on record and if auditor's office was notified - the answer was YES on all counts.

An explanation was given by Mr. Deddens on the letter to Secretary of the Interior Udall and to Mr. Kennedy of the Forest Service which he wrote and signed without securing the signatures of the other members of this Commission in as much as time was of the essence. He then read a letter just rec'd from Mr. Udall assuring him that any decision reached will reflect the views of the Interior Dept. and the Agriculture Dept. after full consideration of all aspects of this matter.

No one having any questions, Mr. Jerome's report was next on the Agenda:

a. Read the letter from Al Russell, Key Petroleum Exploration Co., dated June 8, 1961 in which he wished to file formal notice of abandonment of the Southwest Oil Co. #1-C, Sec. 5, T 21 S, R 24 E, Cochise Co. on which he had been issued Permit #127. Since there was no controversy about cancelling this permit, a motion was made by Lynn Lockhart and seconded by Dr. Kalil, that Mr. Russell's request be granted. Unanimously approved - so ordered. Dr. Kalil suggested that we show in our files that no hole had been drilled on the location discussed.

b. Mentioned his trip to the Interstate Oil Compact Commission convention in Houston and stated that Mr. Deddens and Mr. Lockhart, also in attendance, would give their views later. Brought out the fact that the I.O.C.C. had passed a Resolution calling for the issuance of leases for the exploration and development of oil and gas in the North Division of Kaibab Forest and that the Resolution was sent not only to the Secretary of the Interior but also to the Senators of the Rocky Mt. states.

c. Read the following wire:

"The Agriculture and Conservation Commission of Sky Harbor Kiwanis Club with the approval of the board of directors unanimously wishes to go on record as being opposed to exploitation of the Kaibab North Game Preserve for oil and gas, mining, or any other purpose which would be detrimental to its preservations."

d. That he and Mr. Pierce had given a talk and shown the movie to the Coolidge Lions Club at the request of Senator Arnold.

e. During the month of June he again appeared before the Oil and Gas Study Committee, at their request, and subsequent to that meeting rec'd a letter from said Committee desiring a copy of the report relative to names of existing permittees that may be in default with respect to any rules and regulations or other laws under the administration of the Oil and Gas Conservation Commission which report was to be the result of a Resolution passed by this Commission at its monthly meeting of February, 1961. He proceeded to read his reply to this Committee which, in essence, stated that the report had not been finalized since many field trips had been required and more were still required and sessions were necessary with the Attorney General's office and with the Commission itself.

f. One other point - The Study Committee had requested him on more than one occasion to do some legal work for them and since he was an employee of this Commission, he felt that he could not comply with their wishes without the explicit permission of the Oil and Gas Conservation Commission. He pointed out that they had an attorney to whom they were paying \$1,000 a month; that he, Mr. Jerome, was not practicing law in Arizona, and if this Commission wanted him to do legal work, they would be the ones to ask for it.

The consensus of opinion among the members of this Commission was that Mr. Jerome was to attend to his duties as the Executive Secretary of this Commission and that he was not to do any legal work or any

other work for any Legislative Committee or for any other State agency, for that matter, without the expressed consent of this Commission.

g. Mr. Jerome concluded his report with the statement that Kerr-McGee, thru their Phoenix attorney, Mr. Devens Gust, had filed an amended application in connection with the hearing set for this afternoon.

Mr. Pierce preambled his report with the statement that he made the two trips to be discussed primarily to be in a better position to answer questions which may be posed to this Commission if and when the leases are granted in the Kaibab. He wants to be in a position to back up this Commission's statement that we would do everything in our power to police and supervise drilling locations and the remedial work that is necessary to be done after it is ascertained that it is a dry hole; i. e., that they are cleaned up, re-seeded and as far as possible, put back into their natural state.

WELLS VISITED:

WESTERN DRILLING CO. - VALEN FED. #1 - Found cellar and pits open and debris scattered over wide area. Three joints of 8 5/8" casing of 32' lengths remained at the location. The intermediate string had a thin sheet of metal welded on thru which a heavy steel marker had been inserted at one time. Not a hazard, but a very makeshift way of conforming to the rules. Its a mess - should be cleaned up. Sec. 31, T 38 N, R 5 W. Mohave County.

ROGER FIELDS - FED. #1, 1-X and FED. #2 - All in Sec. 17, T 38 N, R 7 W. One closed in good shape - not cleaned up but out there in the desert, it did not present a hazard - off highway about half a mile - the pits, quite shallow, were partially closed - cellar leveled over - all right.

The other location, however - just immediately off the highway - hole approx. 15 ft. deep - water standing in the hole - depth of water unknown - poses as great a hazard as could be found in an oil patch. A distorted 55 gal. oil drum down in the well - its that large. No surface casing in it. Lot of correspondence back and forth and something must be done. Bond still in effect. \$2,500 not adequate to properly plug this well, but adequate to shovel a lot of dirt into it. Not sure of depth. No scar around this particular well. Approx. 15 ft. down to the water level. NW of the Kaibab.

