

APR 9 1954
Albuquerque Journal

Public Service Cuts Income Tax Nearly \$1 Million

The Public Service Co. of New Mexico told its stockholders Thursday that it has reduced its federal income tax payments by nearly \$1,000,000 during the past two years by consolidating its tax report with that of Pubco Development Inc.

Pubco is a wholly-owned subsidiary of the electric firm created for the purpose of seeking and developing oil and gas reserves in New Mexico and other states.

In annual reports on the operation of both firms, stockholders were told that Pubco had a net loss of approximately \$220,000 while the electric and water distribution firm had a net income of \$1,153,690.

How Loss Is Computed

The loss for Pubco was computed—the report explained—after “deducting the costs of drilling dry holes and the write-off of the investment in one well which was abandoned because of mechanical failure.” These costs, the report said, totaled some \$316,000.

“Because of the extraordinary charges and other circumstances, Pubco during 1953 was not subject to any liability for federal or state income taxes,” the report said.

The report then explained that as a result of filing the consolidated income tax returns, “federal income taxes payable by the parent were reduced substantially as compared with the amounts that would have been payable on the basis of separate returns.”

Contributions Made

Public Service—the report added—“has followed the policy of making capital contributions to Pubco equivalent roughly to the amount of such tax savings.” The tax savings are due entirely to Pubco's losses and deductions which would have been available to Pubco as a carry-over to future tax years if separate returns had been filed by each company. During 1953 Public Service made cash contributions to the capital of Pubco amounting to \$231,365, which was the net tax saving for the year 1952. For the tax year 1953 the corresponding tax saving is expected to be approximately \$702,613 and it is expected that capital contributions totaling approximately that amount will be received by Pubco during 1954.”

Pubco's president—D. W. Reeves—told his stockholders that as of Dec. 31 Pubco held oil and gas leases, including contract rights and options to acquire such leases, on a total of approximately 65,917 gross acres of land (subject to royalty interests of lessors and in certain cases to overriding royalty interests.)

The report listed 29,616 acres in New Mexico with 6205 listed as developed and producing; 3272 as developed and awaiting pipe line; 5613 as proven but undeveloped; 160 as overriding leaseholds; and 14,366 as wildcat. The firm has leases on 27,679 acres of wildcat land in Utah; and on 40 producing and 4233 wildcat acres in Colorado. It also has leases on 3229 acres of wildcat land in Wyoming and on 40 producing and 1080 wildcat acres in Nebraska.

Total Reserves Estimated

The company estimated that as of March 20, 1954, its net total recoverable oil and gas reserves were in excess of 300 billion cubic feet of natural gas and one million barrels of oil.

The Pubco report mentioned the fact that the Oil Conservation Commission of New Mexico is considering pro-rationing of natural gas but said that it believes the “effect on earnings due to pro-ration would not be serious.”

Pubco said that it believes that the interests of stockholders will be best served by a “continuance of the present policy of utilizing available funds for the acquisition of additional leased acreage and the development of proven acreage, together with a certain amount of wildcat drilling . . .”

3779 Customers Gained

In his report, Arthur Prager, Public Service Co. president, pointed out that the electric branch of the firm gained 3779 customers in 1953 with Albuquerque accounting for 94 per cent of the gain. The firm operates in Albuquerque, Santa Fe, Las Vegas, Deming and Belen.

The report showed that net income amounted to \$1,153,890 or 5.7 per cent more than in 1952. Operating revenues totaled \$8,348,521—up 11 per cent and tax payments totaled \$1,716,286, up 13.7 per cent from 1952.

The report said that total electric power requirements increased 11.5 per cent during 1953 with the total cost of providing the power going down \$164,000 or 3.2. The report credited the lower costs to “new and modern generating capacity at Person station” and other factors but said that “electric department expenses other than power costs continued to increase along with the growth in customers and revenues and enlarged plant facilities.”

