

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

Minutes of Meeting
November 16, 1966
Holiday Inn, 1010 S. Freeway, Tucson, Arizona

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. Roy Elwell
Mr. Mike O'Donnell, O'Donnell-Ewing Drilling Co.
Mr. Bob Louisville
Mr. James Fulton, Sunland Development Company
Mr. H.D. Hand
Mr. Paul Brown
Mr. Alfred Morgan
Dr. Willard Pye, University of Arizona
Dr. Wes Peirce, Arizona Bureau of Mines
Dr. Charles Kalil
Mr. Loy Turbeyville
Mr. Joe Barrett, Yucca Petroleum Company
Mr. Robert Noble, Envoy Petroleum Company

Chairman Lockhart called the meeting to order at 2:20 p.m.

Minutes of the meeting of September 21, 1966 were approved.

Chairman Lockhart stated the Commissioners had received advance copies of the Executive Secretary's report and asked if anyone wanted it read. After receiving no such request, the Executive Secretary's report was filed.

Mr. Scurlock added to his geologist's report, stating that some later information received was that Eastern Petroleum Company had decided not to drill the location in Section 15, but were moving to Section 9 where they were negotiating the lease. Chairman Lockhart asked the assembly if there were any questions to ask the geologist. There were none. The geologist's report was filed.

Mr. Bannister reported that Champlin Oil Company was prepared to spud about October 15, but no confirmation of this had been

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received as yet.

Mr. Bannister recalled to the Commission its previous discussion concerning applications to drill an oil (rather than gas) exploration well on 80-acre locations in the known helium area and the Commission's warning to these operators that before these wells could be produced they must be brought into compliance with spacing regulations. The Commission had directed Mr. Bannister to suggest something that could be put on the permit to press home the point. Mr. Bannister then handed copies of three suggestions to the commissioners which could be reproduced on a rubber stamp and stamped on each permit, and requested direction from the Commissioners.

Mr. Scurlock suggested that we get voice from the grass roots as to what they want in spacing; that he had heard many comments as he travelled around that much oil money is being kept out of Arizona because of our spacing.

Mr. O'Donnell asked if this were an open meeting. He was assured that it is.

Mr. Lewis pointed out that the topic under discussion concerned the wording of the message for the rubber stamp, and suggested that the shorter the message, the more apt people were to pay attention. However, attention should be called to the fact that they are in compliance with what they ostensibly have in mind when they apply to drill or they wouldn't get the permit.

Mr. Bannister asked if we could accomplish this by adding "with respect to the product to be produced" to the last of the three suggestions and it would then read: "Prior to being allowed to produce this well you must be in full compliance with Rule 105, A through G, with respect to the product to be produced." This then could be stamped on the lower left hand corner of the permit.

Mr. Fulton asked, that if in the spacing for hydrocarbon gas or for helium, do the rules state you must be 2,000 feet from the section lines? Mr. Bannister affirmed this and that the section must be a government section.

Mr. Fulton then asked if a man, due to 80-acre spacing for an oil well got helium, how is he going to make a legal location out of that for production. Mr. Bannister replied the only possible way is to ask the Commission for an exception.

Mr. Fulton then pointed out that the State Land Department allowed a man to take an oil, gas or helium lease on 40 acres or more. If the man spent his money for a 40-acre lease, he isn't allowed to drill that. There is a terrible difference between the Oil and Gas Conservation Commission Rules and Regulations and the State Land Department.

Mr. Lewis replied that it appears on the surface that there is a conflict, and further that the federal government is in conflict also. BLM does not have the same requirements for leasing to meet the various requirements for spacing in the many states. It is believed that they too work on the 40-acre principal. Assume that a man had only an 80-acre lease and he intended to drill an oil well. But he hit helium. The 40-acre lease provisions enable him to pick up, if available, any series of acreage necessary to meet the requirement.

Mr. Lewis again pointed out that the topic under discussion was the wording for the rubber stamp and that it must be concluded. Mr. Lewis moved that the wording as suggested by Mr. Bannister be approved. The motion carried.

