

# Montana Journal

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### ADVERTISING RATES ON APPLICATION

## SOLUTION OF PROBLEMS IS UP TO BUYERS

The subject of proration, still frequently discussed among Montana oil men, is revived in a "Memorandum on Proration" issued by the Independent Petroleum Association of America, which concludes that the alternative of proration is realization by purchasing companies that they are required in substance to discharge a public duty and obligation.

The text, which has been received by Montana directors of the IPA, follows:

### MEMORANDUM ON PRORATION

(1) Subject to reasonable and necessary practical limitations, Proration rests upon the fundamental proposition that each producer each day, wherever situated, will receive his ratable share of the day's market and, with broad adjusting factors taken into account will also receive the prevailing market price. This is of the utmost importance to the independent producer who is wholly dependent upon others for his markets and the transportation of his oil.

(2) But in order to effectuate this, it is necessary to have adequate control of:

- (a) Imports;
- (b) Storage withdrawals;
- (c) Fair and equitable allocations among the States;
- (d) Fair and equitable allocations among pools within the States;
- (e) Ratable takings within pools within the States.

(3) But neither the State Compact nor State Commissioners possess any power at all so far as (a), (b), (c), and (d) are concerned. The State Commissions may possess only limited power so far as (e) is concerned—which is to say that in the opinion of some if one purchaser in a common pool reduces his purchases then state regulatory bodies cannot affirmatively redistribute the remaining allowances on a ratable taking basis. If this opinion is correct it would follow that such State Commissions could only restrict the allowable of all producers to the level of the lowest percentage being taken by any purchaser from any producer or producers in such a pool. On such a theory this would constitute an unsatisfactory and negative form of control, and its exercise would only drive purchasing power away from the pool, and in many cases out of the state where any such pool might be located.

"Therefore, it becomes apparent that Proration is something of a paradox—we control production without any Public Authority which is empowered to see to it that equity and fairness and ratable

## AUTUMN FINDS WILDCATS ARE MORE NUMEROUS

The first day of autumn, Friday, saw the greatest number of wildcats of the year active in various parts of Montana. Several other projects are resuming or just starting, in the effort to find new pools of oil and gas.

In northern Montana drilling is proceeding at Whitetail in NW NE 1/4 NW 1/4 10-36N-50E, after conditioning the hole.

On Poplar dome, the well called Fulton No. 1 was merely a validation hole, the Journal is informed, and it will probably be taken over by Floyd Anderson, the driller. The leases were taken by Fred Francis.

At Harlem, Montana Gas Corp. is drilling below 1500 feet on its Wayne Creek test, in C NW 1/4 SE 1/4 6-32-24E, seeking gas for Harlem.

Near Chinook O'Keefe & Tetter-Stam No. 1, CSL SW 1/4 SE 1/4 10-31N-18E, on Tiger Ridge, is drilling with three tours, reported below 450 feet.

It is reported that work is to start shortly on Hagan structure, southwest of Cut Bank oil field. Materials are reported being moved by Cut Bank sponsors of the test on the sharp-dip structure.

At Landusky, on Bull creek structure, Treasurer State Pool Government No. 1, C SE 1/4 SW 1/4 2-24-N-23-E is drilling at 300 ft. after having started new hole. The first one was lost at around 650.

Drilling has not yet started on the Hoerr well near Whitefish. The Genon test of Security Petroleum, in C NE 1/4 NE 1/4 23-36N-3E, is still shut down, with the hole full of water from the Sunburst sand, at 1980 feet.

In Central Montana the Hunt wells on Hobson dome are reported active.

On Flatwillow structure, near Winnett, Brundage-Mink No. 1 SE 1/4 NW 1/4 35-13N-25E, on Elk creek, is spudding.

In southern Montana, Broadway dome test, NE NE 1/4 SW 1/4 18-3N-25E, is drilling in lime at 2600 feet.

Takings are assured to all concerned and particularly to those producers who are entirely unable to protect themselves. No conceivable form of State Compact can have, nor do State Commissions have control over all of the factors involved. Only a Federal Agency could be vested with such power. Therefore:

"THE PURCHASING COMPANIES MUST REALIZE THAT THEY ARE REQUIRED IN SUBSTANCE TO DISCHARGE A PUBLIC DUTY AND OBLIGATION, THE ALTERNATIVE BEING THAT EITHER PRORATION WILL FAIL OR FEDERAL CONTROL MUST BE HAD, OR THAT BOTH WILL RESULT."



"What did the boss say when you asked him for a raise?"  
"He was just like a lamb."  
"What did he say?"  
"Baa."

