

OIL AND GAS CONSERVATION COMMISSION
1624 West Adams - Suite 202
Phoenix, Arizona

Minutes of Meeting
April 28, 1965

Commissioners present:
Chairman Lynn Lockhart
Mr. Orme Lewis
Mr. Lucien B. Owens

Commissioner absent:
Mr. R. Keith Walden

Others present:
Mr. John Bannister, Executive Secretary
Mr. J.R. Scurlock, Geologist
Mr. F.C. Ryan, State Land Department
Mr. Jerry Lawson, Asst. Attorney General
Mr. B.G. Messer, Duval Corp.
Mr. Jim Pickett

Chairman Lynn Lockhart called the meeting to order at 9:45 a.m.

Minutes of the previous meeting, March 24, 1965, were approved.

Chairman Lockhart asked if Mr. Bannister had anything to elaborate upon in his Report of Activities, particularly with reference to the Ferrin well.

Mr. Bannister replied that the Ferrin well has had a show of oil. Reports on the well are still in a confidential status. The oil show was coming from the bottom of the Coconino at around 1406 feet or so. The well has been logged and Slumberger reports that there are four zones which should be tested; and apparently Mr. Ferrin is going to run pipe and perforate these four zones. More specific information should be available in the next four weeks or so.

Mr. Bannister also reported: That the four locations on the Hopi Reservation, Amerada, Skelly, Texaco and Atlantic, were just getting started so information is not available as yet. These are all located in the heart of the Black Mesa Basin.

The Willet well southwest of Flagstaff should get started within a week or so; it has been held up because of the soft ground. This should be another very interesting test.

The Harless situation at Sedona is still the same. There are reports that they picked up some more acreage, apparently trying to the north. They did lose one Federal lease because they did not pay rentals in time, but Mr. Harless has re-acquired this lease. It had a hole 306 feet deep.

We have been extremely lenient with their operations. These five wells, two of which they claim have had shows, are all under bond, and unless I am instructed otherwise I will go along with them so long as they are working in the area. Their announced intention is that all five wells will be completed.

Ram Oil Company is desperately trying to complete their well on Sierra Bonita Ranch near Willcox. Ram Oil Company as such is broke. They had the Sierra Bonita acreage, some 30,000 acres, in excrow. They were to earn this acreage by taking the well to 2,000 feet. They still haven't gotten down to 2,000 feet. Recently Ram and Roy Sharp reached an agreement taking the acreage out of excrow and splitting it.

Roy Sharp is trying to get two or three wells drilled in the northern part of the acreage. He had a deal set up with Al Ward, an independent out of Colorado. But I understand the deal has fallen through.

Dr. Kalil is putting together a deal in the Winslow-Snowflake area. He is negotiating now to drill.

I have been advised by Mr. Davidson, attorney for Eastern Petroleum, that after the feasibility study, the ArkLa and Eastern deal to put in a helium plant near Navajo Springs is now off. ArkLa is very interested now in the Ferrin location.

Mr. Lewis asked what effect this would have on unitizing. Mr. Bannister replied it would not effect unitizations now; that probably what would happen is that Eastern would enter into a long term contract with Kerr-McGee. Incidentally, the Barfoot well did not make the amount of gas they wanted and as a result there has been some coning; and Eastern, to prevent that, has had to tie in some other wells to meet their contract with Kerr-McGee.

Chairman Lockhart asked how much gas per day was Kerr-McGee taking from that field. Mr. Bannister replied that roughly about 750 MCF per day. The Kerr-McGee wells were holding up pretty good. The fringe wells at first production were making water; they are still making water but the water has not increased in proportion to the gas. So the reservoir is apparently holding up. Again speculating, it looks as if Eastern will have to go with Kerr-McGee facilities.

Kerr-McGee has only been running their plant at 50% and the reserves under Pinta Dome are apparently committed to their existing contracts. If a new demand or additional market came along they wouldn't be able to meet it. But with additional supplies coming in from Navajo Springs they would be able to expand production.

In response to Mr. Lockhart's question as to where new market was coming from, Mr. Scurlock replied that he had heard that helium was being exported to the Free World, that in the last year the use of helium has doubled. The Russians apparently had devised a method of shipping helium in open containers under pressure and low temperature.

Mr. Bannister defined an open container as one that was not double-walled, in other words, a container that was not contained within another.

Mr. Bannister showed the Commissioners the new pre-numbered permit form for drilling wells and the short-form revision of the well file brief form.

Mr. Bannister reported that he did not know exactly what the Legislature-approved budget was, but it was his understanding that in the main we got what we asked for, but the additional personnel requested and some out-of-state travel had been refused.

The out-of-State budget balance is very low. IOCC is now requesting reservations for the June meeting in Pittsburgh. Mr. Bannister suggested that Mr. Lockhart attend the meeting. The Commissioners concurred and Mr. Lockhart indicated willingness to attend. It was voted that Mr. Lockhart attend the June IOCC meeting.

