

H E A R I N G

BEFORE THE OIL CONSERVATION
COMMISSION OF THE STATE
OF NEW MEXICO.

Held in Room 130 at La Fonda
Hotel, Santa Fe, New Mexico,
at nine o'clock, A. M., July
21, 1939.

PRESENT: GOVERNOR JOHN E. MILES, Chairman;
FRANK WORDEN, State Land Commissioner, Secretary;
A. ANDREAS, State Geologist;
CARL B. LIVINGSTON, Attorney for Oil Conservation
Commission;
J. O. SETH, Santa Fe, New Mexico;
A. M. McCORKLE of Stanolind Oil Co., Houston, Texas;
T. R. FREEMAN of Atlantic Rfg. Co., Magnolia Bldg.,
Dallas, Texas;
EDGAR KRAUS of Atlantic Rfg. Co., Carlsbad, New Mexico;
O. D. CRITES of Shell Oil Co., Houston, Texas;
GUY L. TATE of Magnolia Petroleum Co., Dallas, Texas;
W. E. HUBBARD of Humble Oil Co., Houston, Texas;
R. S. DEWEY of Humble Oil Co., Midland, Texas;
JAMES FITZGERALD, JR. of Skelly Oil Co., Midland,
Texas;
GEORGE W. SELINGER of Skelly Oil Co., Tulsa, Oklahoma;
N. E. BARNETT of Tide Water Assoc. Oil Co., Tulsa,
Oklahoma;
P. H. BOHART of Gulf Oil Corp., Tulsa, Oklahoma;
S. E. SANDERSON of Gulf Oil Corp., Tulsa, Oklahoma;
LLOYD L. GRAY of Gulf Oil Corp., Tulsa, Oklahoma;
R. B. F. HUMMER of Phillips Pet. Co., Bartlesville,
Oklahoma;
D. R. McKEITHAN of Phillips Pet. Co., Bartlesville,
Oklahoma;
D. D. BODIE of Cities Service Oil, Hobbs, New Mexico;
ROY YARBROUGH of Oil Conservation Commission, Hobbs,
New Mexico;
RUSH GREENSLADE of Gulf Oil Corp., Tulsa, Oklahoma;
HARRY LEONARD of Leonard Oil Co., Roswell, New Mexico;
A. J. HOLLAND of The Texas Company, Hobbs, New Mexico;
A. E. WILLIG of The Texas Co., Fort Worth, Texas;
R. S. CHRISTIE of Amerada Petroleum Corp., Fort Worth,
Texas;
GLENN STALEY, Proration Umpire, Hobbs, New Mexico.

The hearing was opened by Governor Miles.

THEREUPON, at the request of Mr. Worden, the Notice for Publi-
cation for the hearing was read by Mr. Livingston, as follows:

"NOTICE FOR PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

"Pursuant to Chapter 72, Session Laws of 1935, State of
New Mexico, by which Act the Oil Conservation Commission
of New Mexico was created, investing said Commission

with the jurisdiction and authority over all matters relating to the conservation of oil and gas in this State and of the enforcement of all provisions of said Act, notice is hereby given that a public hearing will be held at the Capitol, Santa Fe, New Mexico, on the 21st day of July, 1939, at 9:00 A. M., for the purpose of considering the following:

- "Case No. 15.
- "(a) The adoption of rules, regulations and orders as may be necessary to make effective the prohibitions contained in Section 13, Chapter 72, Laws of New Mexico 1935, and for the issuance of certificates of clearance or tenders, or some other method, so that any person may have an opportunity to determine whether any contemplated transaction of sale or purchase or acquisition, or of transportation, refining, processing, or handling in any other way, involves illegal oil or illegal oil product.
- (b) The adoption of rules, regulations and orders relating to the making up of shortage or back allowable.

"Any person having any interest in the subject of the said hearing shall be entitled to be heard.

"Given under the seal of said Commission at Santa Fe, New Mexico, on June 22, 1939.

