

OIL AND GAS CONSERVATION COMMISSION  
1624 West Adams - Suite 202  
PHOENIX, ARIZONA

*Minutes of Meeting  
December 16, 1964*

Commissioners present:  
Lynn Lockhart, Chairman  
R.Keith Walden, Vice Chairman  
Lucien B. Owens, Member

Commissioner absent:  
Orme Lewis, Member

Others present:  
Senator Marshall Simms  
Mr. F.C. Ryan, State Land Dept.  
Mr. Sid Rosen, Attorney General's  
Office  
Mr. Bill King, The Arizona Republic  
Mr. Mike O'Donnell  
Mr. Needham Steed  
Mr. R.P. Davidson  
Mr. James Pickett  
Mr. R.B. Jones  
Mr. John Bannister, Executive Secretary  
Mr. J.R. Scurlock, Geologist

Chairman Lynn Lockhart called the meeting to order at 9:30 a.m. in the Commission Hearing Room, Room 204.

Mr. Walden suggested that in the minutes of the November 25 meeting the language of paragraph 4 be changed to indicate more clearly that the Commission has always recorded minutes of its meetings, including hearings, during which the Commission acted as a body and the importance of continuing this policy was stressed. He also suggested that in his report of the meeting with the Indians the language should be changed to state that the existing goodwill with the Indians was reaffirmed.

With these corrections the minutes of the meeting of November 25, 1964 were approved. Statement of minutes of October 21, 23 and 28, 1964 were approved.

Reports of the Executive Secretary and the Geologist were approved and accepted.

Mr. Bannister presented the matter of taxation in Yavapai County on oil rigs, and, in particular the Ewing-O'Donnell Drilling Company, and reported on the meeting with the Board of Equalization of that county at Prescott which brought about a reduction of their November tax bill from approximately \$3,900.00 to \$350.00.

However, Mr. Bannister stated, the problem of ad valorem taxes on rigs in Arizona still exists. Tax information from other states

is being collected so that the problem can be presented to the proper people. Under the present tax structure the taxes on production will run 10.5%. The problem of taxes will have to be faced and Mr. Bannister suggested that perhaps instead of a bonus bill (\$250,000.00 to an operator bringing in the first well off the reservations) as introduced in Legislature last year, a more proper approach might be to give operators a tax advantage to help recoup their costs and which would be available to all operators rather than one individual.

Mr. O'Donnell pointed out that Nebraska had been in the oil business for only the past fifteen years, but assessors made a special incentive to bring in rigs and on production until enough production was received to benefit the State. In Arizona, rigs on the Reservations aren't being taxed. Anyone coming into Arizona would be taxed \$6-7,000.00 for one well unless he can move in and out without getting caught.

After further discussion of Arizona tax structure and examples from other states, Mr. Lockhart questioned whether it would be faster relief to meet with the tax assessors and work out a uniform assessment rather than getting a law passed.

Mr. Owens questioned whether the Tax Commission had authority to grant tax relief. Mr. Bannister replied that the Legislature controls; and as he understands it the county tax assessor has a specific set of percentages he does charge, so the only thing anyone could do was to attack the value rather than the percent. Mr. Bannister quoted tax rates of Utah, New Mexico, and Texas.

Mr. Needham Steed pointed out that in Texas the oil industry was the number one industry and grew so rapidly that it carried the Texas tax load. For many years there was no income nor sales tax. The State kept growing too so that finally the sales and income taxes were needed. Mr. Steed stated the oil industry should be taxed, but should not be taxed so heavily it cannot stay. In a state trying to encourage the oil industry to stay, the proper method might be to guarantee a lower tax burden until such time as the industry is able to carry its share of the load. The present tax rate in Arizona would certainly discourage people from drilling and producing because there is so much competition from other states and from foreign oil. In fact, there is an excess of oil.

Chairman Lockhart agree with this point of view and felt we should make it attractive until we do get something, and then not go crazy, and asked Senator Simms for an opinion.

Senator Simms thought perhaps the best procedure would be to give an exemption from the production tax in addition to a lesser rate on the rigs. He agreed with Chairman Lockhart that it would not take legislation but rather getting together with the assessors.

Mr. Owens stated that when Mr. Bannister completes his compilation of tax information from other states, he would be happy to take it and accompany anyone to the assessor in Holbrook.

Mr. O'Donnell pointed out that assessment would have to be state-wide because his moving bill to a county which would be favorable tax-wise is \$4,000 and that would be defeating his purpose.

Mr. Walden stated this was not something the Commission was empowered to do officially, but the Commissioners could, unofficially, as members interested in oil and gas resources in this State. We certainly can and want to continue to create a favorable climate for people to come in. But as a body charged with only certain responsibilities by law he thought that there wasn't much we can do about this, and the place to really push and ramrod for an organized effort is the Oil and Gas Association of Arizona which represents the industry. This Commission doesn't represent the industry. This Commission is just charged with the responsibility of setting up guidelines within which the industry can operate.

Mr. Steed pointed out that the Arizona Oil and Gas Association doesn't have the membership nor the money to provide an effective lobby to present information to the Legislature, and won't have until they bring in enough oil.

Chairman Lockhart vouchsafed that the Commission would do everything legally possible to help but someone would have to draw this up.

Senator Simms suggested that an outline and suggestions be prepared and then have the Arizona Legislative Council draft it. He also suggested that inasmuch as the re-evaluation thing is going on Mr. Steve Spear should be gotten in on this too.

Mr. Walden wondered if this were something to be discussed with the Governor so that he might put it in with his request for legislation.

Mr. Davidson concurred and stated it was his observation that the general public does not recognize the limitations of this Commission and were looking to the Commission to perform outside the scope of its legislated powers. They look to the Commission for opinion, for promotion and activity which are not within conservation.

