

CASE NO. 110

in the matter of the application of Hardin-Houston, a partnership, Hobbs, New Mexico for a general order regulating tank cleaning, plants processing tank bottoms and recleaning of waste oil and transportation of tank bottoms and waste oil.

This case has been continued from September 17, 1947, and in in connection with Case No. 104.

MR. SPURRIER:

Just for the record, to quote the record of a previous hearing held September 17, 1947 - the record in that hearing shows Case No. 110 and Case No. 104 were continued to October 15, 1947.

MR. D. W. GIRAND, Jr. - Hobbs, New Mexico

It is my understanding that the hearing on the 15th or 17th - that the matter would be held open for some of the major oil companies that might want to protest the application, and for that reason alone. I believe the burden will now shift to the protestants, if any. There was no formal protest.

MR. SPURRIER:

That was my understanding.

MR. GIRAND:

I want to inform the Commission as to the present status of the case. The applicant has withdrawn the proposed order attached to the application, and since that time with the cooperation of the operators, we have formulated certain rules and regulations which I believe have the approval of the operators; governing the operation process, which we will offer at this time. The optional features of our application were withdrawn. I believe the Commission has been notified of that portion of the application.

We seek now a permit as processor of these tank bottom and other waste oil that might be made available for processing.

COMMISSIONER MILES:

Anyone want to be heard or make a statement.

MR. GLENN STALEY - Lea County Operators.

At the meeting held on September 17th the operators had an opportunity to look over the Order granted by the Commission, Order No. 726, Case No. 104, to Mr. Walter Famariss, Jr., and there were a number of objections that the operators had to the findings of the Commission. They realize, of course, the Commission was following the interpretations of the evidence presented, but in order to clarify the record and to set before the Commission the operators' views in the matter, a meeting of the Lea County Operators was called to go over the Order as issued, section by section, and the operators appointed a Committee on October 6th to draft a recommendation to the Commission changing those things that were objectionable to the operators. With your permission I will read the report of the Committee.

REPORT OF LEA COUNTY OPERATORS SUB-COMMITTEE
APPOINTED 10-6-47 TO MAKE A STUDY OF
COMMISSION ORDER #726, CASE #104

The committee proposes to the operators the following statement to the Conservation Commission at the Hearing to be held in Santa Fe on October 15th, 1947.

The operators feel that certain modifications should be made in the order issued in the CASE #104. It is the feeling that no reasonably preventable waste exists. Present experience by 16 companies, representing 85.3% of total production, indicates that "substantial waste" and "great quantities" of waste does not exist from field gathering tanks and well completions.

It is desired to point out that a large percentage of these tank cleanings and pit oils are used to maintain lease roads, tank battery grades, well yards, etc., which maintenance, if this material were not available, would require greater expense to the operators, due to terrain conditions, and that every reasonable effort is being made by the majority of operators to reduce the frequency of tank cleaning and bottom accumulations, by use of Chemicals, treating systems, circulating pumps, etc.

In the second place, we believe that the Commission should include in any order with reference to the processing of tank bottoms or pits a provision that the net oil contained in the tank or pit as determined by A.P.I. method of testing, shall be charged against the allowable of the lease served by that tank or pit.

In the third place, we recommend that any such order should apply only to persons engaged in the business of purchasing and treating tank bottoms and pit oil. To accomplish this purpose, we suggest the use of the following language:

IT IS FURTHER ORDERED that the provisions of this order shall not apply to the treating of tank bottoms on a lease where produced and the oil recovered therefrom is not disposed of except through a duly authorized transporter.

IT IS FURTHER ORDERED that the provisions of this order shall not apply to the treating of tank bottoms at a pipe line station, crude oil storage terminal or refinery where the oil contained in the tank bottoms located at such stations, terminals or refineries is reported as a part of the inventory and

tenderable balance of the owner or operator of such station, terminal or refinery, and where the treated oil is not disposed of except as a part of the regular deliveries of crude oil from said station, terminal or refinery.

IT IS FURTHER ORDERED that the provisions of this order shall not apply to the transfer of tank bottoms from one tank to another tank located on the same lease, or located at the same pipe line station, tank farm or terminal in the event there is no change in the custody or control of the tank bottom.

IT IS FURTHER ORDERED that the provisions of this order shall not apply to the treating at a gasoline plant of oil and other catchings collected in traps and drips in the gas gathering lines connected to such plants and in scrubbers at such plants.

IT IS FURTHER ORDERED BY THE COMMISSION that this docket be kept open for such other and further orders as may be necessary and appropriate in the premises.

COMMISSIONER MILES:

Has this been introduced?

MR. FRASIER:

Did the Operators approve that?

MR. STALEY: Yes, sir.

MR. GIRAND:

The operators approved the tentative form of rules for governing treatment, did they not, Mr. Staley?

MR. STALEY: I think so.

MR. WILLIG (The Texas Company)

We did not concur in all the provisions of the proposed order, but will make our statement after it is presented.

MR. GIRAND:

We are in this position - We put on our case and the protestants asked for time if they decided to protest. If there is no objection for our proposed petition, that is what we came here to meet at this time.

COMMISSIONER MILES:

The order you introduced before has been withdrawn.

MR. GIRAND:

The question of granting a permit for processing was more or less suspended at the time being.