Construction Expenses

The report said that Public Service Co. spent \$7,219,000 in construction costs in 1953—including some \$2,515,000 of equipment contracts payable during 1954. It estimated that 1954 expenditures for construction will be about \$7,145,000 but pointed out that his total also includes the \$2,515,000 payment for equipment contracts. Preliminary estimates indicate construction costs in 1955 will be about \$2,400,000.

The report pointed out that it was granted an increase in water and electric rates effective early this year and said

that “earnings for 1954 will be favorably affected . . .”

“Budget studies indicate a substantial increase over 1953 in the amount of net income which will be available for the payment of dividends on the preferred and common stock.”

Commission Seeks Mode Of Gas Ration

The State Oil Conservation Commission said today it hopes to arrive soon at the fairest possible method of allotting production of natural gas in the San Juan Basin.

The commission, completing a four-day hearing, took under advisement motions to start prorationing natural gas production in the basin for the first time.

There was no indication as to what the commission's staff recommendations would be, nor how the commission itself ultimately would determine a formula.

"Actually, we've done a lot of work already and the hearing was merely the culmination of six months study," said Richard Spurrier, member and executive director of the commission. "It should not be too long before we are ready with an order, though, if we are to get prorationing established, as we want to do.

"The testimony indicated there is not a ratable take in the basin and that to obtain a ratable take we shall have to do it with prorationing."

To explain what he meant by 'ratable take', Spurrier used two adjoining wells in the same pool as examples. If for some reason well No. 1 was producing much more than well No. 2, ratable take would not exist; but all things being equal, the take should be the same.

The idea would be the same as if two hoses were siphoning from the same tub of water and one developed a kink or some kind of obstruction which did not permit it to take out as much as the other. A ratable take would not be present.

Spurrier said no real opposition to prorationing itself developed at the hearing. The testimony boiled down generally to two schools of thought:

1. The formula should allow high production to wells capable of high delivery. El Paso Natural Gas and Pubco Development Co. were principal advocates of this theory.

2. The formula should give more credit to acreage, hold down production allotted the "high deliverability" wells to something like a top of 2½ million cubic feet a day, and thus spread production around to all wells. Phillips Petroleum, Southern Union Gas Co. and nearly all the others liked this formula, Spurrier said.

Experience has shown that high production by some wells has permitted them to pay for themselves to 2½ million cubic feet a day the in five months. If they were held wells' pay-out period would be extended to about a year and a half. The pay-out period for oil wells in southeastern New Mexico generally is regarded as from 1½ to 10 years.

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

December 17, 1954

Stanolind Oil and Gas Company
Box 1410
FORT WORTH, TEXAS

Attention: Mr. Bedford or Mr. Hilts

Gentlemen:

We attach a copy of Oil Conservation Commission Order R-128-C issued under date of December 16, 1954, in Cases 330 and 330-A.

Very truly yours,

W. B. Macey
Secretary - Director

WBM:nr

Encl.

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The first supervised proration of natural gas in the prolific San Juan Basin area will begin on March 1 with proration of gas production in the Blanco-Mesaverde Gas Pool in San Juan and Rio Arriba Counties, the Oil Conservation Commission announced today.

In a special executive session held Thursday morning immediately before the start of the regular Commission hearing, the proration order was signed by Governor Edwin L. Mechem, Commission chairman, Land Commissioner E. S. 'Johnny' Walker, member, and W. B. Macey, secretary and director.

The Blanco-Mesaverde Pool contains approximately 700 gas wells which will now fall under the new proration system, which will be set up in a manner somewhat similar to that used in prorating the great gas pools of Lea County, Macey said.

Other proration orders will be forthcoming within the next two weeks, Macey announced. Those scheduled for such action include pools producing from the Pictured Cliffs formation, which is one of the most productive gas horizons in the Basin area.

The proration formula worked out by Commission engineers will be set up with 75 per cent of production allocated to a well on an acreage-times-deliverability basis, with the remaining 25 per cent allocated on an acreage basis.

Macey said that the Commission considered the advisability of putting a maximum or minimum allowable ~~prorated~~ provision into the order, but due to large fluctuations in market demand, these were deemed inadvisable.