The question of the \$2,500 was brought up and Mr. Jerome said that under our Statute, if we were to get the Attorney General to foreclose on the bond and we were to get the \$2,500, it would have to be deposited in the General Fund of Arizona and could not be spent for plugging wells. We simply had no money with which to plug wells. Sen. Simms felt that maybe the bonding company should be asked to take care of this and Mr. Huerta was directed by Mr. Deddens to ferret out this idea to see if something concrete could be resolved.

Mr. Jerome averred that he and Mr. Huerta had met several times with representatives of bonding companies and they all stated that they knew nothing about this business of plugging wells. They inferred that the limit of their liability was the \$2,500. Here's the money, YOU do what you want. Mr. Jerome felt that the only way around all this was to get Mr. Huerta to ask the court to say the money will be used for the specific purpose of plugging a well or having a contractor do it.

He Huerta, when given the floor, doubted very much that the Court would do such a thing in as much as the surety was the State of Arizona and would have to spend Arizona money to allocate money as above suggested.

With many ideas and suggestions proposed, Mr. Deddens asked for a motion which Mr. Walden made, as follows:

"I move, therefore, that Mr. Huerta is instructed to draft the language, in proper form, to call these people, including the bonding company, to appear before this Commission for an investigation and then we will, depending on the outcome of the investigation, act accordingly".

Seconded by Mr. Lockhart - all in favor - so ordered. The above to be sent out over the signature of the Commission.

Mr. Huerta, to do this job, wanted to have in front of him and documented, the delinquencies that have been found and would prefer it in affidavit form.

A brief discussion followed on the matter of application forms and permit forms. Dr. Kalil felt the one submitted by Mr. Huerta presented a mild deterrent in that it asks for information we have no right to know. He stated that our responsibility was to see that a person who comes in to drill posts an adequate bond and has the acreage. He feels the drilling permit we have is all right except for two points:

1 - There should be flexibility in the amount of the bond - depending upon the depth of the hole to be drilled and the location where it is to be drilled - Bond should be for \$2,500 to \$50,000.

2 - Bond should be considered a performance bond - whereby the Bonding Company would be called to task to see that their client follows thru with what has to be done to comply with our rules and regulations.

It was expressed that we should have a Permit to Drill, designated as such. No further discussion at this time.

After a brief recess, Mr. Killingsworth and Mr. Lane were introduced and given an opportunity to state the Motor Vehicle Division situation relative to oil and gas drilling rigs and other equipment.

Mr. Killingsworth stated that the law requires his department to register anyone who is gainfully employed - doesn't say for 6 months or 1 month - just gainfully employed - period. That only the chassis, not the drilling rig, is required to be registered. That the main trouble is the lieu tax since their fees are very small, and that they have no control over the lieu tax at all.

As for delays on Sat. and Sun., it only happens to oversized vehicles - these cannot be permitted on highways that are covered by the Federal Aid Bill and this is knowledge pretty well scattered around the country as other states have the same provision. At points, like Sanders he felt the inspector should have permitted Linehan and Stoltenberg's contractor to go the short distance, but he could not issue a directive to the inspectors.

Mr. Lane said there were very little problems encountered with oil and gas industry in as far as rigs are concerned - the rigs can be moved - the problem has been with the carrier employed by the owner - carrier has inadequate equipment and they have very slight tolerance to work in when it comes to gross weights or overweights on individual axles or a group of axles. Always happens on our Interstate System, otherwise, if only on our state highway, Federal Aid would not have to be considered. They want to cooperate in every way possible but the carrier should let them know all the information required - number of tires per axle - distance between axles - what his gross weight is - we will do everything to get things done in a rush fashion - by telegraphic permit, if necessary.

Mr. Jerome questioned Mr. Killingsworth as to whether all the border stations were aware fo the 30 day permit situation - the answer was yes. The 30 day permit was clarified that they were issued only in emergencies cases where someone had to come into the state for a few days only, for cementing off purposes and the like and said permits were not in lieu of registration of vehicles used by those gainfully employed. If they would only notify the Dept. by telephone in sufficient time, if possible, the Dept. would see that they get thru.

Dr. Kalil requested some mimeographed sheets that had the salient points covered from the Motor Vehicle Div., as they would be helpful for this Commission to give out whenever anyone was granted a permit to drill - Mr. Killingsworth promised to send us 100 copies of such a pamphlet together with 100 copies of their rules and regulations. After being thanked by Mr. Deddens and before departing, Mr. Killingsworth and Mr. Lane said they could be called at any time any problems arose and they would "carry the ball" from there.