Colored lady who went to register as a voter and was asked what party she affiliated with.  
"Ah hates to tell," she replied, "'cause he ain't got his divorce yet."

Discussing the type of milk which should be supplied to school children, the chairman of the town's health committee said:

"What this town needs is a supply of clean, fresh milk, and we should take the bull by the horns and demand it."

Employe—I came in to ask if you could raise my salary.

Boss—This isn't payday.

Employe—I know that, but I thought I would speak about it today.

Boss—Go back to your work and don't worry. I've managed to raise it every week so far, haven't I?

I'm the happiest man in the world. I've the best wife in the country.

Who wouldn't be happy with his wife in the country?

A small boy explained the doctrine of evolution in an examination paper thus:

"Men and women both sprang from monkeys, but the women sprang further than the men."

I had a little dog. I called him August. August was fond of jumping at conclusions, especially at the cow's conclusion. One day he jumped at the male's conclusion. The next day was the first of September.

They were skating at the ice arena, and Lisa fell down, flopped over, and came right up again in front of Rastus with remarkable agility.

"Did yu' see how quick Ah recovered mah equilibrium, Rastus?"  
"Golly, yaas,—almos' befo' Ah noticed it was uncovered!"

Husband.—I've told you before that it is economically unsound to spend your money before you get it.

Wife.—I don't know. If you don't get it—at least you've got something for your money.

"You used to call me sweetheart before we were married. Now you don't call me anything."

"That shows my self-control."

Charlotte: "My good man, does this dog possess a family tree?"  
Owner: "Oh, no, madam—he has no particular tree."

Clerk "Mr. McPherson, how about buying the latest atlas?"

Mr. McPherson: "Not noo, mon: I'll wait until the affairs in Europe are more settled."

"Are you sure I have pneumonia?" an anxious patient asked a physician. "I have heard that doctors sometimes give wrong diagnoses, and have treated patients for pneumonia who afterwards died of typhoid fever."

"You've been woefully misinformed," replied the medico indignantly. "If I treat a man for pneumonia, he dies of pneumonia."

Ma: "It says here in the paper that doctors now believe low neck dresses ward off pneumonia."

Pa: "Well, according to that some of the women at the banquet the other night must have been trying to ward off lumbago."

SEND A CONTRIBUTION TO THE SUNBURST BADGER

## WANTED

50,000 GALLONS OR MORE THIRD GRADE GASOLINE OR 400 TO 420 END POINT NAPHTHA SWEETENED OR UNSWEETENED

Mail Quotations F. O. B. your plant to

### Box 205

CARE MONTANA OIL & MINING JOURNAL GREAT FALLS, MONTANA

# PRODUCING ROYALTIES

There is a time to buy and a time to sell in every line of business and particularly in the oil business. The measure of success of any investor is largely in his ability to recognize the proper time to buy and the time to sell, if at all.

It is a difficult matter, particularly, to buy producing royalty. It is seldom that we handle producing royalties such as are commonly handled in other producing states. The average person wants to buy producing royalty because he immediately receives returns on the investment, but producing royalties require much more careful study than the non-producing properties. It is our experience that the farmer seldom sells producing royalty. It is the profit-taker who most frequently sells producing royalties and he is one who is likely trying to get the maximum profit. Accordingly, we have to be careful that we do not find ourselves virtually trading dollars when we buy.

To make this more clear:

The VALUE of a royalty depends upon the amount of oil under a given piece of ground. If there is \$1,000,000 worth of oil beneath a tract on which we own royalty, we know that one per cent royalty will yield us \$10,000. It goes without saying that we would not pay \$10,000 for this one per cent even if we knew positively that we would receive that amount in return over the years of production. Money is able to earn interest, so there is no profit in trading dollars and certainly a loss if the money does not earn interest.

Accordingly, we may get a royalty that is earning as much as 33 per cent on the investment. Our first step is to figure out how much oil the tract must produce to pay us back our investment and thereafter a profit. If we are not careful we may find that our royalty must produce MORE than the expected recovery of the average acre in the field, in order to pay us a profit. In that case, a return of 33 per cent per annum does not mean good business.

To illustrate one per cent royalty costing \$3,000 is earning 33 per cent per annum. To pay out, the tract must produce 100 times \$3,000 or \$300,000 worth of oil. We examine the history of development of the field and pool and find that the area is expected to produce 3,000 barrels per acre. This tract covers 80 acres, so we find that it takes 3,750 barrels per acre to pay us back our investment. That leaves us a profit of only \$1250 on our investment—which is not enough. Furthermore, this tract may produce MORE than 3,000 barrels and it may produce LESS. If it happens to produce less than the field average we have little margin to work on.