A standard proration unit for the Blanco-Mesaverde Pool will be 320 acres, with deviation from this size possible after special consideration by the Commission.

May 19, 1958

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
Santa Fe, New Mexico

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TRANSCRIPT OF PROCEEDINGS
CASE NO. 330, 330a
Regular Hearing

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
Santa Fe, New Mexico
May 19, 1954

IN THE MATTER OF:

(From April 15) Stanolind Oil and Gas Company's application for the amendment of Order R-110 relating to Blanco-Mesaverde Pool, San Juan and Rio Arriba Counties, New Mexico.

) Cases No's.
) 330
) 330 A
) Consolidated

Application of the Commission on its own motion to consider an order promulgating rules and regulations for the Blanco-Mesaverde Gas Pool, San Juan and Rio Arriba Counties; matters to be considered include gas pool delineation and definition, gas proration, gas well spacing, gas proration units, and related matters.

BEFORE THE FULL COMMISSION

TRANSCRIPT OF PROCEEDINGS

MR. SPURRIER: The meeting will come to order, please. The next case on the docket is Case 330. Mr. Barnes.

MR. BARNES: Mr. Spurrier, before the case 330 is taken up, I have a letter here and an outline of the work that was done by the San Juan Basin operators Committee in regard to the study of proration of gas in the Mesaverde reservoir in the San Juan Basin in Northwestern New Mexico. I would like to present this to the Commission and to read this letter into the record, if I have your permission.

MR. SPURRIER: You may.

MR. SELINGER: Doesn't that apply to both Case 330 and 330-A?

MR. BARNES: I think it would apply to both Cases.

MR. SPURRIER: We have no objection to consolidating those Cases.

MR. TOWNSEND: We would like to have the Commission do so and have the record in Case 330 and 330 A, Consolidated.

MR. SPURRIER: Is there objection, without objection we will consolidate the cases.

MR. BARNES: This letter is dated May 18, 1954, and addressed to Oil Conservation Commission, Santa Fe, New Mexico, "Gentlemen: Enclosed herewith is an outline of the work accomplished by the Engineering Subcommittee of the San Juan Basin Operators Committee in regard to gas proration in the Mesaverde formation of the San Juan Basin of northwestern New Mexico. An executive session of the San Juan Basin Operators Committee, as a whole, was held May 18, 1954. A report of the sub-committee was reviewed, amended and adopted by this committee and is enclosed with this letter.

At the meeting today of the San Juan Basin Operators Committee, there appeared to be a desire of the majority to compromise on a proration formula of 75% deliverability times acreage plus 25% acreage. However, there was a minority present who was not in agreement with this formula.

The San Juan Basin Operators Committee has not taken any stand for or against the proration of natural gas in the Mesaverde reservoir in the San Juan Basin. Any such position will have to be taken by the individual members and any testimony for or against proration would also have to be submitted by the individual members.

Because of the scope of this study, the operators committee hereby recommends that all proration hearings be heard on a separate day and not as a part of the monthly hearings, in order that there will be no interruption or interference with the testimony presented and this date be set not sooner than 30 days from today. This will

also allow more adequate time to combine data, and provide the members an opportunity to prepare additional and more complete data to present to the Commission.

We sincerely hope that the enclosed data will be of assistance to the Commission to consider the problems of proration."

MR. SPURRIER: Does anyone have testimony to present in either Case 330 or 330 A?

MR. TOWNSEND: Mr. Jim Townsend for Stanolind. Stanolind in Case 330 offered testimony some year and a half ago, if the record in Case 330 is made a part of 330 A, that testimony will speak for itself, however, we would like to reserve the right to amend the rules which we suggested at that time to bring them up to date in the light of experience which has been gained in Southeastern New Mexico and in the light of certain operating procedures including testing procedures which we understand have already been established in the Blanco-Mesaverde Pool. With that statement, we have no further evidence to offer in Case 330 at this time and no objection to its continuance, if that maybe the wish of the Commission.

MR. SPURRIER: Mr. Kelleher, do you have a motion?