MR. GEROGE GRAHAM:

Your rules were merely suggested rules for guidance and consideration of the Commission?

MR. GIRAND:

That is correct. The Commission had not up to this time set down any rules or regulations for this.

MR. GRAHAM:

You made those for the guidance of the Commission?

MR. GIRAND:

That is right. I have here some roughly sketched rules that were discussed last night at the Operators' meeting with the several changes made. I re-drafted it this morning and there has been additional changes since then.

I will read the proposed order if the Commission please - the Commission has granted one permit to Walter Famariss, Jr., and a temporary permit to Hardin-Houston; but the Commission at this time does not have any rules or regulations exercising any control over the operator of such a plant. We seek, in addition to getting a permit, to promulgate rules and regulations to govern the operation. That is what we have tried to arrive at. We suggest these rules and they are only offered as a guidance and do not insist on the phrasings.

RULE I.

No treating plant, as defined in this Order, shall operate except in conformity with the following rules and regulations:

(A) Every person desiring to operate or cause to be operated a treating plant within the State of New Mexico under the terms of this Order shall, before he begins the construction thereof, apply to the Commission in writing for a permit. Such application shall state in detail the location, type and capacity of the plant contemplated and method of processing proposed to be used. The Commission shall set such application for hearing in not less than twenty (20) days, and if satisfied that the proposed plant and method of processing will actually and efficiently process, treat and reclaim tank bottom emulsion and waste oil, and that there is a need for such a plant at the proposed location thereof, a permit will be granted authorizing the construction of such plant under the Commission's supervision.

No person or persons shall operate, or cause to be operated, a treating plant without having first applied for and obtained an operating permit from the Commission, and such permit will be granted only after the plans of the plant have been approved and applicant has filed and had approved his bond as hereinafter provided and upon a showing satisfactory to the Commission of the necessity thereof.

Such permit, when granted, shall be valid until revoked or abandoned, and shall be revocable at any time after hearing is had or ten (10) day's notice, the Commission finds:

(1) The treating plant under which such permit related is so constructed, equipped or operated as not to reclaim and conserve tank bottom emulsion and waste oil;

(2) The owner or operator of such treating plant in the construction or operations thereof, is violating any law of the State of New Mexico relating to the production, transportation, processing, refining, treating and marketing of crude oil or its products;

(3) The owner or operator of such treating plant is violating any law of the State of New Mexico adopted to conserve the oil and gas resources of the state, or any rule or regulation of this Commission enacted under and in pursuance of said laws;

(B) The total amount of products secured from tank bottom emulsion and waste oil by treating plant processing tank bottom emulsion and waste oil operating in conformity with the provisions of this Order shall be entitled to a C-110 - Add charge to allowable.

(C) That before actual operations are begun, the permittee shall file with this Commission a surety company bond payable to the Oil Conservation Commission and/or the State of New Mexico in the amount of \$25,000.00, conditioned upon faithful performance by the permittee of the provisions of this Order or of any further Order in this cause, observance of the applicable laws of the State of New Mexico and the rules and regulations heretofore or hereafter promulgated by the Commission in any wise applicable.

(D) Any treating plant operating under these rules and regulations shall, on or before the 15th day of each calendar month, file at the nearest office of the Commission a monthly report on forms to be supplied by this Commission. Each such monthly report shall contain full and accurate information covering the following details of the business conducted by such reporting permittee during the preceding period. The report shall cover the period from 7:00 A. M., the first day of the calendar month reported, and end at 7:00 A.M., the first day of the calendar month in which the report is filed. The data required in each report shall be:

(1) The number of barrels of tank bottom emulsion, waste oil and treated tank bottom emulsion on hand in the possession, custody or control of such plant, at the beginning and close of each reported period, and the location where all of such tank bottom emulsion, waste oil and treated tank bottom emulsion are held, including the location and identification of each tank or place of deposit.

(2) The number of barrels of tank bottom emulsion, waste oil and treated tank bottom emulsion which came into the possession of such plant during such reported period. Each quantity of tank bottom emulsion so reported shall be identified by the tank number of the operator from whom it was obtained and/or the location where obtained.

(3) The number of barrels of tank bottom emulsion and waste oil treated and/or processed during such reported period and the number of barrels of pipeline oil recovered, and the treating or processing loss during such reported period.

(4) The number of barrels of pipeline oil sold and/or delivered and/or transported during the reported period, to whom delivered and/or transported, together with the approved C-110 on which such delivery was made.

(5) After the report form to be furnished by the Commission has been assigned a serial number and approved by an authorized agent of the Oil Conservation Commission, it may be used to support a C-110 for the net oil on hand at the end of the reported period.

(6) From and after the date of the adoption of this Order, it shall be a violation of the rules of this Commission for any person to place in commerce and/or transfer tank bottom emulsion or waste oil, requiring treatment before meeting pipeline requirements, to anyone other than a permittee holding a permit from this Commission as a processor.

RULE 2:

The words defined in this order shall have the following meaning:

(A) "Person" shall mean any natural persons, corporations, associations, partnerships, receivers, trustees, guardians, executors, administrators or a fiduciary, or representative of any kind.