OIL CONSERVATION COMMISSION

By (Sgd.) FRANK WORDEN
Commissioner of Public Lands

(SEAL)

By (Sgd.) A. ANDREAS "
State Geologist

BY MR. WORDEN: Gentlemen, we are now ready to proceed, and anybody wishing to express himself, either by his attorney or representative, may now do so.

BY MR. SETH: We would like to put Mr. Glenn Staley on the stand.

Thereupon, Mr. Glenn Staley was called and duly sworn by the Land Commissioner. Mr. Staley testified as follows:

EXAMINATION BY MR. SETH.

Question: State your name, please.

Answer: Glenn Staley.

- Q. What position do you occupy in New Mexico, Mr. Staley?
- A. Proration Umpire.
- Q. In Lea County?
- A. Yes, sir.
- Q. And how long have you held that position?
- A. For over nine years.
- Q. Are you familiar with the present procedure in handling the current allowable, that is, what documents are given the operators, or to anyone else in interest?
- A. I am.
- Q. Will you please state the present practice.
- A. The present procedure is that of having the company who has shortage - -
- Q. I am not speaking about back allowable - just the current allowable.
- A. The Oil Conservation Commission of the State of New Mexico issues an order at the beginning of each month, stating the amount of oil that shall be allocated to each field and the wells within the field, and this total amount is taken and divided according to the proration scheme used within each field by our office and which is approved by the Commission.
- Q. And is anything issued to the producer or anyone after the proration schedule is made up?
- A. Only the proration schedule, which is an order to the operators and the pipe lines (we have always considered it as such) that so much oil could be produced from each well.
- Q. Do you issue a separate letter to anyone?
- A. No.
- Q. Just the proration schedule?
- A. Yes.
- Q. And is that furnished the purchaser, transporter and everyone interested?
- A. Yes, sir.
- Q. Now, has that proration schedule been accepted generally as the necessary authority to produce and transport the oil?
- A. Yes, sir.

- Q. Coming to the back allowable, how has this back allowable originated, or what are the reasons for it?
- A. There are a number of reasons. One reason is, say a well is being worked over for the purpose of producing or operating the well more efficiently from the standpoint of gas/oil ratio, and the setting of packers to eliminate water and for various mechanical reasons, and while this work is being done the well naturally cannot produce its allowable. Another reason is wells that are off to one side in some of the fields and difficult to get a pipe line connection, that is, the pipe lines gathering excesses, extended to this new completion, sometimes it will take a while for the pipe lines to make this connection, or it may be that the battery for a well (a newly completed well) is so situated that pumping equipment will have to be installed; it is not convenient for the pipe line to set this pump or for the operator to set the pump, and it may go a week or two (as a rule, it doesn't set over that long a period), but causes a shortage for that connection. Another cause of shortage is what we call marginal wells, small wells that are erratic in their production; we will say a well that can output forty barrels a day and, say, that it will only produce thirty-six or thirty, consequently the connection will run short due to the inability of the well to produce the amount of oil allocated to it. Another reason is what we term as pipe line proration due to economic and mechanical conditions. The pipe line is unable to take the total amount allocated through all of its connections. That causes a shortage in all the connections.
- Q. Then back allowable is due to the inability to get a connection, to mechanical difficulties, with pipe lines and due to the refusal of purchasing companies to buy?
- A. At the present time.
- Q. Are there any large back allowables in Lea County at this time?
- A. There are.
- Q. Will you please state one of them, the Shell, for instance?
- A. The Shell, in April, 1938, had some refinery trouble in Texas regarding the market for the majority of the oil coming from Southeastern New Mexico and it became impossible for them to take their full allowable, so they prorated all of their takes twenty per cent.
- Q. And about how much did that amount to?
- A. Perhaps three-quarters of a million barrels.
- Q. Are they making up that allowable?
- A. Yes, they are.

Q. At what rate?

A. They first started making it up at the rate of five barrels a day and at the present time they are making it up at the rate of 10 barrels.

