

CASE 1393: Case called by OCC re Malco  
Refineries, Inc. purchaser prorationing.

Case No.

1393

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Application, Transcript,  
Small Exhibits, Etc.

OIL CONSERVATION COMMISSION  
P. O. BOX 871  
SANTA FE, NEW MEXICO

March 4, 1958

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Malco Refineries, Inc.  
P. O. Box 660  
Roswell, New Mexico

Attention: Mr. W. B. McCombs

Re: Purchaser Prorationing

Gentlemen:

Reference is made to your letter of February 27, 1958, wherein you advised the Commission that it would be necessary for Malco Refineries, Inc., to institute purchaser prorationing in the State of New Mexico on March 1, 1958.

It is the position of the Commission that in the event of purchaser prorationing any reduction in purchases should be made proportionately among all proration units to which the purchaser is connected except that no proration unit should have its production reduced below ten barrels of oil per day, provided the unit is capable of producing the same, and that the purchaser should take 100% of the oil legally produced from wells located in an authorized water flood project.

It has been the practice of the Commission to issue an emergency order embodying the provisions set forth above. The entry of such an order is unnecessary however, if the purchaser will agree to make its reduction in purchases in accordance with the above provisions.

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

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Please advise whether Malco Refineries, Inc., intends to make the necessary reductions in purchases of oil in the manner outlined herein.

The Commission has called a show-cause hearing for March 13, 1958 to permit Malco Refineries, Inc., to appear and show cause why it should not be required to purchase 100% of the oil legally produced from the wells from which it purchases in the State of New Mexico. The Commission will expect Malco Refineries, Inc., to present all available evidence as to the factors which necessitate purchaser prorationing at the present time.

Very truly yours,

WILLIAM J. COOLEY,  
General Counsel

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WJC/ir



**MALCO REFINERIES INC.**

P. O. Box 660

ROSWELL, NEW MEXICO

February 27, 1958

CRUDE OIL DEPT.  
W. B. MCCOMBS

New Mexico Oil Conservation Commission  
P. O. Box 871  
Santa Fe, New Mexico

Attention: Mr. A. L. Porter, Jr.

Gentlemen:

We wish to advise that effective March 1, 1958 at 7 A. M. we will institute purchaser's pipeline proration, in accordance with rule # 802 (New Mexico Oil Conservation Rules and Regulations) as to wells located in Chaves and Eddy Counties, New Mexico

This proration is necessary due to excessive inventories and our planned turn around in April.

We plan to buy 75 % of the production from wells which we are purchasing, based on the January, 1958 production.

We would appreciate your issuance of an order effecting the above procedure as soon as possible.

Thank you for your co-operation.

Yours very truly,

Malco Refineries, Inc.  
Crude Oil Department

*W. B. McCombs*  
W. B. Mc Combs

WBMCC/ec

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

March 7, 1958

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Malco Refineries, Inc.  
P. O. Box 660  
Roswell, New Mexico

Attention: Mr. W. B. McCombs, Crude Oil Manager

Gentlemen:

Reference is made to your letter of March 5, 1958, wherein you advised the Commission that your refinery at Artesia, New Mexico had broken down and that you will not be able to purchase any oil until March 20, 1958, other than that produced from water flood projects.

Under the circumstances, the Commission has no objection to your discontinuing the purchase of oil until March 20, 1958, with the exception of those wells which are located within an authorized water flood project. In view of the Commission's finding in recent cases to the effect that waste will occur if the production from water flood projects is curtailed, we must insist that there be no curtailment in purchases from such projects.

Please keep the Commission advised of all new developments in this matter.

Very truly yours,

A. L. PORTER, Jr.,  
Secretary-Director

ALP/WJC/ir



**MALCO REFINERIES INC.**

P. O. Box 660  
ROSWELL, NEW MEXICO

CRUDE OIL DEPT.  
W. B. MCCOMBS

March 5, 1958

New Mexico Oil Conservation Commission  
P. O. Box 871  
Santa Fe, New Mexico

Attention: Mr. A. L. Porter, Jr.

Dear Mr. Porter:

Due to an emergency shut-down of our refinery at Artesia, New Mexico, we will not be able to purchase any oil in the Chaves and Eddy County, New Mexico area until about March 20, 1958 other than oil produced from water flood projects.

When our purchases are resumed, we will only be able to buy approximately thirty per cent of January, 1958 production, for the remainder of the month of March, 1958.

We regret that it has become necessary to reduce our purchases, however, we believe that we will make purchases for the month of April in accordance with the allowable as set by you.

We would appreciate your issuing an emergency order to give effect to the above plan for reducing our crude oil purchases.