(B) "Treating Plant" shall mean any plant or assembly of machinery or equipment, such as boilers, pipes, tanks, pumps, etc., constructed for the purpose of wholly or partially or being used wholly or partially for reclaiming, treating, processing or in any manner cleaning and making tank bottom emulsion and waste oil marketable.

(C) "Tank bottom emulsion" is hereby defined as that substance containing 2% or greater basic sediment and water limited to volume below the tank pipeline outlet, and in the case of lease production tank where the volume exceeds the pipeline outlet the same may be treated and processed upon special order of the commission only.

(D) "Treated Tank Bottom Emulsion" shall mean the recovered product from the treating, reclaiming, processing or cleaning of tank bottom emulsion and waste oil. This term shall be used by treating plants in the application for C-110.

(E) "Waste Oil" shall include pit oil, line break oil, gasoline plant catchings not up to pipeline requirements, which for the purpose of this order shall carry the same requirements as to reporting as does tank bottom emulsion as set out above.

RULE 3

(1) The foregoing requirement shall have no application as to treating plants operated by the person operating the properties from which the emulsion or waste oils are obtained.

IT IS FURTHER ORDERED BY THE COMMISSION:

That this Order shall control all rules and regulations with reference to the same subject matter and in conflict herewith, if any.

IT IS FURTHER ORDERED BY THE COMMISSION:

That this docket be kept open for such other and further orders as may be necessary and appropriate in the premises.

MR. GIRAND:

We seek in this order not to place any limitation whatever on operator in salvaging of whatever merchantable oil might be recoverable. We believe the application of Hardin-Houston is sufficient in having the matter clearly before the Commission at this time, in that the application seeks certain rules and regulations by promulgating and withdrawing a portion of our application and the part not withdrawn is included in our suggested rules and regulations.

MR. FAMARISS:

Mr. Staley could I ask a couple of questions?

When the hearing held on the application of mine, it was testified that considerable amounts of these substances was being burned, lost or destroyed - you tell the Commission there has been no waste or substantial loss.

MR. STALEY:

All the operators are trying to do in presenting this today was to clarify in the minds of the Commission where the majority of the so-called waste might be taking place. We have a number of pits scattered throughout Lea County, the pipe lines where the paraffin and mud or water accumulates in bottom of tanks - where this material is put when the tanks are cleaned, in some instances those accumulations have been over long period of years the tanks get full and they are set on fire and destroyed because nothing can be done with them. In some parts of the country there are being erected reclamation plants to recover paraffin. We have instances where there is ever so often the accumulation of mud, water and paraffin and mixed with this there will be small quantities of tank bottom oil. This is in the field gathering tanks in the various leases scattered through Lea County. When this accumulation gets to the point where it is liable to interfere with the clean oil going into the pipeline, gets too close to the pipe line outlet, the pipe line gauger notifies the Company the tank will have to be cleaned before the pipeline will accept anymore oil from it. That is the material the operators have, there may be in certain cases but a small amount of recoverable oil that could be used or run through pipelines. Then we have the gasoline plants who gather all the gas from the various wells in the production of oil, once in awhile the trap or the valve at the trap will stick and crude oil will go over into the gasoline. In order to keep that oil from getting into the compressors, the gasoline plant - the Company installed scrubbers on their lines just before the lines get into the plant, and they trap all this oil. Some instances, especially in the winter time, a large quantity - there might in one night get as high as 50 or 100 barrels, and might not happen again for two months. There is no way for the gasoline plant to trace where that came from. You have the cleaning of the tank well, tanks or gathering tanks of the pipe lines. All the oil goes to the

pipe lines - the royalty has been paid and also the tax. It is merely an accumulation of a long period of years, foreign matter that comes in with the oil.

Does that give you a picture - I might add a high percentage of the area in which oil is produced in Lea County is what is called sand area - for some unknown reason we do not get a great deal of rain, and the building of roads in those sand areas is extremely expensive. If we do not have these tank bottoms to hold the sand and pack those roads caliche must be hauled in, and in period of time the caliche becomes dust. That is more valuable for the operators to use the waste material from tank bottoms to hold the sand roads and the tank grass around their operations in the various fields.

COMMISSIONER MILES:

What did you say about this oil - the tax had been paid?

MR. STALEY:

All the oil goes to pipelines has been gauged in the tanks and operator and royalty has been paid before it goes to these places. The gauges are made in the field tanks of the operator. That applies only to pipeline tanks.

MR. FRASIER: :

Mr. Staley, when the Commission issued permission to Mr. Fararibason the basis of showing made at that hearing, it was determined not to charge this recoverable to the allowable. As I understand, the operators feel any recovery should be charged to the allowable?

MR. STALEY:

That was the findings of the Committee.

MR. FRASIER:

Will you tell the Commission why you reached that conclusion?

MR. STALEY:

I would rather have Mr. Bruner of the Shell tell that.

MR. BRUNER:

There was quite a bit of discussion involved on arriving at that recommendation. The Committee feels that in effect if we sell any waste oil we are immediately faced with a legal problem as to getting back to the royalty owners. If we have the allowable the net oil recovery it simplifies the administrative procedure very much so far as we are concerned. We immediately deduct it from the allowable that month and it is shown on the regular statements to the royalty owner and he gets his share. It is a check to a certain percentage you have showing exactly what your waste oil is.