Q. Is there another large back allowable in the Vacuum Field?

A. There is.

Q. Will you state the approximate amount?

A. The amount is approximately one-half million barrels. The cause is the area is served by one pipe line, the Texas-New Mexico Pipe Line, and due to the size of the line serving this area and connected with the main trunk line, it is impossible for them to get out the full amount that is allocated to the Vacuum area. Therefore, they are taking approximately seventy-five per cent of the total amount.

Q. Are there some prospects of relief?

A. There are.

Q. Now, when these back allowables in large amounts are to be made up, should there be a limit on the rate at which they should be made up?

A. I think so, yes.

Q. What would you say the effect of making up the allowable without limiting it would be?

A. It would tend to upset the market conditions, as a general rule. The market is, say for a period of thirty days, distributed among all of the fields within an area and to suddenly throw upon the market, say, one-half million barrels, it would tend to upset the market for that area and for the nation as a whole.

Q. Wouldn't it tend to upset the production of oil in the pool, also?

A. Yes. I doubt very much whether the average operator would be in favor of producing a well in that manner.

Q. Would you say there should be a limit of, say, fifteen to twenty per cent of the regular allowable?

A. It would depend upon the number of wells within the area, because it would make a difference in the total amount.

Q. Are there any back allowables on the record?

A. Yes, on the records. And surveys are being made at the present time by our office and the office of the Commission to determine just where those shortages are.

- Q. And what is the purpose of the survey?
- A. The purpose of the survey is to drop from our records all shortages that in the opinion of the Commission are impossible to make up, as they just cloud the record.
- Q. What is the practice of handling these back allowables in the matter of giving authority at the present time?
- A. The producer is required to furnish a letter with enough additional copies to be furnished all parties concerned, setting out the cause of the shortage, the amount, the unit in which the shortage occurred, together with a request that the pipe line be given authority to produce this amount of shortage in excess of their current allowable. This is sent at the present time in five copies. One copy goes to the marketer or the purchaser of the oil, giving him authority to purchase this excess oil; one copy goes to the pipe line, giving authority to transport the excess; one copy goes to the producer, giving him authority to produce this excess oil. In this letter they must set out by the producing units the amount of shortage, the month in which it occurred, that is, set out the amount allocated to the unit, amount run and if over or short. The figures must correspond to the over and short figures of each month of the proration office and the Conservation Commission, and if the figures correspond to the figures as issued in the over and short statement, and in the opinion of the Proration Office and the Commission the shortage is legitimate, an order is given the pipe line - not an order, but permission - to purchase this amount of shortage.
- Q. Does this letter state the reason for the shortage?
- A. It does.
- Q. And the order is approved by a representative of the Commission?
- A. It is.
- Q. And properly kept on file?
- A. There is one copy in the files of the Proration Office, one copy in the files of the Commission office, besides a blue copy sent back to the operator himself and the purchaser and transporter.
- Q. In the doing of corrective work, is there any limit at the present time on the amount of time that an operator may take in doing the work and still save the back allowable?
- A. No, not at present.
- Q. In your opinion, should there be a limit?
- A. I think that it is a matter that should be left to the judgment of the men in the field who know all the conditions, because conditions would have a bearing on the length of time.