Mr. Walden also pointed out that the Arizona Development Board is charged with bringing industry into the State and it was empowered to do just what is being talked about.

Mr. Ryan stated it was his presumption that the present oil and gas tax structure was sponsored by the Western Oil and Gas Association.

Mr. Owens stated this thing should be organized to get relief. The Oil and Gas Association of Arizona or the Arizona Legislative Council should draw a solution to put before the Legislature, and that for the time being, prior to production, it could be handled locally at least on the drilling equipment.

Mr. Davidson and Seantor Simms agreed that a factual report should be prepared. Mr. Walden suggested that this report be placed in the hands of the Governor's Administrative Assistant and an appointment be made for discussion with the Governor. Mr. Walden consented to set up an appointment with the Governor as soon as a strong, factual report is ready.

Mr. Bannister presented several suggested changes in the Rules and Regulations to bring them into line with the Statutes and to remove conflicts.

Mr. Walden suggested and the Commission concurred that since the modification of the Rules and Regulations are technical modifications only, and not changes in philosophies and principles, but since a hearing is required, that consideration of these changes be dispensed with for now and that they be considered at a special meeting, say about February.

Mr. Bannister then presented suggestions for legislation for Statutory changes. One suggestion concerned 27.516 to change the time limitation for operators to submit data to the Commission from 90 days to 60 days. Currently the Commission has a backlog of "no information."

Mr. O'Donnell pointed out the value of current information. At the drilling of the Taubert & Steed well tops were being given out at the well site and consequently others could now be working in the surrounding area.

Mr. Steed stated he felt industry would not object to filing information with 60 days. Information at this stage of exploration is vital to industry.

Mr. Bannister pointed out there has been quite some controversy on the confidential period on information because of the conflict of the Regulations with the Statutes. The Statutes provide that if the operator requests it, information can be held confidential for six months from date of completion; the Regulations say that within two months after completion of a well the information must be submitted and then it will be held confidential for six months after that, in effect, then, eight months.

Mr. Davidson agreed that the Rules and Statutes should be brought into agreement, but the one thought that bothered him was that if we get too much oil legislation, the tax and these other questions, we may run into difficulty. It might be well to select the one of major importance.

Senator Simms expressed agreement.

Mr. Walden moved that the Commission address itself, again, to what it is charged with, and to do what we as individuals can in helping to get the major job done, which is alleviation of the burden of taxes; and in view of the importance of this matter to the oil and gas industry that we not muddy the water with these minor items and that we therefore dispense with the consideration of these minor items.

Before any action on this motion Mr. Bannister requested to report on one further item, the protection of water charged to the Commission and called attention to potash tests which are underway currently to depths of three-to-four thousand feet. They are combining, in actuality, potash tests with oil tests. If the Commissioners see fit to attack this problem the only way would be legislation to change the definition of an oil well. The current exploration has been declared as exploration for potash and it is not in violation of any regulations--there are no regulations.

Mr. Ryan pointed out that these tests were primarily on fee land. If State lands were concerned they would be compelled to file complete information. So far as protection of water is concerned, a study was begun in 1959. There are many facets concerned. The United States Government has many agencies to service all mineral resources, including water, and thus can serve the many facets involved.

Mr. Walden asked who had jurisdiction of core drilling for mines and indicated the Commission should not be saddled with supervising mining cores to protect water.

Mr. Ryan replied that no one specific office has jurisdiction except for whatever the Mining Inspector might have when they bring minerals to the top of the ground. Mr. Ryan cited coring in the Organ Pipe Cactus Monument by a mining company who hit artesian water that flowed at a height of four or five feet above the ground for a half-day or so until it was decided to drill through it, and when they drilled through it they lost the water of course.

Mr. Bannister pointed out that New Mexico solved its problem by writing the definition of a well to state that any hole which

penetrates any known or potentially producing strata would be an oil or gas well.

Any change in definition of well or any action to take mineral exploration into jurisdiction would require legislative action.

Mr. Bannister pointed out again the conflict between the Statutes and the Rules and Regulations concerning confidentiality and requested instructions.

Mr. Rosen pointed out that Statutes take precedence over Rules and Regulations.

Mr. Bannister was directed to act in accordance with the Statutes, to be consistent in enforcing the period of confidentiality from date of completion of the well. He was also directed to write interested operators accordingly.

Mr. Walden brought attention to his earlier motion; it was seconded and passed.

Discussion of the proposed budget was the next order of business; and since it was of no interest to the visitors, the visitors took the opportunity to leave the meeting.

It was agreed that the money proposed for Commissioner salaries be increased to \$3,800.00 to allow for anticipated increased workload in attending hearings and other official business.

It was agreed that the request for an additional position be included in the budget.

In contemplation of increased out-of-state travel to contact various operating companies, the category for out-of-state travel was increased to \$3,500.00.

The costs of hearings, i.e., publication, court reporting, was discussed and it was decided that contractual services be increased to \$1,500.00 and professional services to \$2,000.00.

It was agreed that in addition to the request for a replacement car, that a request for a mimeo machine be included in capital outlay for a total of \$3,000.00.

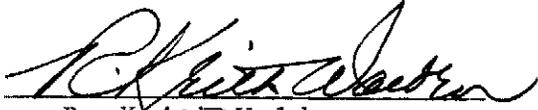
The meeting adjourned at 12:15 p.m.

Respectfully submitted,

John Bannister, Executive Secretary

APPROVED March 24, 1965

  
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Lynn Lockhart, Chairman

  
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R. Keith Walden

          A B S E N T            
Orme Lewis

  
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Lucien B. Owens