MR. FRASIER:

That is your main objection to the Fararibason Order?

A. Yes, sir. I would like to make one statement as chairman and representing the Shell - We thought the words "great quantities" and "Substantial waste" unsatisfactory terms. Actually, as Mr. Staley pointed out, that waste is somewhat a part - small part and probably is not waste. It is not excess because we have more times a problem in the field and using tank bottoms for the purpose of holding down fire walls and roof. As an operator we are concerned in producing

oil where we are not into any considerable quantity of dirty oil and we re-clean our tank bottoms and as are found in many major operators problems the tank bottoms are cleaned very rarely. Our average for the first 6 months of this year was one tank for every two years which is a very small percentage for the actual amount of a producer.

MR. FRASIER:

Hasn't a great deal of this pit oil been burned and wasted?

A. I cannot say how much of that. You drive down a highway you see one or two pits burning, but usually you find it is a very short period, when you consider the number of leases involved.

MR. GRAHAM:

You do not charge back the allowable of oil used on roads and tanks?

A. All our leases have given authority to utilize the oil. We can burn this without charging back, it is permissible under the lease.

COMMISSIONER MILES:

You do believe under this process of treating there could be some recovered that is now waste?

A. By some operators a certain amount - anywhere from 20 to 35 percent of any bottom can be salvaged. Our percentage figures are a little bit lower than in previous discussions.

MR. GRAHAM:

In using the term of substantial waste, from the standpoint of the producer there is a substantial amount from the whole oil industry - there is a recoverable percentage. We had only before us the evidence offered by Mr. Famariss. In drafting of that particular order from his standpoint there is waste enough to invite him into the business.

A. To get an idea - to determine for an individual the amount wasted per lease in a tank may be 30 or 40 barrels at the most - may recover as much as 8 or 10 barrels.

MR. GIRARD:

That would be anywhere from 6 months to two years accumulating?

MR. GRAHAM:

That would be substantial to the processor but insignificant to the whole industry.

MR. BRUNER:

It would be a substantial sum to process if he is able to get 2 or 3 thousand barrels per month over several miles and several years.

MR. GRAHAM:

The Order was drafted on the evidence offered at that hearing and to Mr. Famariss that was a substantial amount for his business.

MR. BRUNER:

My own feeling is the amount of oil re-captured from tank bottoms will be a small percentage. These are considered scrubber oil - gasoline drippings, etc.

MR. GIRAND:

They are not limiting their rights to production tanks. Gasoline plant casinghead, transporters pit oils, etc.

MR. GRAHAM:

Undoubtedly we used the term "great quantities" loosely.

COMMISSIONER MILES:

Is the allowable referred to in this application?

MR. GIRAND:

No, sir. It is not mentioned, we do not propose to buy this if there is any way out of it.

MR. FRASIER:

Mr. Famariss proposes to purchase it and you do not wish to purchase it.

MR. WILLIG: (Texas Company)

I would like to make a statement with respect both to the statement that was filed by Mr. Staley - The Texas Company, one of the 16 operators mentioned in that statement who concur in the statement - in connection with the proposed order of Mr. Hardin, the Texas Company feels they have no particular interest in the application of the tank cleaning operators, however, we would like to point out to the Commission the one point Commissioner Miles just mentioned is not the same as the operators have recommended in their statement.

In other words, the oil to be processed under the permit under this application would not be charged back against the allowable or well or lease from which it came. In our own operations we do not admit the waste cited. If the reason for granting the first permit in Case No. 104, Order #762 - the Texas Company is engaged primarily in production of oil. This is the only source of revenue from the wells we drill. We want to sell as much production as economically possible. We follow good practice in treating the oil in our tank bottoms and do not believe we will have to take recourse to these plants. We have no objection to this but wish to caution the Commission in charging back is one of the best checks.

MR. FRASIER:

You have an objection to Hardin-Houston having the same permission as Mr. Famariss - with that objection?

MR. WILLIG

I would rather base it on the order proposed here. Under these general rules I understand this application is merely a suggested procedure for granting permission to one section to which I make reference - Rule I, Section B -

"The total amount of products secured from tank bottom emulsion and waste oil by treating plant processing tank bottom emulsion and waste oil operating in conformity with the provisions of this order shall be entitled to a C-110. (Add: Charge to allowable)."

That, of course, as far as it goes will be a necessity, I do not think it is comprehensive enough in that it does not state the reclaimed oil will be charged back against the allowable or lease from which it came.

MR. GIRAND:

Do you believe that should apply here or in an Order directed against the operators.

The processor will not be in a position to examine titles of leases. Cleaning tanks every two years - to add that provision to the rules and regulations of the processor, that is not the processor's proposal here that it has the benefit out of having the permit - they will have no way in the world to ascertain the title to the oil they finally process into pipeline oil.

MR. WILLIG:

Your proposed order contains provisions that the identity of the oil be reported to the Commission.

MR. GIRAND:

Only as to quantity. You procure a certain quantity of emulsion from Tank #~~5000~~ and operator #~~-----~~. If you set up processing plants you are going to have to treat in quantities of 500 barrels or more at the time.

MR. WILLIG:

Even if you charged back against the leases, the known leases from which it came in approximate money - that would still be a check against the use of permits if you did.