Mr. Pierce was asked to go on with his report - because of car trouble could not get to the Snowflake area so visited wells in and around the Holbrook area. Went to all the wells that Serge Besoyan had an interest in and found them all in a deplorable condition. After considerable discussion of all of the locations visited, Mr. Walden amended his previous motion to include these wells in the Commission's investigation.

Dr. Kalil then questioned on what grounds could we proceed on. Were any of the locations harzardous and Mr. Pierce replied that they were not hazardous, but in a very poor condition. Needed a lot of cleaning up.

Dr. Kalil felt the following were the only things that we could take objection to:

- 1 - Conmingling of fresh and salt water
- 2 - Escape of dangerous gas that is inflammable
- 3 - Open hole that someone can fall into and die

Beyond that, he felt it would be rather difficult. If we had affidavits on any of these conditions, then we could proceed to take action; otherwise, it would be hazardous especially on that one case where a suit is pending, for a million dollars, he believed.

After further discussion by Mr. Huerta and the members of the Commission as to what procedure to follow in investigating the delinquencies found by Mr. Pierce on his field trips, Dr. Kalil wanted to bring this point up -

"If a well is still being carried as active, and a condition exists around that well that may be hazardous bearing in mind that the three above stated hazards are not present and if the operator wants to keep it active - trying to reconsolidate his position to come back here - so long as he puts a fence around it - protecting it, I think that would suffice in a lot of the cases and would relieve us of the responsibility of tampering".

Mr. Jerome inserted the remark that they should then ask for a temporary abandonment.

Mr. Deddens felt that if only we could get some information from these people when we contact them so we know what to do - then he agreed with the Dr. and Dr. Kalil responded that we could let them know that if they wanted to keep their permit active, they should ask for temporary abandonment after they had accomplished this thing or other that needed to be completed.

Mr. Pierce concluded his report with the latest information he had on Teil Dev. Co. Inc. which is located  $2\frac{1}{2}$  miles south of the producing wells in the helium gas prove. That they had stuck swab at 360 ft. and were shut down waiting on orders.

Mr. Lockhart and Mr. Deddens described their I.O.C.C. visit with great enthusiasm and it was expressed that Jules Klage of the Legislative Council, who also attend this convention, derived quite a bit of information on the oil and gas industry that would be very beneficial in drawing up legislation helpful to Arizona for the furtherance of oil and gas exploration.

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Reconvened at 1:30 P.M. for the hearing on Kerr-McGee's Oil Industries, Inc.'s application to delete certain portions of the area covered by Order No. 1, as extended and to dissolve Unit VII established by Order No. 1, as extended.

The fact that Mr. Devens Gust, Phoenix attorney for Kerr-McGee, had filed an amended application the previous day with Mr. Jerome, Executive Secretary of the Oil and Gas Conservation Commission was brought out and Mr. Gust made the following request:

"That the hearing of this amended application be held at your regular July meeting date which will give us an opportunity to publish the necessary notice, in the meantime. And, that Kerr-McGee would also like to have an order continuing the original application until that same date as that set for the amended application rather than have the Commission act on it, or not act on it, without any testimony. We would like to have the hearing that is scheduled for today continued until your next regular meeting. At that time, Kerr-McGee will come here with engineers and present the evidence that they have for the basis for their application and the Commission at that time can act on the application, as it is amended".

Mr. Lassen and Mr. Ryan of the State Land Department, offered no objection to the continuation of the above application and had no testimony to offer at this meeting; therefore, a motion was made by Dr. Kalil and seconded by Mr. Walden that the original application set for hearing today be extended until the next regular meeting of this Commission and that the amended application of Kerr-McGee be set for hearing at the next meeting, which will be on July 26, 1961, at 1:30 P.M. at the Tax Commission Hearing Room.

Unanimously approved - so ordered.

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(SINCE THE VOICES ON THE TAPE CONTAINING THE ABOVE HEARING AND THE REMAINDER OF THE MINUTES WERE GARBLED - I CAN ONLY INSERT THE MOTIONS THAT MR. JEROME HAD ON HIS NOTES)

Dr. Kalil made a motion, and it was seconded by Mr. Heward, as follows:

"That this Commission in order to stimulate the exploration of oil and gas in the State of Arizona go on record expressing itself as offering a cash bonus, in the vicinity of \$200,000, to the first commercial hydrocarbon gas and/or oil production off the Indian Reservation with apportioning percentages to land owners, royalty owners and operators - this to be worked out by the Legislative Council." Unanimously approved.

After some discussion of the proposed changes in the rules and regulations, Mr. Lockhart made a motion to adjourn which was seconded by Dr. Kalil. All approved - carried.

Respectfully submitted,

Helen M. Eremie

APPROVED..... *July 26, 1961* .....

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Anthony T. Deddens, Chairman  
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R. Keith Walden, Vice-Chairman

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Charles Kalil, M. D. Member

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Lynn Lockhart, Member

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Robert B. Heward, Member