- Q. But this should be given attention?
- A. Yes, sir.
- Q. Now, do you know any reason why any change should be made in the present procedure for handling these matters?
- A. I, of course, am not familiar with any legal phase, but from the standpoint of a thorough check on the reasons for the shortage and the feasibility of making it up at the rate made up, I can't see any reason for any change.
- Q. Couldn't the back allowable, if you may call it that, be combined in some way with the current allowable and all included in one document?
- A. That procedure is being followed in some of the states, and the members of the Commission talked about a combination of that kind sometime ago and the matter is being considered now very seriously. I believe it can be done.
- Q. Wouldn't it be more convenient for all concerned in one sheet?
- A. It would make a much nicer record.
- Q. Mr. Staley, there has been some delay in getting the final check on these shortages. Will you state just how the matter is handled and the reason for this delay? It has been for two months, at least, I believe.
- A. Yes, it is about two months, and the reason for this delay is that at the end of each month the pipe lines make their corrections and furnish net pipe line figures to the operators as to the amount of oil being run in each connection. The operators in turn under the Laws of the State of New Mexico furnish to the Oil Conservation Commission what is known as Form 104-A, Monthly Report of Proration, and the amount of oil run from each forty-acre unit is set out. This is a sworn statement furnished the Commission and the figures from the pipe line do not reach the office of the company until between the 12th and 15th of the month following in which the oil was run by the pipe line. Then the operator in turn makes up Form 104-A and by the time it reaches the Commission and a copy reaches our office it is approximately two months. Then, of course, we cannot make up our reports until all these reports are in.
- Q. In other words, if a man in the month of July should shut down for corrective work, you would not have the pipe lines' figures and report until the end of the month?
- A. It would be included in the proration schedule issued as of September 1.
- Q. In other words, in order that a proper check may be made, there must be a lag of from one and one-half to two months?
- A. That is true.

BY GOVERNOR MILES: Being so unfamiliar with the procedure, now in the back allowable, is that amount not run during that month?

A. It is the amount, Governor, that has previously been allocated to a producing unit, but due to one or another cause it was not run, and then at a later date the operator makes application to have it included, that is, he wants the right to run it in addition to the current allowable.

Q. For current allowable, for that period is it that much less?

A. That much more than the current allowable.

Q. For that period if one does not run the amount allowed, does the total amount run during that period made up amount to more, or is it less?

A. Oh, I see what you mean. It is less. The total amount is less.

MR. SETH: In your judgment, Mr. Staley, is it advisable as a prevention of waste to encourage corrective measure in wells by allowing them to save this so-called back allowable?

A. I think it is, for the reason that it doesn't seem reasonable to require a man to so produce his well that he must set a packer or do corrective work knowing that while that well is shut down he will never be able to get that production. And I think that the operators should be encouraged from every standpoint to so produce their wells that the reserve energy, the gas energy, control of water, etc. be handled in the best manner possible. That has been the procedure in the past. In fact, that is the thing that caused the making up of back allowables in the beginning.

Q. In other words, you think they should be encouraged to do things that tend to increase ultimate production?

A. Yes, sir.

MR. WORDEN: Do any of you gentlemen present wish to ask any questions? Mr. Livingston?

MR. LIVINGSTON: I think Judge Seth covered the matter very thoroughly with the witness and I can't think of anything to be added to the interrogations.

MR. WILLIG OF THE TEXAS COMPANY: We think Form c-104-A is a very comprehensive form and we have had considerable experience in Texas with a maze of forms. There might be some additional information upon Form 104-A that would help the Commission in making up the back allowable. The form has a place on it to show whether or not a well was operated thirty days

or thirty-one days or all the days in the month, and I think the operator should also be required to show the reason why the well was not producing. That could be used as a prerequisite for operators making application to make up back allowable. In other words, when a well is off, it should be indicated on the form. If that were done, whenever a well is off, it must be shown on the form and that would give the Commission a check at the time the well was off. I am just making this suggestion in the event the Commission requires information, because I believe it could be furnished on the form now in use. We would like to see the form now in use remain without any further additions.

MR. WORDEN: Mr. Staley is excused from the witness stand.

UPON EXAMINATION BY MR. SETH, Mr. O. D. Crites testified as follows:

Q. State your name, please.

A. O. D. Crites.

Q. And what company are you connected with?

A. Shell Oil Company.

Q. Do you buy oil in Lea County?

A. Yes, sir.

Q. You heard the testimony of Mr. Staley?

A. Yes, sir.

Q. Do you think a system along the lines of this testimony if adopted would meet all the requirements of purchasers and transporters of oil?

A. I think it would.

Q. Do you think it would meet the requirements of other companies?

A. I think so.

MR. ANDREAS: I think your company has already successfully been making up their back allowable?