MR. GIRAND:

Why isn't that check now here, the processor is going to operate throughout the entire field - it cannot be too much change from one lease to another. If the reports from one process have a great variance the reports in that order would be sufficient to put the Commission on notice for some investigation.

MR. WILLIG:

I can visualize instances where the tank cleaning process would only process one lease in the fields.

MR. GIRAND:

In that event there is quite a few territories and areas in the State of New Mexico where oil is being produced - surely they ought to be able to furnish their own treating facilities. I think there will be a cross-section so far as that goes.

MR. WILLIG:

We were merely suggesting that as a reasonable check against the abuses we aren't telling the Commission what kind of an order to write.

GOVERNOR MABRY:

Is that your only objection if and when the Commission feels it wants to adopt these rules - anything else you object to Mr. Willig?

MR. WILLIG:

No, sir, Governor, there might be some details - the order is in general terminology.

GOVERNOR MABRY:

Is that your only objection when the Commission feels it wants to adopt these rules and regulations?

MR. WILLIG:

That's all.

GOVERNOR MABRY:

How do you feel about the necessity of this processing - the agency?

MR. WILLIG:

In our own operations we do not consider plants of this type necessary because we have facilities for treating our own tank bottoms. We realize there may be operators who do not have those facilities, in that case such plants probably would be justified. We are not protesting but feel the Commission can grant permits for reasons other than the reason cited in the first application.

COMMISSIONER MILES:

I am sure the language used wasn't the thought of the Commission.

MR. WILLIG:

It was our purpose to assure the Commission we were producing as efficiently as we knew how.

COMMISSIONER MILES:

Anyone else want to make a statement?

MR. LLOYD L. GRAY (Gulf Oil Corporation)

I believe we concur with the statement made by Mr. Staley - read by Mr. Staley, and the objection expressed by Mr. Willig. I wonder if we could not take paragraph B, Rule I and make an addition to it?

COMMISSIONER MILES:

Read it please.

MR. GRAY:

"The total amount of products secured from tank bottom emulsion and waste oil by treating plant processing tank bottom emulsion and waste oil operating in conformity with the provisions of this order shall be entitled to a C-110."

A suggested addition providing that the merchantable oil recovered from tank bottoms and pit oil shall be chargeable against the allowable and from the leases from which it came.

MR. GIRAND:

Isn't a regulation against the operator and processor. The processor can only report the quantity of emulsion he picks up. Due to the fact that the co-mingling the extent of the recovery of the conglomerate will be to say we got so much of Lease #1. - - It will be impossible to do. If the processor reports back to the operator he recovered 50% and asks the operator to charge that against the allowable, who is going to be put in charge in this?

MR. GRAY:

I figure it is regular matter of testing tank bottoms for the amount of recoverable oil. I understood the Texas Commission made an order using the A.P.I. method to conclude how much oil was recoverable. I do not believe it would affect one in any way - The report of the A. P. I. it would be up to the operator to deduct that amount of oil from the particular lease - As I see it wouldn't affect your operations in any way.

MR. GIRAND:

Where the recovery is not sold it does not go back to the royalties. You only propose that where the tank bottoms are sold?

MR. GRAY:

That is right.

MR. GIRAND:

The tank bottoms will not be sold on the amount of recovery, they will be sold on the amount from the tank bottoms.

MR. GRAY:

That as I understand it.

MR. GIRAND:

The quantity you are selling is quantity of tank bottoms or pit oil. the result will be you will be you will pay royalty on the amount received from that emulsion?

MR. GRAY:

I presume so.

MR. GIRAND:

You won't pay royalties on the amount reported as oil from the emulsion?

MR. GRAY:

As I understand, it will be on the basis of the basis of the A.P.I. test and that will be the report to the Commission on a form supplied by the Commission.

COMMISSIONER MILES:

Let me see - as I understand your statement about determining the amount of oil is they turn in the tank before you process it.

MR. GRAY:

At the time the transporter comes to get that he can take a sample.

GOVERNOR MABRY:

Whether it is the processing result in that much recovery is something for him to worry about - do you agree on that?

MR. GIRAND:

I agree the test can be made, whether that will work as a practical matter in the processing I don't know.

MR. FAMARISS:

I would like to add this much to Mr. Gray's A.P.I. idea - A sample of the mass would probably be carried out four decimal places, you can do a lot of things in a test tube that in mass operations are impossible. The A.P.I. test for the termination of recovery of oil would not be a representative of recovered oil from the mass when treated. This is a matter of opinion but happens to be my opinion.

MR. GEROGE GRAHAM:

Would you, from your own information, tell me your views on what variation there would likely be in the tests?

MR. FAMARISS:

The test tube will show a greater recovery in many instances than will practical processing.

GOVERNOR MABRY:

Could it show less?

MR. FAMARISS:

In particular instances it might, but I cannot think of instances where it would.

MR. GRAHAM:

How much leeway would you have?

MR. FAMARISS:

I think it is a basis that frankly could not be used.

GOVERNOR MABRY:

The better way would be to leave it up to you to show what you got?

MR. FAMARISS:

Yes in mass - yes.

GOVERNOR MABRY:

Assuming you need the check?