Your cooperation will be appreciated.

Yours very truly,

MALCO REFINERIES, INC.

W. B. McCombs  
Crude Oil Manager

WBMCC/rc

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

March 20, 1958

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Mr. Robert Bussian  
Malco Refineries, Inc.  
P.O. Box 660  
Roswell, New Mexico

Dear Mr. Bussian:

We enclose a copy of Order R-1140 issued March 19, 1958, by the Oil Conservation Commission in Case 1393, which was heard on March 13th at Santa Fe.

Very truly yours,

A. L. Porter, Jr.  
Secretary - Director

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Encl.



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF THE STATE OF NEW  
MEXICO FOR THE PURPOSE OF  
CONSIDERING:

CASE NO. 1393  
Order No. R-1140

IN THE MATTER CONCERNING PURCHASER  
PRORATIONING BY MALCO REFINERIES,  
INC., IN CERTAIN OIL POOLS IN CHAVES  
AND EDDY COUNTIES, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on March 13, 1958, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 19<sup>th</sup> day of March, 1958, the Commission, a quorum being present, having considered the evidence adduced and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That on or about March 4, 1958, Malco Refineries, Inc. was forced to shut down its refinery at Artesia, New Mexico, due to mechanical failure of said refinery, and that it will not be possible for Malco Refineries, Inc. to process any oil through said refinery prior to March 20, 1958.

(3) That Malco Refineries, Inc. does not have sufficient storage capacity to permit the purchase of all oil produced from the wells from which it purchases in the State of New Mexico during the breakdown period.

(4) That Malco Refineries, Inc., should be permitted to discontinue the purchase of oil until March 20, 1958, with the exception of those wells which are located in authorized water flood projects.

(5) That the Commission has found that waste may occur if the production from water flood projects is curtailed and that Malco Refineries, Inc., should therefore be required to purchase 100% of the oil produced from wells located within an authorized water flood project.

(6) That Malco Refineries, Inc., expects to have its refinery in Artesia, New Mexico, back in operation by March 20, 1958, and that during the month of March, 1958, Malco Refineries, Inc., will be able to purchase an amount of oil equal to approximately 30% of the January, 1958, production from the wells to which it is connected.

(7) That Malco Refineries, Inc., will be able to purchase 100% of the oil authorized to be produced from the wells to which it is connected effective April 1, 1958, and that Malco Refineries, Inc., should therefore be required to purchase said oil.

IT IS THEREFORE ORDERED:

1. That Malco Refineries, Inc., be and the same is hereby authorized to discontinue the purchase of oil until March 20, 1958, from all oil wells from which it purchases oil in the State of New Mexico with the exception of those wells which are located in authorized water flood projects.

2. That Malco Refineries, Inc., shall purchase 100% of the oil produced from wells located within an authorized water flood project.

3. That on March 20, 1958, Malco Refineries, Inc., shall resume the purchase of oil from all wells to which it is connected, and that the total purchases for the month of March, 1958, from those wells which are not located within an authorized water flood project shall equal approximately 30% of the January, 1958, production from said wells.

4. That Malco Refineries, Inc. shall purchase 100% of the oil authorized to be produced from the wells from which it purchases oil in the State of New Mexico commencing April 1, 1958.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*E. L. Mechem*

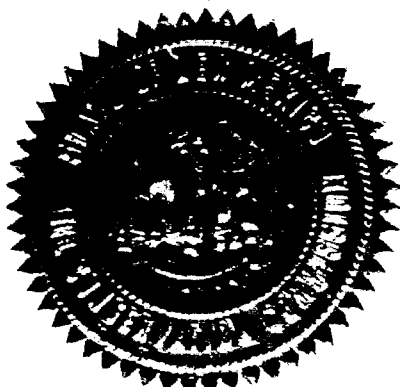
EDWIN L. MECHEM, Chairman

*Murray E. Morgan*

MURRAY E. MORGAN, Member

*A. L. Porter, Jr.*

A. L. PORTER, Jr., Member & Secretary



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BEFORE THE  
OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
March 13, 1958

IN THE MATTER OF: Case No. 1393

TRANSCRIPT OF PROCEEDINGS

DEARNLEY - MEIER & ASSOCIATES  
INCORPORATED  
GENERAL LAW REPORTERS  
ALBUQUERQUE, NEW MEXICO  
3-6691 5-9546

The hearing called by the Oil Conservation Commission of New Mexico, on its own motion, to permit Malco Refineries, Inc. to show cause why it should not be required to purchase 100% of the oil authorized to be produced from the wells from which it purchases oil in the State of New Mexico.