A. At the present time we are taking it at the rate of ten barrels per well per day.

Q. How many connections?

A. Off-hand I don't know, but we estimate that that will be about four thousand to five thousand barrels a day in wells that are making it.

- Q. That would be at the rate of about 120,000 barrels a month?
- A. Yes, sir.
- Q. That would merely be sixteen per cent of all accumulated shortage to be absorbed in one month?
- A. Yes.
- Q. With the companies absorbing the back allowable, do you think they might be able to take it up in ninety days?
- A. I can't speak for the other companies. The back allowable on our shortage will take about ninety days.
- MR. WORDEN: The witness is excused.
- MR. HUBBARD OF THE Humble Oil & Rfg. Co.: Mr. Staley, you were asked the question of whether or not the back allowable could be included with the current allowable, and your answer was "yes", was it not?
- MR. STALEY: I stated that the procedure was being followed by other states and they might be consolidated in the proration schedule which sets out the current allowable with the over and short statement for the previous month, that is, the over and short statement coming up at approximately the same time which has a lag of about two months, could be included on the same form setting out the amount of oil allocated to the connection for current allowable and the amount of oil that was run on the proration schedule two months prior and whether it was over or short - the shortage added to the amount of oil set out in the current allowable and the overage deducted. Now, a symbol could be used to indicate whether shortage was being allowed or not. Due to various reasons, the Commission might see fit not to allow it, and a symbol could be used to show anyone interested in the report whether the shortage was being allowed or not.
- Q. You were also asked, were you not, if it would be convenient to submit this on one form which would make a better record, and you answered "yes"?
- A. Yes.
- Q. Would you include on the schedule the total amount of the previous shortage, or just previous shortage for certain months?
- A. I think that we worked up a sample to see what it would look like, but we didn't include a column for accumulative shortage, but I think that should be done.
- Q. I take it, Mr. Staley, that you would recommend that that change be made?
- A. After a study. Yes, I think there are a number of angles to be considered and think after study by representatives of the operators and the Conservation Commission so that the Commission would have all the facts, that it enter

into whether we should make these changes.

MR. SETH: I would like to recommend that before a final order is drawn, a committee consisting of Mr. Crites, Mr. Hubbard, Mr. Staley and Mr. Livingston draw up a tentative order and submit it to the other purchasing pipe lines to be submitted to the Commission for action. It might expedite matters. Mr. Staley knows about getting up reports and Mr. Livingston, as Attorney for the Commission, is familiar with these matters.

MR. WORDEN: I think it is an excellent suggestion, Judge Seth.

MR. SETH: The committee can take this under advisement and can then go into it and every person and company should have a chance to see it before it is finally adopted.

GOVERNOR MILES: Unless there is some objection to this suggestion, I think it should be adopted.

MR. WORDEN: Mr. Kraus, I think you should be included on the committee.

MR. KRAUS: I am sure if it is followed, it would be satisfactory to the Atlantic.

MR. WORDEN: I think it will be agreeable with the Commission. We will at this time appoint these gentlemen as named by Judge Seth. I think perhaps it would be well to include Edgar Kraus on this committee. Does anyone else present have anything to offer or any suggestions to make? We will then ask the committee as named to get together and work out their plans. I think it would be a good suggestion for you gentlemen to get together and make all your plans as to just how you want to handle it and then report to the Commission. Apparently that covers everything that is before us at this time. I want to announce at this time that this meeting will be recessed and we will await the report from that committee at such time as they have apparently solved their problems. When they have notified the Conservation Commission, we in turn will notify you people and your companies, giving you an opportunity to meet and work out further problems that might arise.

There being no further business to come before the hearing, the hearing adjourned.

STATE OF NEW MEXICO)
County of Santa Fe) ss.

I, Irene Kershner, hereby certify that the above and foregoing ten and a fraction pages of typewritten matter constitute a true, correct and complete transcript of the shorthand notes taken by me at the hearing before the Oil Conservation Commission held in room 130 at La Fonda Hotel, Santa Fe, New Mexico, on Friday, July 21, 1939.

Irene Kershner