MR. FAMARISS:

The Commission undoubtedly will be familiar with the reasonable percentages - if 1,000 barrels made a recovery of 1%, and the rest would be a relative percentage but not necessarily related percentage.

GOVERNOR MABRY:

That should do away with
the test tube and get
something else.

Does the industry agree
the A.P.I. is not a fair test?

MR. NELSON JONES:

Isn't it true this A.P.I. method is in general use for the purpose of
determining the oil content in tanks?

MR. FAMARISS:

In sale of tanks from producing company some pipe line companies
rely in that particular tank.

MR. JONES:

Isn't it true that method is in general use throughout the oil country?

MR. FAMARISS:

That is true in establishing the value of the oil sold by the producing
company to pipe line company. That does not necessarily mean there is
an accurate recovery in case of reclamation.

MR. JONES:

Do you know of any other method better than the A.P.I. for the check-out
test?

MR. FAMARISS:

For an individual tank bottom?

MR. JONES:

I am talking about a general ruling for determining oil content in the tank.

MR. FAMARISS:

No, as explained a moment ago, one mass of emulsion will react to a
higher recovery than another of the same quality.

MR. JONES:

The method under discussion - the generally accepted one and so far as
you know the only one now in use is it not?

MR. FAMARISS:

Yes, but at the same time does not indicate the recovery.

MR. GRAY:

This A.P.I. requires there shall be no heat applied at the time of the test,
I should think, if anything, the tank bottom if properly sampled would possibly
yield a little more than the test. I feel this isn't an unreasonable test.
We have more or less throughout the industry used a test of that nature. Some
tests we realize are not exactly accurate.

GOVERNOR MABRY:

The only other way is to see
what he gets and take his
figures.

MR. FRASIER::

Hasn't your client been operating on a physical basis?

MR. GIRAND:

That is right, you have to make an A.P.I. test?

MR. HARDIN: Yes, sir.

MR. GIRAND:

How is it working out?

MR. HARDIN:

Up to this date we could not tell you how the percentage is going to check.

GOVERNOR MABRY:

Are they requiring that you report they see to the distribution of the producer - that is why he wants to charge against his allowable?

MR. GIRAND:

As I understand, the only purpose of this test is on the oil - emulsion sold. If it wasn't sold the test is not necessary or no other procedure - just report in the quantity of emulsion taken into the plant. Only where you process that emulsion shall the test be run.

MR. GRAY:

Just in case of transfer of title to that oil.

MR. GIRAND:

The title is changed by abandonment on the part of the Company.

GOVERNOR MABRY:

Any effort to get together on the mechanics of this thing?

MR. GIRAND:

This proposed matter just came up last night. We only think it has a tendency to take the market away from the processor.

COMMISSIONER MILES:

Any other persons to make a statement? Any other producers?

MR. J. O. SETH:

I have a telegram from the Stanolind which agrees with these regulations as modified by operators' committee. They suggest one addition, the following:
That the application be made to and approved by the Commission before moving or processing any mass storage tank bottom.

JUDGE SETH (Cont'd) (Representing Stanolind Oil Company)

They have set out suggestions in this telegram as follows:

- "1. Devine tank bottoms as two percent or greater basic sediment and water limited to the volume below the tank pipeline outlet.
- "2. Application be made and approved by Commission before moving or processing any lease storage tank bottom. Application should give all information as to gauges, volume, average basic sediment content by shake out.
- "3. The volume of oil contained in any tank bottom as shown by above test should be charged against well or wells allowable producing into that tank."

I take what the Stanolind means is to be assured that check-out test be made before the material is removed. About the same that permit should be obtained from an official of the Commission before any of the oil is processed or sold. They agree to the combination of the two.

MR. FRASIER:

I did not quite understand your question whether the emulsion sold did you have in mind if an operator called on a processor to clean a tank and he gets it, won't there be a difference in the price for that sort of tank bottom cleaning than another operator says he wants 25¢ a barrel for this - aren't you paying for that by giving him the recoverable oil out of that?

JUDGE SETH:

It could be since there is a market for it.

MR. FRASIER:

The market will be as soon as it is processed.

JUDGE SETH:

Many are not asking tank cleaners to go out and carry the oil off. That is evidence some of it will be used on roads, etc.

MR. FRASIER:

There are certain tank cleaning concerns that have no rectifying plant. You as a processor cannot come along and say I won't do it for \$2.50 and you are giving him \$7.50 for that recoverable oil - you would freeze out the other tank bottom cleaner?

MR. GIRAND:

That is right.

COMMISSIONER MILES:

Suppose they would freeze out the other tank cleaner what effect would that have?

MR. FAMARISS:

In my own mind we immediately, in effect, sell our emulsion whether we state or not.

MR. GRAHAM:

In other words, the price of the service will be the value of the oil.

MR. FAMARISS:

MR. FAMARISS:

The service charge less the value of the oil.

MR. GIRAND:

By the same token what few tank cleaning outfits we have, are being able to keep busy. The managers will have the tank cleaners come in for their own use.

COMMISSIONER MILES:

The only point I am interested in is the recoverable oil. I don't know what else I would be interested in except the procedure in which it could be done. That is the thing I am interested in is the amount of recoverable oil, How would they go about it.

Maybe it is a matter to be considered by the recovery of oil - I think it is the principal thing to consider, in my opinion.