Mr. Bannister recalled to the Commission that he had been directed to contact various other states concerning incentives. He reported briefly on the replies received:

Canada re-adjusted the prorationing, allowing a new hole to produce more; Florida passed a \$50,000 bonus bill and if the discovery were on state land waived the state's royalty for five years. Humble did collect this money, but then added another \$10,000 and gave each of the two state universities \$30,000. Iowa proposed in 1953 a \$100,000 bill for several categories of wells but it failed to pass the legislature. Nebraska in 1939 and in 1950 paid a \$10,000 bonus to Ohio Oil Company, but it was felt that the money was not an incentive. Oregon had considered a bill from \$100,000 to \$1,000,000, but there was no action because a study by the legislature concluded that the bonus would not accomplish the desired purpose. Tennessee in 1953 had a \$50,000 bonus for either an oil or gas well. The appropriation lapsed for lack of takers. Tennessee spokesman said it did not affect exploration and they felt the best incentive was to develop geology information that could be made available to the companies.

Mr. Owens asked if dry hole support was being offered. Mr. Bannister replied that dry hole support has not been attempted in the United States. Australia offered to pay 51% of the bill to anyone coming in to find oil. It has been a most successful program. The 51% will be recovered from production.

Mr. Lewis asked how much this had cost Australia. Mr. Bannister replied that it was about \$50,000,000, but this was a cumulative figure and he could not break it down by years. Australia did accomplish their purpose.

Mr. Bannister reported that a study of the nine shut-in helium wells revealed all were in conformance with spacing requirements with the exception of five drilled by Apache Drilling Company; they were on 80-acre spacing. The Attorney General in reply to a Commission request for opinion stated that it was the duty of the Commission to look upon the application as it was presented; if the application is regular on its face, then it is the

Commission's obligation to issue the permit.

Mr. Lewis asked if permits for these wells had been granted by this Commission or before the existence of this Commission. Mr. Bannister replied that one was granted by the State Land Department, three were issued under the 1959 rules which had been declared invalid. In effect, the only wells that may be in violation are the five Apache Drilling Company wells.

Mr. Lewis asked, of the nine shut-in wells, how many are in compliance with the current spacing rules. Mr. Bannister replied that four of the shut-in are fine. There are five on 80-acre spacing but they are not producing.

Mr. Lewis commented then that all nine wells were valid based upon their applications.

Mr. Bannister commented that the operator of the five wells on 80-acre spacing has been warned that they cannot be produced as helium wells under the current dedication; they must comply with the 640-acre rule.

Chairman Lockhart asked what relief would this company have. Mr. Bannister replied the company now is making an intensive study of the area with the ultimate intention to come before the Commission and request that this area be put on 160 acre spacing for gas wells.

Mr. Lewis pointed out that since they have no way of collecting this gas then really there is no problem at the moment. The Commission recognizes fully that the situation may exist where a fellow asks for a helium well on proper spacing, but later wants a helium well on 80-acres because of the peculiarities of geology of the area. Also he may ask for an oil well. Whether he drills it as a calculated risk or with the idea he might hit helium, if he can show the geology for such, that it is wise to drill on 80 acres, 60 acres, or 90 acres, because of the peculiarities of the geology, we are willing to hear it. But we don't want to turn ourselves into a constant hearing board merely for the purpose of adjusting well spacing.

Mr. Owens asked if any of these wells were on contiguous acres. Mr. Bannister replied that they were widely scattered.

Mr. Noble commented that we should have a structure geology study made to determine spacing for an area.

Mr. Bannister pointed out that Arizona has state-wide spacing only. But the rules do have provisions to make special rules for a field, based upon information submitted to the Commission.

Mr. O'Donnell commented that he has had comments that the

present statewide rules hamper exploration. In San Juan Basin a deep well, 6,000-8,000 feet for gas will drain 640 acres. But in Arizona, helium at 1,200-1,400 feet will not drain 640 acres. At one time E.A. Columbus, Denver, stated that a helium well at that depth will only drain 160 acres and an oil well at that depth would only drain 40 acres.

Mr. Lewis wondered if in the other states the depth as well as other characteristics were not considered.

Mr. Bannister replied that where a state has adopted the depth factor as part of their statewide spacing requirements, a definite acreage is stipulated and they will not and cannot deviate, even if the well will not drain the entire area allocated to it. The flexibility that we have is lost.