Mr. Lewis suggested that Mr. Bannister note the changes to the Rules and Regulations he would like to have; allow time for the Commissioners to study these suggestions, and then have a meeting to discuss the changes before going through the agony of a hearing or hearings.

Mr. Bannister replied that the majority of the changes needed were not substantial. However, one substantial change would be the amount of the drilling bond and recommended \$5,000 for a single well and \$25,000 for several wells, the reason being that if we need to plug a well, under the present bond amount, \$2,5000 is not enough. The Statutes state the amount of bond is to be set by the Commission but they do not say how much.

Mr. Lewis asked what effect would the \$5,000 bond have on the industry and Mr. Bannister replied he felt it would have no effect. One individual he had talked to indicated only that it was a protection we needed and it would make no difference to the majors.

Mr. Lewis indicated, too, that if an operator could not afford the price of a \$5,000 bond, then perhaps he should not be drilling anyway.

Mr. Bannister stated there were a lot of holes that had to be plugged. It is a practical matter that we could start only with the holes that were still under bond, but we still were faced with the fact that there are some open holes with no bond and we may have to go to the Legislature and ask for money to plug these holes.

Mr. Owens asked whether the Reservation wells were in the same status and received a negative answer and was assured that the Reservation wells are drilled by major companies who complete wells in excellent shape.

Mr. Lawson discussed SB185, the new definition of "well" and its effects.

The question of how the new provision was to be enforced was

discussed at length. The many problems involved were explored. Inasmuch as the questions involved have been referred to the Attorney General for a written opinion, the Commissioners decided to take no action concerning this until we had the Attorney General's opinion.

Mr. Lawson reported that Mr. Bannister and Mr. Scurlock had come to him with the bonds in effect on wells. He had looked through them and it appears there are three types of bonds in the files. The current type being required is a penal bond and the requirements that the principal will comply with rules for plugging and reports required by the Commission. One of the other type bonds is in the same type language but prior to the creation of the Commission. The other type is not stated specifically as a penal bond but a mandatory amount, again going back to 1950-1957. The way they read, the money is payable to the State of Arizona and we get into whether you have a statute of limitations on this type of bond.

The Executive Secretary feels some action should be taken under these bonds, continued Mr. Lawson, and Mr. Lawson said he didn't know why there hasn't been in the past some action taken. Technically they are all penal. So it's up to the company if you make a demand. The company, if they feel they are liable, can either pay the amount or do the work. In a lot of instances they may find it cheaper to do the work. But if they pay the amount to the State, the Commission doesn't get the money, the State does, and you've got to go back to the Legislature and get an appropriation. Under the Statutes you have three different alternatives, go under the bond, take a mandatory injunction, or take civil action. Realistically, the last two do not work.

Mr. Lewis said the only thing to do is get the money for the State, or get the bonding company to plug the hole, and we can see about it after the State gets the money in the next Legislature.

Mr. Lawson pointed out that if the Commission tries to recover under the bond, if the bonding company doesn't see fit to comply, you will have to sue. So when you make the initial demand you are going to have to have a live witness who can testify to the matters you are going to make demand upon. These are factual matters we are going to require before we make a demand upon a company. I think you are going to take each case by case. My suggestion is that you take the more recent, the most current. I'm afraid you're going to run into some trouble on the old bonds. The companies are not going to comply if the well was abandoned seven or eight years ago and the Commission has done nothing to notify them before now. So far as the statute of limitations, I haven't gone into this but it seems to me that unless there is a specific statute as to how long the bonds are going to be in effect or unless it stated in the bond, then I don't think there is any statute of limitation. This will come to a head eventually.

Mr. Bannister's thought was that the Commission should go to the bonding company and make a demand on them and see what they do, deny their liability or something, before coming to the Attorney General.

Mr. Lawson suggested that if the Commission goes to the bonding company, it should just demand they comply with the bond, tell them the individual has not complied with the rule, and demand help on the bond.

Mr. Bannister stated he was going to demand that the company plug in a stated manner rather than ask for the money.

Mr. Ryan expressed his sympathies with the Commission's problems in the current situation. The Land Department too is faced with problems of drilling in a critical area. Mr. Ryan also offered to the Geologist some U.S.G.S., water resources branch, water papers, primarily in Apache County, which contain excellent out-crop maps and an excellent treatise on all geology in the area around the Reservation and Springerville, and much data on formations.

Mr. Messer expressed his appreciation for being present at the meeting.

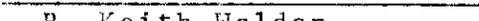
Meeting adjourned at 11:30 a.m.

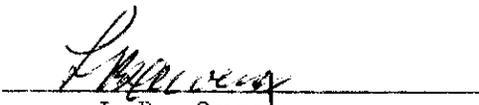
APPROVED June 9, 1965


Lynn Lockhart, Chairman


Orme Lewis

Absent


R. Keith Walden


L.B. Owens