

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

Minutes of Meeting
September 21, 1966

Present:

Mr. Lynn Lockhart, Chairman
Mr. Orme Lewis, Vice Chairman
Mr. H.S. Corbett, Member
Mr. Lucien B. Owens, Member
Mr. George T. Siler, Member
Mr. John Bannister, Executive Secretary
Mr. J.R. Scurlock, Geologist

Mr. Al Morgan
Mr. Paul Brown

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

Mr. Lewis, in order to clarify and enlarge upon his remarks as contained on Page 2 of the minutes of the meeting of August 17, 1966, commented that it is the uniqueness of Arizona land ownership, in that we have such small amounts of privately owned land and hence a small number that might be affected by any suggestions on our part relative to brokers, leasing problems, or how owners might handle such property. Our land falls essentially into four categories, being Federal land, over which we have no control and is so highly specialized that for us to put out any statement on it would undoubtedly be a mistake; State lands; Indian lands; and of course lands under the jurisdiction of the National Forest Service which again come under specialized rules.

Mr. Lewis felt that the minutes of that meeting were satisfactory as they are. The minutes of the meeting of August 17, 1966 were then approved.

Mr. Lewis requested and received confirmation of his recollection that the remarks from Senator Udine during the meeting of August 17, 1966 were merely his comments and that he had not been called upon by the body for an opinion.

Mr. Owens asked if the question of spacing of wells had been clarified.

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Mr. Bannister recapped the discussion of the previous meeting and stated it was his impression that the feeling of the Commission was that we enforce the Rules as written. The question was posed to the Attorney General and the reply was that if the application on its face is proper, we have no recourse but to issue the permit; that the "Commission must apply an objective test, not a subjective test."

Mr. Bannister further stated that he would not like to see the Commission take any steps to correct the legislation, that our rules and the way we are enforcing them are quite adequate. A man drilling for oil on the required 80 acres but finds helium is running a deliberate risk because there is no way he can produce that helium until he can give us the necessary 640 acres for a gas well.

Mr. Owens asked what would happen if a man drilled an oil well, found helium, and then continue on down and found oil.

Mr. Bannister replied that by our Rules and Regulations each zone is treated separately. Then the man would have to dedicate 640 acres of the helium formation in order to produce. Then he would have to go down deeper for the oil and there would have to dedicate only 80 acres of that oil zone. So consequently we could have on the same 40 acres, legally, a well to the Coconino formation, a well to the Shinarump formation, and a well to the Fort Apache formation, each of them complying with the proper dedication.

Mr. Lewis remarked that he thought the important thing is that industry recognizes that this regulation is a sound one and has no intention of suggesting a change. So that if anyone indulges in this practice, and they are perfectly entitled to indulge in this practice, they must take the chance of being able to comply with the spacing regulations. The only problem Mr. Lewis does see is that we might very well have considerable trouble unless we stick by our guns and say that no, this cannot be produced until a number of other wells are drilled, properly spaced, in that area, and all such wells turned out to be dry, and therefore we were throwing away a fundamental opportunity. When that occurs, then I think our discretion comes into play and then we might say, you may produce because circumstances have proven that you have a well and nobody else can get a well under ordinary circumstances; you can't get the 640 acres because you have satisfied us that you have made every reasonable effort.

Mr. Bannister pointed out that our rules are flexible and are set up to handle just such a case. The man then has the privilege of coming in and asking for special field rules if he can establish this as a field and we in our discretion can say in this particular field we might conceivably grant one-acre spacing if

he can establish that this is all this particular well can drain.

Mr. Siler asked whether a letter explaining this could go out with each permit.

Mr. Bannister replied that we do have a form letter calling attention to our requests for samples and other data; so this could very easily be included with that.

Expressions were that all Commissioners were in agreement that this policy should be stated and mailed with each permit.

Mr. Bannister reported that every producing well and every shut-in well is on proper spacing as to the 640 acres. Some of the shut-in producible helium wells are not properly located on their 640 acres in that they are not 2,00 feet from the boundary.

Mr. Lewis asked whether these wells were drilled during the life of the Commission or before. He pointed out that perhaps this Commission and its predecessor acted under Rules that were of no validity whatsoever. They were not adopted properly. These wells should be checked very carefully.

Mr. Bannister stated these wells would be checked.

The report of the Executive Secretary was accepted.

Mr. Lewis suggested that we merely move that these reports were received and filed, rather than "accepted", which in years to come might be interpreted as an endorsement or even condoning it. The body should not be bound by whatever is in the report, and the person making the report should have the freedom to say in his report whatever he wants and without the body going into a long wrangle as to whether they accept his ideas.

Mr. Bannister pointed out that much of the information in his report is confidential at that time. If it is "received and filed", does that make it public information?

Mr. Lewis replied he thought the only way that the Executive Secretary could say anything confidential to the Commissioners would be on an informal basis because we are required to have public meetings. The information you give us is helpful to us as background, but is not necessary in the sense of action because we are not going to take any action predicated upon this report.

Mr. Bannister asked whether these reports could be declared confidential. Mr. Lewis replied that the day might come when someone might insist upon having them. Then the Attorney General would have to rule whether these were public.

Mr. Bannister pointed out that the Attorney General has ruled that the recording tape was not public and suggested that these reports be handled as such unless challenged.

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Chairman Lockhart stated this would be the Commission procedure in the future and called for any comments or suggestions. There were none.

The Geologist's report was received and filed.

Mr. Bannister informed the Commission that Kerr-McGee Corporation was seeking unitization of Pinta Dome. The big bone of contention is the apportionment of interest. Kerr-McGee wants to retain the interest as apportioned under the old drilling units, which were gerry-mandered to get some semblance of 640 acres assigned to a well since they were drilling very much off pattern. The State Land Department's contention is that the apportionments must be done on a lease basis. The Land Department represents 47% of the royalty ownership and is in the position that if they do not approve the unitization it cannot be accomplished. Kerr-McGee is trying to work out an approval with them. Kerr-McGee called the Commission office and as a result of our talk, they are preparing an apportionment of interest based on the leases rather than the drilling units. It is anticipated that Kerr-McGee will come in to Phoenix to get with Fritz Ryan of the Land Department and Mr. Bannister.

Mr. Bannister reported, further, that he had talked with the Attorney General concerning the statutes which state apportionment will be on the basis of several separately owned tracts. After discussion, his verbal opinion was that if this question is officially proposed, the answer would be that interest must be assigned according to individual tracts which means the lease basis is the proper way to apportion interest.

Chairman Lockhart asked what percentage was asked for unitization.

Mr. Bannister replied that when Pinta Dome drilling units were formed there were hearings which allowed several leases to be joined together to get 640 acre spacing. The leases were gerry-mandered. The order establishing these units may be invalid if it is ever challenged. With unitization this gerrymandering may be concluded.

Plans for the upcoming Interstate Oil Compact Commission meeting in Phoenix were discussed.

Complimentary comments concerning Arizona's Rules and Regulations from an Australian government agency were cited.

Mr. Bannister reported on his meeting with Mr. W. Miller Bennett, the newly created Commissioner of Finance, regarding the budget submitted by the Commission. The budget request was apparently

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well received; and it is not known at this time whether appearances before legislative committees will be necessary.

Meeting adjourned at 10:40 a.m.