Mr. O'Donnell commented that the common thinking was an oil well for 40 acres. He personally would like to see 40 acres for an oil and 160 acres for a gas well, regardless of depth. Then when you get into some regular dry gas go into 640 acres.

Mr. Noble stated his people would like to see better spacing. They think the 640 acres is too much to be drained by one gas well.

Dr. Pye commented that we are trying to encourage exploration. So if the reduction of acreage is necessary for a wildcat well, that is one thing. But after the well is drilled that is another thing. Then you have data for judgment as to where the field might be. The very important thing is probably that depth should be considered. Maybe after one or two wells are drilled, then there should be a hearing for spacing on that field based on engineering data.

Mr. Bannister pointed out that the states which have adopted spacing based on depth consideration have done so only after hundreds of wells have been drilled. They got a lot of geology and production history before they felt safe. We cannot in all fairness adopt a depth factor at this time because we don't know if it will satisfy the geology pattern of our state.

Chairman Lockhart concurred and felt we had to set the acreage and let the producer prove to the contrary.

Mr. Bannister pointed out that the more valid argument for wider spacing is that this will prevent an Ohio situation wherein unnecessary wells were being drilled. There is one other thing to consider. In the State of Ohio drilling was largely on fee acreage. The federal government looked at this and directed that it be brought under control. This was the big stick that brought Ohio drilling under control.

Mr. Lockhart asked if there were any harm this Commission could do by cutting the spacing down to 60 or 40 acres. Then if we get production, raise it.

Mr. Bannister replied the danger there could be that we could not come back to a field drilled on 40 acres and order that every other well be closed if subsequent information showed that wider spacing would drain the field. You can drill additional wells if needed, but you can't undrill a well.

Mr. O'Donnell asked if a hearing could be called. Mr. Lewis replied that before we call a hearing on spacing we would have to hear from an operator as to what data he has to justify closer spacing. It would depend a great deal on what we have before us before we call a hearing.

Mr. O'Donnell asked if this were a point of geology or engineering. Mr. Bannister replied there was no reason why anyone could not submit to the office a brief on his point of view, including substantiating data.

Mr. Lewis said that then with that compilation we had some tools to work with to decide whether we do or do not call a hearing.

Mr. Alfred Morgan stated that he knew of only one person in the state who felt the spacing was correct. The question is qualified people and qualified information. Apache Drilling Company has done much more and has much more information than you are aware of. There is no way to get underground information to draw the logical conclusion without drilling.

Dr. Kalil stated the base point at issue is what is really necessary to stimulate interest when vital capital is more difficult to come by now than it has been in the past. You know of many of the reasons, off shore drilling, foreign drilling, lucrative profits. Venture capital to establish spacing so that wells can economically and efficiently drill and produce is arrived at by two methods. Spacing based upon maximum engineering facts and the establishment of compulsory fieldwide unitization to control the efficient production of a reservoir. This Commission is charged with the authority to adjust rules and regulations depending upon development of industry. But one of the problems is that we don't quite have an industry yet. One of the ways to attract more people is in putting a block together, if the spacing pattern for gas is 640 acres, a fellow would have to gather together a fairly large block to justify expenditure. If the spacing is 80 acres for an oil well he would have to get together a fairly large block. Economically speaking it might be wise and judicious to consider a little less spacing in an effort to stimulate the development of drilling. The fields in the Holbrook Basin are categorized as shallow fields. In other parts of the state sedimentaries may be deeper and thicker and it may be down in Cochise County we might prefer 640 acres for spacing. The paramount point now is what possibly can be done to stimulate interest. I do think the suggestion of 160 acres for gas and 40 acres for oil

is certainly not unreasonable at this stage of the game.

Chairman Lockhart called upon Mr. Fulton for comments.

Mr. Fulton stated he had been negotiating for the past year with several companies to come to Arizona for oil and gas and helium exploration. He points out to them our rules and regulations are flexible; there is merely a hearing necessary to get an unorthodox location or to get a lesser spacing for an oil or gas well. But then they come to the boundaries which is 2,000 feet from the section line. If a man was honestly drilling for oil in the northwest quarter section and did get a helium well, it would be assinine for that man to run the risk of losing a helium well to continue drilling with a probable potential of oil or natural gas. They all tell me that when they are modified to the extent and that they are in writing they are willing to come here and spend millions of dollars. But until then they are not interested. Thanks a lot, Arizona.