MR. KELLEHER: Gentlemen of the Commission, I filed a motion asking for a continuance from May 19th to June 19th, if that date would be agreeable to the Commission or approximately that, for the reason we believe that the intervening time will afford all parties in interest an opportunity to correlate their findings and endeavor to reach some formula. We feel there might not be too great an objection upon which the Commission might act with intelligence. Therefore, we join in the request for a deferrment of the actual hearing.

of the Case for a period of 30 days, if that is consistent with the wishes of the Commission.

MR. SPURRIER: Does anyone else have a comment in the Case?

MR. GRIENER: A. S. Griener, Southern Union Gas Company. I would like to suggest that a special meeting be given to this 330 or 330-A that at least two days be allowed for it or that if a one day setting be given that it be at such a time that it can be eventually carried over to the next day. All the indications at the Operators Committee meeting yesterday were that there might be a rather substantial volume of testimony that various interested parties might want to adduce. It seems to me it would be inappropriate to try and pick one day setting and then have to continue it to wind it up. It would be better if we could have a two day setting.

MR. SPURRIER: Anyone else?

MR. ZINN: I am speaking ^{for} King Loe Petroleum he is one small voice crying in the wilderness with three wells concerned. We concur in the recommendations made by Southern Union to give the people interested a couple of days because there is quite a bit to be said.

MR. SPURRIER: Anyone else? We find that on account of the Commissioners being absent and Land Sales and one thing and another we can't set it up that particular week of the 19th, early in the week but we can set it up for the 18th which is on Friday. If necessary go over to, into Saturday, the 19th.

MR. SELINGER: Mr. Spurrier, I wanted to point out that in the resolution, the recommendation was that at least 30 days. It doesn't necessarily have to be exactly 30 days. As a matter of fact, I think that the longer time we operators have, the more apt we are

to present a more fuller hearing. It is a very complex problem and if you can't get it in that week or even in June, I think it would be of sufficient magnitude and help to the operators that it be set over to July. The more time, the more information we will be able to furnish the Commission.

MR. SPURRIER: I don't know if I agree with that or not, Mr. Selinger. We have been stalling around on this Case now for several months. I can say for the Commission right now that based on the information we have at the moment, that it is our present opinion that gas should be prorated in the San Juan Basin.

MR. SELINGER: We agree with you.

MR. SPURRIER: We want to give you all the time that is necessary to get a real record.

MR. SELINGER: We agree with you on the fact that there should be a proration of gas in the San Juan Basin. As a matter of fact, we would like to urge the Commission to put that into effect immediately and use a simple formula until such time as sufficient engineering data to sustain a proper allocation formula.

MR. SPURRIER: I might say that the Commission's staff will be prepared at the next hearing to put on testimony. If it becomes necessary, we can probably do just what you have suggested with the staff's testimony.

MR. SELINGER: I think setting this matter on a Friday, I think would be rather a poor thing because while some have judged it to be a two day hearing, I doubt if it will even be completed in two days. I would urge the Commission to set it at the first of the week and make as much time available as possible during that week.

MR. SPURRIER: All right, the Commission will all be here on the 21st, which is Monday, June 21st. We are agreed that we will continue the Case until June 21st at nine o'clock in this hall.

MR. TOWNSEND: Is it necessary that an order be issued by the Commission, consolidating the Cases so that the record in Case 330 will be a part of the record in Case 330-A?

MR. SPURRIER: I don't think an order is necessary, I think the record should show definitely that these cases are consolidated and that the testimony which we have taken so far in 330 will be incorporated in 330-A.

There is another matter for the record, I think that the Commission realizes what a lot of work this engineering sub-committee of the San Juan Basin Operators has done. We appreciate it. We don't want to give you the wrong idea about our comments on extending the time. We have no intention of extending the time indefinitely. We do appreciate the work that has been done and we want you to know that. The next Case on the docket is Case 696.

STATE OF NEW MEXICO)
 : ss.
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 26th day of May, 1954.


Notary Public, Court Reporter

My Commission expires:
June 19, 1955.