GOVERNOR MABRY:

The waste is not great but nevertheless there is some and there is no objection to it being processed. You are talking about the mechanics? We are interested in seeing recovered any of the waste - we do not like this oil to go to waste. The processors and proposed processors should be able to work out some formula and on the principal whether it is large or small - someone should get together, and as you say, this question has just arisen a short time ago.

MR. GIRAND:

The orders proposed are wide open and remain open subject to amendment and change at anytime after some experience. What we seek here is to get something started then if it doesn't work we will try to meet on that. I believe we can get together with the operators on the matter which has arisen here this morning. It occurs to me the emulsion purchased by the processor and in turn that emulsion charged back percentage-wise the marketing will be concluded through to the extent we will only have marginal wells - we could procure some. No operator is going to charge back 25¢ per barrel emulsion against his \$1.80 or \$1.90 oil when he has a well that will make his full allowable. It will go to the benefit of the producer to burn his tank bottoms, that is reasonable and logical.

MR. FAMARISS:

The original petition in this case calls for a reclamation permit. I would like to move the Commission that they strike out in my Order #726, Case #104 the qualified agents or waste or substance and any indication thereof that he means quantities of emulsion exist, it is not true.

The testimony of Case #104 will indicate certain given figures of quantities which were factually compiled in another state where records existed.

MR. FAMARISS (Cont'd)

They, of course, are subject to error; but virtually the fact that the emulsions percentage-wise are insignificant, I think there is ample proof that there is an entry into the reclamation field for a small operator. The quantities as represented are not economically recoverable probably, but the processor by in mass accumulation collected to a central location would represent an economical formula. I am sorry about the mis-impression made in that case, I think it is two schools of thought rather than a positive statement. I would like to add something additional - some additional information regarding charge back of oil to allowables. The information given here is not allegations but theories - it is my personal opinion that charge back to allowable will automatically remove that emulsion from the market as a possible source for reclamation. The reason I make that statement is that in the original Case #104 I made the statement the maximum recovery from tank bottoms would be 50% pipeline oil. I think the processors will back me in that my 50% is an optimistic figure. I propose to pay 25¢ per barrel for this emulsion, if it were 50% recovery that would mean the oil has a market value of 50¢ per barrel, it is not quite conceivable to me although it may happen. The producer would take a choice of 50¢ market against \$1.80 - in that choice it isn't conceivable to me to encourage destruction. If you can destroy 50¢ products for recoverable. I believe Mr. Willig of the Texas Company made the statement it was a check against reclamation operation, that may be the motivate reason for the allowable charge back suggestion. Frankly, Gentlemen, the processors suggested that they be required to post with the Commission a \$25,000.00 bond pursuant upon their compliance with the rules and regulations of this Commission. I believe your well drilling bond amounts to \$20,000.00 - my original proposal was \$50,000.00. The idea of that was the Commission having no substantial police force the Bonding Company would be doing the character screening for those people; therefore, the chance of an unscrupulous operator entering the reclamation business would be minimized. I offered that in lieu of the restrictive regulations that exist in our border states, it was my hope the bond would do that instead of tank cleaning permits, etc., in which we have all had sufficient experience.

The charge back on the allowable is only offered as a check on the very smallest quantities of emulsion available. No physical check has been suggested for the large volume of emulsion available. In other words, you suggested a regulation here that seeks to control the smallest quantity of available emulsion and will leave the rest of it open for speculation. The operators do have a prerogative of using their emulsion for whatever they wish to put it to, I don't think they should be restricted. When emulsions occur beyond their needs it would be nice for a reclamation plant to get it because some of it can be recovered. They are going to take care of their properties first and all I am interested in are those excess over their requirements; I do not believe any procedure has been set down by the Commission as to how this oil will be accounted for. I would like to suggest that the reclamation or processor upon picking up any volume of emulsion - if it is a tank bottom I think he should take a top gauge and bottom gauge and tank gauge, this will reveal the amount of emulsion available between your two gauges. When the oil is removed to the reclamation plant and treated we hope there is an amount of oil that will meet pipeline specifications. It would be my suggestion when that authority is asked that C-110 be supplemented by these pick-up tickets showing where every barrel of emulsion came from that has resulted in the recovery of this pipeline oil. The oil check would be the pipeline running the oil - would have to conform to C-110. The bonding power would be from tank to tank - to run oil regularly he could have a stub, a very sufficient check on where that came from, what he did with it and who you gave it to. At the present time I know of no tank company that has made any emulsions available. There is a claim and royalty obligation existing over those tank bottoms. So far as I know, I personally am not able to handle any tank bottoms, and until I am entitled I don't want it running through my processing station.

COMMISSIONER MILES:

Anybody have any questions to ask Mr. Famariss?

I want to clarify a statement - when he said he was interested in whether or not there was a recovery of oil - I will be interested in the rules and regulations establishing the processing of that oil - I am not sure I understand from the companies who testified, I believe they testified they would have some process of recovery - Is that right Mr. Willig?

MR. WILLIG:

Yes, sir. We have what we term heaters - treater circulating pumps on our leases. The oil is processed so it will not process in tank bottoms. Eventually you do have tank bottoms that has to be treated.