Mr. Fulton stated further he wanted to see 40 acres for an oil well and 160 acres for a gas well.

Mr. Lewis asked Mr. Fulton, with respect to the 40 and 160 acres, did he believe that anything should be changed with respect to the location of the well within the 40 and 160 acres.

Mr. Fulton replied that he would, for geological reasons, but after a hearing.

Mr. Lewis then commented, in other words the same rules we have now with respect to its location, but with the flexibility of a hearing to relocate if geology demands.

Mr. Fulton answered by saying, we have a structure. It comes through the northwest quarter of a section you have under lease. There is a known producing well in the section adjoining on the high of the structure, and if you can obtain that high, giving you a better chance of production by moving as high as you can on the section you have under lease. I think this a matter that a hearing could be held on and the Commission with geology information should grant such an unorthodox location.

Mr. Lewis stated that what his question is really directed to, is not changing the flexibility of the Commission, but in the 40 acres or in the 160 acres, it would still require the well to be roughly in the center.

Mr. Fulton replied the operator would still have to have a special hearing because there would still be in the 160 acres many locations where it would not be advisable to locate.

Mr. Lewis stated he wanted to stay away from talk about conditions for a special hearing. Let us talk about the rule. The

rule would still say approximately in the center. Is that what you have in mind?

Mr. Fulton replied, no. Why not go like some of the other states. Make it 330 feet from the legal subdivision.

Mr. Siler asked Mr. Bannister to get information on which states have 40-acre spacing and which have spacing like ours.

Dr. Kalil stated many states have spacing less than ours. But because of the characteristics of the structures and of the reservoirs they have found such spacing patterns most feasible. Administratively, in the rules and regulations there can be granted by the Commission without hearing, an exception to a well location if the operator will state some insurmountable reason.

Mr. Noble asked if the Commission had authority to change spacing without a hearing. Mr. Lewis replied that any state board, in adopting rules and regulations, must follow a specific law that requires a hearing, that notice be filed before and afterwards with the Secretary of State. This would be true of any department of state.

Chairman Lockhart declared a recess at 3:15 p.m.

Chairman Lockhart called the meeting to order at 3:45 p.m.

Mr. Bannister announced that at this meeting we had a few copies of a dry hole map of Cochise County. The Commission was in process of preparing, and it will probably be ready in June, a dry hole map of the state. Copies of the Rules and Regulations and a dry hole map of northeastern Arizona are also available at this time.

Chairman Lockhart asked Mr. Bannister to report on the upcoming Interstate Oil Compact Commission meeting in Phoenix. Mr. Bannister replied that he had been requested to report at the Arizona Oil and Gas Association meeting on this, which meeting follows, and since everyone present during this Commission meeting would also be present at that meeting, he would like to make his report at that time. Mr. Bannister did point out that Turf Paradise was having a special IOCC race and hope there would be a good turnout for that.

Mr. Fulton stated that another thing that should be presented to the legislative body is tax relief on new production in the state, such as other states and Canada have offered and are doing now.

Chairman Lockhart suggested that Mr. Fulton or his association get the information together for presentation, and of course the Commission would do all they could to help.

Mr. Lewis pointed out we were going into a period in which our

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tax structure was going to be looked at very thoroughly. The report of re-assessment of all property should be received shortly. There will be a bundle of legal arguments as to whether or not the legislature has the right to allocate taxes on a percentage basis between different classes of property, either by proven action or by referendum or by constitutional amendment. While that is being considered, while we might get something like this underway from the point of view of getting them to familiarize themselves with it, I think it should only be approached from an educational point of view while these other things are going on. Mr. Lewis further suggested that such a measure not be presented early in the session while the session was developing. Then, present it with the idea that it would be printed and then people would become familiar with this bill. Then when they go into special session, which most certainly will be devoted to taxes, the door is open.

Dr. Kalil asked what would be the effect upon the legislature when some segment of our economy is requesting a tax incentive. What would be the effect upon other segments of our industrial economy? Because then they could begin to clamore, "we've been here for years. We've contributed X tax dollars." It might open the barn door.

Meeting adjourned at 4:35 p.m.