Case 1393

Mr. A. L. Porter, Jr.  
Mr. Murray Morgan  
Governor Edwin L. Mechem

## TRANSCRIPT OF PROCEEDINGS

MR. PORTER: The hearing will come to order, please. The Commission will consider next Case 1393.

MR. COOLEY: Case 1393: In the matter of the hearing called by the Oil Conservation Commission of New Mexico, on its own motion, to permit Malco Refineries, Inc. to show cause why it should not be required to purchase 100% of the oil authorized to be produced from the wells from which it purchases oil in the State of New Mexico.

MR. BUSSIAN: My name is Robert Bussian, and I am an attorney for Malco Refineries. We would like to present Mr. McCombs, our crude oil manager, as a witness.

(Witness sworn.)

DIRECT EXAMINATION

By MR. BUSSIAN:

Q Will you please state your name and position with Malco?

A W. B. McCombs, manager, Crude Oil Department.

Q Why was it necessary for Malco to reduce crude oil?

A Due to excess crude inventories and emergency shutdown of our refinery in Artesia.

Q Exactly what reductions has Malco made and what are their plans?

A On March 5th we discontinued buying all oil except those from wells located in water flood projects until about March 20th, and at that time we will start purchasing, and it is our plan to buy thirty percent of the production, based on January, 1958, production, that's for the month of March.

Q Will Malco resume purchasing the allowable as authorized by this Commission as of April 1st, 1958?

A Yes, that is our plan, except we will not be able to buy legal storage at that time.

Q Will Malco be able to make up any back allowable?

A No.

Q Has Malco attempted to sell any excess crude oil to other purchasers?

A Yes, we have.

Q In some of these questions we are going to refer to various wells and other matters, and these figures which we will give the

Commission will be based on January, 1958, estimates. How many water flood projects does Malco purchase from at this time?

A Four at the present time that they have been injecting water for sometime.

Q How many water flood projects did Malco purchase from a year ago?

A One at that time.

Q What increase does this represent?

A About four or five hundred barrels per day.

Q How many barrels per day of condensate from gas wells does Malco purchase from?

A About two hundred fifty barrels a day.

Q How many wells does Malco purchase from, that is, the total number of wells?

A As of March the 1st we made a survey, we have 1452 wells.

Q How many of these wells are top allowable wells?

A There were 75 of the 1452 top allowable wells.

Q Is this based on actual production of January, 1958?

A That's right, on actual production.

Q Does the lowering of the allowable by the Commission affect Malco purchases in any way?

A Very little.

Q How many of the so-called marginal wells, in other words, wells which do not make their top allowable, does Malco purchase from?

A That would be 1,377.

Q How many wells which produce less than 10 barrels a day does Malco purchase from?

A 1,071.

Q Mr. McCombs, it appears from your testimony that the amount of oil purchased on an average per well basis per day is relatively small?

A In answer to this question we would like to present a written statement, since there are a lot of detailed figures. We have several copies for the Commission and for the reporter.

Q Will you proceed with the statement?

A Malco Refineries, Inc. as of March 1, 1958 was buying crude oil produced from 1,452 wells. These wells are comprised of the following:

- 75 top allowable wells
- 306 marginal wells above 10 barrels per day
- 1,071 marginal wells below 10 barrels per day

For the month of January, 1958 these 1,071 wells producing under 10 barrels per day, averaged 3.25 barrels per day per well. The average for all the wells (1,452) was only 7.87 barrels per day per well.

As an example, we are buying from 302 wells in District A (or the Red Lake & Empire Fields) and only 16 of these wells produce more than 10 barrels per day. The rest of our purchasing areas are similar except the Caprock Queen and Atoka Fields.

The following are the fields and the number of wells

producing above 10 barrels and below 10 barrels per day per well:

District	Fields	No. of Wells Under 10 Bbls Per Day	No. of Wells Under 10 Bbls Per Day	Total Wells
A	Red Lake & Empire	286	16	302
B	Artesia	214	52	266
C	Russell, Getly, Barber & Turkey Track	135	44	179
D	Loco Hills	154	38	192
E	Square Lake & West Henshaw	192	40	232
F	Caprock Queen	20	108	128
G	Atoka	16	54	70
Truck to Refinery	North of Roswell East of Roswell South of Carlsbad	54	29	83
		<u>1,071</u>	<u>381</u>	<u>1,452</u>

Our average purchases for January, 1958 were 11,428 barrels per day.

Q Does the fact that Malco purchases from so many wells that produce less than ten barrels per day upon an average basis have any effect on Malco's purchaser proration?

A Yes, from the previous statement I think it is obvious that we reduce purchases on all wells, rather than the top allowable or the wells above ten barrels per day.

Q On a per well basis is it more efficient to produce from a top allowable than a marginal?

