

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

Minutes of Meeting  
January 19, 1966

Present:

Mr. Lynn Lockhart, Chairman  
Mr. Orme Lewis, Vice Chairman  
Mr. Lucien B. Owens, Member  
Mr. Hiram S. Corbett Member  
Mr. John Bannister, Executive Secretary  
Mr. J.R. Scurlock, Petroleum Geologist

Dr. Charles Kalil, Oil & Gas Association of Arizona  
Mr. Hale Tognoni, attorney  
Mr. S.C. Buzz Brown, consulting geologist  
Mr. Steve Tima, Tima Oil & Mining Co. Inc.  
Mr. Jimmy Fulton, Sunland Development Co.  
Mr. Chapman, Realtor  
Mr. Mike O'Donnell, O'Donnell & Ewing Drilling Co. Inc.  
Mr. Don Warne, Phoenix Gazette  
Mr. James R. Pickett  
Mr. Loy Turbeyville  
Mr. Alcott  
Mr. J.H. Waterhouse  
Mr. William Leonard

Chairman Lockhart called the meeting to order at 9:30 a.m.

It was moved and passed that the minutes of the meeting of December 15, 1965 as distributed be approved.

Chairman Lockhart called upon Dr. Kalil to make any comments he might have.

Dr. Kalil commented that it had come to his attention that the Commission had considered some form of incentive for the development of hydrocarbons within Arizona. The Oil and Gas Association of Arizona feels the best incentive for exploration to be money. Knowing the financial situation in the State, it was felt by the Association that some incentive that wouldn't cost the State any money unless an industry were developed, it could possibly get consideration by the Legislature; and perhaps the Commission could join the Oil and Gas Association in working for such a bill.

Dr. Kalil pointed out that about 85% of the new fields are found by independent oil companies, the wildcatters. Then the majors come in. So it was felt an incentive of a quarter of a million

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dollars for the first 25-barrel a day well, producing consecutively for 30 days would help entice that segment of the oil-finding industry that would be most affected by such an incentive.

Chairman Lockhart questioned whether an incentive bonus or a footage payment would be most practical.

Dr. Kalil replied that psychologically speaking, nothing will attract the drilled like a lump of money or a successful well. To tell them they will be supported at \$3.00 a foot doesn't seem to carry the connotation, the stimulus, to the fellow trying to put something together like saying, if you succeed you'll get a reward of a quarter of a million dollars. He also felt it might be a little difficult to police the footage incentive.

Mr. Tognoni stated that certainly what has happened throughout the country in the past to get the mineral industry growing is the incentive of a reward, the same thing that started the gold rush in California in the old days. Certainly we started another mineral rush with uranium when the Government put on a bonus program. Research in the state of Nevada shows that money placed in minerals by exploration people was far more than ever came out of the ground. A reward program is one that doesn't cost the State money. He pointed out that the State has only to lease one million acres of State land to actually bring in that \$250,000. Mr. Tognoni strongly recommends the reward.

Mr. Lewis questioned whether this reward would be available to anyone in the State, or would there be any exclusion of lands.

Mr. Tognoni replied that the Association recommended excluding the Indian Reservations.

Mr. Lewis questioned constitutionality and Mr. Tognoni replied that an Attorney General's opinion stated the reward was constitutional but we should have an opinion as to the separation of areas.

Dr. Kalil stated that the question of kinds of lands was gone into in detail and that is why it was so labeled that it could be awarded only on State lands.

Mr. Brown stated that he does agree that we need an incentive and the best incentive is the bonus rather than a footage support. Unfortunately, he continued, parts of our State will not produce under any condition. By the same token we have a tremendous area with good potential. Too, there are going to be politics between the counties; some counties with no chance for oil would want to have a share of the incentive. Drillers will naturally hit water and they are going to hate to plug a water well.

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Mr. Pickett stated he was giving evidence to the fact that the oil industry segment is not vacillating but it is not 100% behind the bonus. We are all agreed however on the same thing, an incentive. But we don't know how to accomplish it. Mr. Pickett stated he is in favor of anything that will help the State. He personally feels the footage bill is more practical and would achieve the results better. A practical solution will be much better than a gimmick. The bonus bill strikes him as a gimmick. What we are after is oil, not just a flurry of leasing. Mr. Pickett favors the footage proposal even though he is not against the bonus.

Chairman Lockhart pointed out that the more complicated a bill, such as the footage proposal, the harder it would be to get the Legislature to pass it. Mr. Corbin concurred.

Mr. Owens pointed out that the Commission had made no decision as to which way they would go. He would like to see the Oil and Gas Association get together as a body that could go to the Legislature.

Dr. Kalil pointed out that the Association was not divided but working by a majority rule. At the November meeting there was not one dissenting vote from those members present.

Chairman Lockhart agreed that everyone could help and Mr. Owens noted that the Association could possibly do more at the Legislature than the Commission.

Mr. Lewis asked if it were the idea of the Association that the bill would earmark proceeds of rentals, or would the \$250,000 be purely general appropriation money. The rentals are trust fund money while general fund money is tax money. The idea that it won't cost any money is a sales point. But if it comes from the general fund it will cost money because the rental that will be produced will go into a trust fund for education and other purposes, and that trust fund doesn't reduce the appropriation to schools--it increases available money to the schools.

Dr. Kalil stated that in his talk with a representative of the State Land Department a couple of months ago he was told that rentals went into the general fund; at least with reference to Sections 2, 16, 32, and 36, rentals are set aside as trust funds for schools and state highways. And state land embraces more than just those sections.

Mr. Lewis expressed the opinion that the Commission was in complete agreement to do anything to get the oil industry in the State on the road.

Dr. Kalil stated the purpose of the Association coming to this meeting was to show their interest in the incentive approach, and if the Commission saw fit, it could at least concur in some feature of their proposal and it would be appreciated.

Mr. Chapman spoke in favor of the lump sum bonus, saying that a 25-barrel a day well may or may not be a paying well, but the \$250,000 will pay the individual to drill that well.

It was agreed that the discussion on incentives had been thoroughly covered and members of the Association withdrew.

Mr. Bannister turned over to Chairman Lockhart some letters received from independent oil operators signifying their approval of the footage incentive idea.

Mr. O'Donnell reported that he had just attended an Independent Petroleum Association meeting in Denver at which time he had discussed the footage proposal with the Board of Executives and they were entirely in approval.

Mr. Lewis indicated he felt that it was not the function of this Commission to draft a bill and give it to a legislator to introduce. This is a public thing and should come from the public. The Commission is a body that ought to be expressing itself in advisory capacity. Mr. Owens concurred.

Mr. Corbett asked if a bill were gotten up by the Oil and Gas Association could the Commission endorse it.

Mr. Lewis felt that a great deal would depend upon the bill itself. The Commission would be concerned with the administration of any bill enacted into law.

There followed general discussion as to procedures and timing for initiating legislation by any interested group.

It was moved and passed that the reports of the Executive Secretary and Geologist be accepted.

Mr. Bannister announced the Senate and House Appropriations Committees budget hearings scheduled for the Commission. Mr. Lockhart and Mr. Owens indicated they would be present and Mr. Lewis would appear if he possibly could. Mr. Corbett would be unable to attend.

It was agreed that the budget, as submitted, would stand with no changes.

Meeting adjourned at 10:50 a.m.

APPROVED February 23, 1966

By \_\_\_\_\_  
Lynn Lockhart, Chairman