MR. SPURRIER:

I would like to ask a question - it seems in addition to Governor Miles' statement there is a question of whether a tank cleaner can legally get title to the recoverable oil in a tank bottom in any other manner excepting that he shall pay a royalty to the royalty owner. Somebody should pay that; I would like to have anyone answer that question. It seems to me we have arrived at several conclusions, but this is the one thing apparently controversial. The operators want the allowable charged back and the processors do not - can they obtain that without paying a royalty?

MR. GIRAND:

The processor can but the operator may be required to pay royalty. There is no market for this - where there is no market of products they have nothing to sell.

MR. WILLIG:

From a practical operating standpoint the suggestion has been made by the operators that the A.P.I. test be used on tank bottoms; that would give an accounting against the lease barrel for barrel - the oil determined in a manner that has been used for the rest of oil sold from that lease. The operator has no oil, he pays exactly the same, it isn't a question of the value of the oil - it might cost the operator money to get rid of the bottoms. That oil is accounted for it it is charged back to the allowable of the wells, the lease from which it came.

MR. SPURRIER:

Then it seems to me that it is a question of conservation if the producing operator is going to conserve the recoverable oil in the tank bottoms or because it can be recovered if he is going to return it to somebody who can recover that recoverable oil. Mr. Famariss might give you 25¢ per barrel for the recoverable and Hardin-Houston might or might not pay anything, but it is an operation perhaps that the operator would have to suffer to see that the oil is conserved if possible. I am not intimating the operator is burning oil that can be recovered.

MR. FAMARISS:

I would say there is no objection whatsoever on my part on allowable charge-back - if there was some assurance the product would be made available to the processor and destroyed by the difference of market value of those items. My statements were made on the belief that the low money value would cause the product to be removed from the market.

JUDGE SETH:

I want to make a suggestion in aid of conservation of the reclamation of this waste material - wouldn't it be possible to set up a special allowable for the reclamation of this material?

GOVERNOR MABRY:

I thought it might be necessary to adjust the conservation of this emulsion - you would have to have some compulsory directive to the operator if it is to his advantage to not have that oil processed, then charged as allowable it would have to be a patriotic duty unless he was required under some regulation under that processing.

MR. FAMARISS:

I think Judge Seth has a very good point, I wonder if such allowable is necessary due to the fact that the state is under producing their allowable today. It is many times over between the allowable authorized and the allowable produced. The excess would not have to be granted but could come under that - in my opinion.

MR. SPURRIER:

I am not charging the producing companies with the additional responsibility, I want the producing companies or anyone else to explain to the Commission how we can handle it otherwise. If that is necessary so these companies may conserve this production that is apparently being wasted.

GOVERNOR MABRY:

Is it something that can come within or do you have charge it against the allowable?

MR. GRAY:

As I understand in Texas they charge it back to the lease. Listening to all this discussion, not having been here last time is rather confusing. I don't know whether this could be one other solution or not - in Oklahoma we occasionally have had a Committee appointed by the Commission - would appoint Mr. Spurrier as one member, a member from the industry and a member from the treating plant.

GOVERNOR MABRY:

You still have not got a basis, maybe a member of the industry would be selected by the industry. What do you think about that?

MR. LYNCH (Phillips Petroleum Company)

I would like to make one suggestion, it might be ways to have on that Committee a representative of a pipeline company or natural gasoline plant, because the problems are a little different.

COMMISSIONER MILES:

Any small operator or industry operator - I thought they might have a problem not in common all the way through with the larger producer.

MR. KELLY - Independent Operator - Roswell, N. M.

I don't think anyone is smaller than me - only one point, I hope the Commission is not considering forcing the operator to treat tank bottoms or put that in any regulation, it would be a hardship on most producers. to report his tank oil, then you have to get a permit before processing them. I think we are arguing about tank bottoms, I think market fees are going to be more than the recoverable oil. Instead of arguing about tank bottoms, I think the question is gasoline plants and pipelines.

COMMISSIONER MILES:

I would like to have some small industry producer represented.

MR. GIRAND:

I think there should be a small producer along with major.

MR. GRAY:

I believe the operators would accept an appointment by the Commission - would simplify the selecting committee.

MR. GIRAND:

We would like to make this statement - these two small producers have been up here three or four times, if something can be worked out today we would appreciate it, it is putting an unbearable legal expense on both of them.

COMMISSIONER MILES:

This a matter in which we want to take a good deal of consideration. I don't know if it is necessary to continue the hearing but we want to appoint a committee to confer with us in our final decision on the matter.

MR. GIRAND:

We are not trying to push the Commission.

COMMISSIONER MILES:

You would continue under your temporary permit. We want to appoint a committee to help us with our final decision.

MR. FAMARISS:

May I make a suggestion - the field work of the committee be held down at the producing area. If we can have our work done in the field then come to you with our findings it would be less expensive on all of us.

COMMISSIONER MILES:

That is the thought we intend to convey in our statement. We will let the Committee, after appointed, get together and one member bring in the report.

GOVERNOR MABRY:

We can then act on it.

COMMISSIONER MILES:

Anybody else want to make
a statement before we
adjourn.

FOSTER MORRELL:

With respect to the Federal Government, representing it, we are interested
to the same extent you are.

COMMISSIONER MILES:

We will include you in this
committee.

MEETING ADJOURNED.