A Yes.

Q Where are the top allowable wells located?

A Caprock Queen and Atoka Fields.

Q Would you like to make any further statement, Mr. McCombs,



in this matter?

A In explaining our purchaser prorationing program, we wanted to go into some of the details we have encountered. Our problems are different than any of the purchasers in the State because of the large number of the marginal wells we purchase from, and that our refinery is the only outlet for this crude.

MR. RUSSIAN: This concludes our presentation.

MR. PORTER: Anyone have a question of Mr. McCombs?

MR. CAMPBELL: I have one question. Jack Campbell, Roswell, appearing on behalf of Ambassador Oil Corporation.

CROSS EXAMINATION

By MR. CAMPBELL:

Q What is the total amount of oil you are purchasing now from all these four water flood projects?

A Around nine hundred barrels per day, nine hundred to a thousand.

Q That is out of your total of 11,400 some barrels?

A Yes.

MR. PORTER: Mr. Nutter.

By MR. NUTTER:

Q Is this refinery breakdown, that resulted -- will you go into the refinery breakdown that results in your curtailment?

A Yes, there is a cooling unit in the catalytic cracking tower that we had some trouble with in February that we had to slow down our runs, and that was the reason we had planned to institute

purchasers proration to get ready for our shutdown and turn-around the 1st of May. Then on the 4th of March this cooling unit broke open and we had to go completely down, and so while we were down they went ahead and did a complete turn-around, so that will do away with the turn-around we planned in May.

Q What about the cooling unit, how many days does it take to repair one of these things, or did you have to buy a new one?

A Well, it would have to be replaced by a new one.

Q Have you got the new one yet?

A Yes.

Q Is it installed?

A The deal was that we would go ahead and turn-around, if we had fixed it now, it would have taken four or five days, and then in May we would have had a fifteen-day turn-around.

Q At which time you would have had to shut down completely?

A No, we could have prorated up to May, through May and June.

Q Would you have had to shut down the refinery's through-put for the turn-around in May one hundred percent?

A Yes.

Q Has the cooling unit been replaced yet?

A I'm sure it has. I am not sure exactly how far along they are on the turn-round. They are supposed to go on sometime next week.

Q Is there any other storage available in Artesia besides Malco's storage tanks?

A There will be Continental Refinery, storage at the refinery.

Q Did you attempt to store any oil in the Continental tanks during the period of crisis?

A No, I didn't call them. I called several other purchasers. They are pretty well full.

Q You didn't inquire if they had capacity for your oil?

A No, I'm sure they wouldn't have had as much storage as we needed for the fifteen days shutdown.

MR. PORTER: Anyone else? Mr. Cooley.

By MR. COOLEY:

Q Would you please explain what will take place on March 20th and the remainder of March a little more clearly?

A At that time we will start purchasing oil, of course, we had to set a basis for prorating, and we will buy thirty percent of the production that the well had made in January. We will take the production figures and take thirty percent of that, and that is the amount of oil we will run for the month of March.

Q How do you arrive at the thirty percent calculation?

A We took our total crude purchases in January, and that will be, that's what we need to run the refinery the remaining ten or eleven days of the month.

Q It will be operating at 100 percent capacity on March 20th and thereafter?

A We hope to.

Q It will be thirty percent of the runs for the entire month

of January?

A Yes.

Q Which would be roughly a third of the runs?

A A third of the runs.

Q For the remaining month of March?

A We will have ten days of running after the 20th, so we'll buy ten days' supply of crude, which will average our 11,500 barrels a day, so approximately that is the way we arrived at it, it will be thirty percent.

Q Your thirty percent figure is, you really won't be prorating after the 20th, will you?

A Well, yes, we will have to prorate.

Q You will be purchasing the daily allowable from then on?

A Yes.

Q But as respects the entire month, it will be only a third of the authorized production for the month?

A That's right.

MR. COOLEY: That's all.

MR. PORTER: In other words, you go back on 100 percent run the 20th?

A We hope to be on by then, the refinery, and at that time we will buy all the oil.

MR. PORTER: Anyone else have a question of Mr. McCombs? The witness may be excused.

(Witness excused.)

MR. PORTER: Does anyone else have any testimony to present? Any statements to make? We will take the case under advisement.

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C E R T I F I C A T E

STATE OF NEW MEXICO     )  
                                  ) SS  
COUNTY OF BERNALILLO    )

I, ADA DEARNLEY, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in stenotype and reduced to typewritten transcript under my personal supervision, and that the same is true and correct to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this *31<sup>st</sup>* day of March, 1958, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

*Ada Dearnley*  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires:  
June 19, 1959.