It is apparent why we try to get royalties that will, in every instance, assure us of a return of our money back plus a profit of at least 400 per cent, and in no event less than 300 per cent. We figure that a return of five-to-one is the minimum we need accept.

Accordingly, we buy few producing royalties. Occasionally we find a roy-

alty owner who is "up against it," and he will make a sacrifice price that conforms with our idea of royalty values. Those royalties are quickly snapped up by our members who like to get enough producing royalties so that their annual income from ALL their royalty investments shall show them a good rate of interest.

We believe that the greatest amount of money can be made from the purchase of wildcat royalties, which usually offer the greatest odds. But this is too hazardous. It is too much like a gambling game, with the odds large in the event of winning but the probabilities five-to-one or 10-to-one against winning at all.

The extreme opposite to buying all wildcat royalties is to buy only producing royalties, figuring closely and gambling on the per-acre recovery of a given tract, hoping to get a royalty that will have exceptionally large production—greater than the average for the field.

Neither policy is good business, in our estimation.

Then what IS the best policy?

We have been buying royalties for our members for more than 15 years and we have seen the distribution of more than \$8,000,000.00 of royalty earnings among 3,500 people. We have studied the properties of investors and we have found that the greatest profits have been made, on the average, by those who carefully balanced their investments among (1) proven ground, (2) producing and (3) wildcat royalties.

The most conservative buyers took mostly producing royalties but their returns were not as great, compared with their investment, as those who took mostly proven ground royalties. Those who bought only wildcat royalties had made the least average profit on their investment although the occasional investor had hit it lucky and had made a large profit from a single investment. That was the exception rather than the rule.

We learned to avoid investment in royalties on largely-depleted leases, although Cat Creek field fooled us by producing two or three times as much as we had expected it to produce per acre. We found that the greatest profit has come to those who have been able to buy royalty on a farm that has one or two wells, with a large undeveloped area. These royalties are not bought on a Mid-Continent basis, but on the basis of PROVEN GROUND royalties, if they are to be really profitable.

We have in mind a royalty which came to us just recently. The owner of this royalty had a pressing need for cash and found that the most liquid asset was an oil royalty on a Kevin-Sunburst property on which there is a producing well. He would not sell this royalty except for the

absolute demand for ready cash. The operator has no steady market for the oil, so the royalty cannot be used as bank collateral. So he has to sell it. When he came to talk with us, we had to reduce the royalty to a basis of the value of the oil possibly in underground storage beneath this 160 acres. The price agreed upon was not based upon the earning. Instead, it was based on the probable oil content of the 160 acres.

On the basis of our purchase, this tract must produce 400 barrels of oil, worth \$1 per barrel, to each acre, to pay out. If the tract does not produce MORE than 400 barrels per acre, the operator cannot afford to develop it. If it produces 800 barrels to the acre, then it would barely be profitable to the operator, who expects to get his money back plus at least 300 per cent. That would call for a yield of at least 3,000 barrels per acre. However, we receive 100 per cent for each 400 barrels per acre of production.

None can see into the ground to tell how much oil is contained in a given tract. No engineer can stand on 160 acres of undeveloped ground in Kevin-Sunburst field and say definitely that the tract will produce any certain number of barrels of oil. But he can examine the production records of the entire field and determine what the average developed acre in the field has already produced. That will give him some basis of a guess as to the possibilities but not necessarily the probabilities of any proven tract in the field.

This tract has one well that will yield around 15 per cent per annum on the investment. That is not a large income, but when we consider that there are 31 more locations to be drilled, it is apparent that the coming of a market for crude will see the drilling of additional wells and resultant increase of royalty earnings.

That describes the type of royalty which we believe will make the most satisfactory profits. Add to this royalty some properties which have no production and which cost less per acre and which can afford even greater returns on the investment when developed, and we have the basis of a liberal future income from a relatively small investment.

We believe that the time is here to buy available producing royalties in proven territory. We believe that at this time, with restricted markets, we can buy good royalties for less money than ever before or perhaps ever again. We believe, also, that the coming year will find the crude market opened up to a point where all of these wells will be producing at capacity and new wells will be drilled on properties which are today idle.

As stated, we seldom do much with producing royalties but we commend this plan at this time to members who will want to join in such a buying campaign. Any wishing to participate in the purchase of producing royalties should send the attached coupon.

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HEAD OFFICE: GREAT FALLS, MONTANA

LANDOWNERS ROYALTIES COMPANY Great Falls, Montana.

Am interested in receiving offering sheets on producing royalties, which may be available in 1. Kevin-Sunburst, 2. Out Bank. (Designate which field.)

(Your Name In Full)