

Case No.

1273

Application, Transcript,
Small Exhibits, Etc.

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. 1273
Order No. R-1019-A

IN THE MATTER CONCERNING PURCHASER
PRORATIONING BY MAGNOLIA PETROLEUM
COMPANY IN CERTAIN OIL POOLS IN LEA,
EDDY, CHAVES, AND ROOSEVELT COUNTIES,
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on June 28, 1957, and again on October 17, 1957, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 21st day of October, 1957, the Commission, a quorum being present, having considered the evidence adduced at said hearings 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 Magnolia Petroleum Company will, for a period of time, be unable to purchase all oil authorized to be produced from wells from which it purchases in the State of New Mexico.

(3) That Magnolia Petroleum Company should be required to make its reductions in purchases of oil proportionately among all proration units from which it purchases in the State of New Mexico; provided however, that in order to preclude premature abandonment, Magnolia Petroleum Company should be required to make 100% purchases from proration units with daily oil production of 10 barrels or less.

(4) That in order to prevent underground waste, Magnolia Petroleum Company should be required to make 100% purchases from all wells located in a water flood project authorized by the Commission.

IT IS THEREFORE ORDERED:

(1) That Magnolia Petroleum Company shall not, until further order of the Commission, be required to purchase 100% of oil authorized to be produced from all of the wells from which it purchases in the State of New Mexico;

-2-

Case No. 1273

Order No. R-1019-A

PROVIDED HOWEVER, That Magnolia Petroleum Company shall purchase 100% of the authorized production from wells located in an approved water flood project;

PROVIDED FURTHER, That Magnolia Petroleum Company shall purchase 100% of the oil produced from any proration unit producing 10 barrels or less daily;

PROVIDED FURTHER, That Magnolia Petroleum Company shall not reduce its purchases from any proration unit to an amount less than 10 barrels daily, provided the unit is capable of producing same;

PROVIDED FURTHER, That Magnolia Petroleum Company shall make any reduction in purchases of oil proportionately among all other proration units from which it purchases in the State of New Mexico.

(2) That this order shall remain in effect until further order of the Commission.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



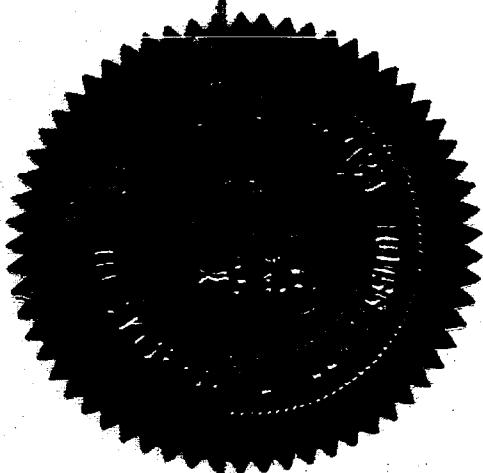
EDWIN L. MECHEM, Chairman



MURRAY E. MORGAN, Member



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



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

October 21, 1957

Mr. Jack Vickrey
Magnolia Petroleum Company
P.O. Box 900
Dallas, Texas

Dear Sir:

We enclose a copy of Order E-1019-A issued October 21, 1957,
by the Oil Conservation Commission in Case 1273, which was heard
on October 17th.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER CONCERNING
PURCHASER PRORATIONING BY
MAGNOLIA PETROLEUM COMPANY
IN CERTAIN OIL POOLS IN LEA,
EDDY, CHAVES AND ROOSEVELT
COUNTIES, NEW MEXICO

CASE NO. 1273

REPLY TO MAGNOLIA PETROLEUM COMPANY
TO SHOW CAUSE ORDER

TO THE HONORABLE COMMISSION:

Now comes Magnolia Petroleum Company, respondent
in the above numbered cause and makes the following reply:

Docket No. 31-57 issued by the Oil Conservation
Commission sets forth matters to be heard October 17, 1957,
including:

"CASE 1273: In the matter of the hearing called
by the Oil Conservation Commission
to permit Magnolia Petroleum Company
to appear and 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
in the State of New Mexico."

Furthermore, by letter dated October 1, 1957,
addressed to Mr. D. R. Wall by Commissioner A. L. Porter,
Jr., this respondent was requested to supply the Commission
with the same information that is requested of Gulf Oil
Corporation in Case No. 1299, Order No. R-1037-A dated
September 24, 1957.

Respondent, Magnolia Petroleum Company, has pro-
rated its purchases in the State of New Mexico in accordance
with state laws and prior orders of this Commission con-
tained in Emergency Order No. A-91(B) and Order No. R-1019,
Case No. 1273, and does not object to supplying this Honor-

able Commission with the information requested by Commissioner Porter in said letter dated October 1, 1957, but respectfully states that the Oil Conservation Commission of New Mexico has no statutory authority to order this respondent to purchase 100%, or any amount, of the oil authorized to be produced from the wells from which respondent purchases in the State of New Mexico. Respondent further states that such an order, if entered, would contravene the Commerce Clause and the due process clause of the U. S. Constitution.

Respectfully submitted,
MAGNOLIA PETROLEUM COMPANY

By Jack Vickrey
Its Attorney

NEW MEXICO HEARING

October 17, 1957

BEFORE THE
OIL COMMISSION
SAY
CASE

Magnolia Petroleum Company was first required to institute purchaser proration during the month of June, 1957. Prior to public announcement, Magnolia notified this Commission of the action to be taken and the reasons therefor. The Commission, on its own motion, entered Emergency Order A-91(B), prescribing the manner in which such purchases should be prorated. After a public hearing held on June 28, 1957, the Emergency Order was continued in effect until such time as Magnolia resumed 100% purchases.

A brief review of the conditions which existed at the time of the public hearing held on June 28, 1957, and the current market conditions which have forced Magnolia to continue purchaser proration follows:

1. On March 19, 1957, Socony Mobil Oil Company's Trenton, Michigan, refinery shut down for 41 days because of a labor strike. Magnolia supplies the total crude requirements of 32,000 barrels daily for this refinery; however, the Company did not prorate its purchases in any state, but instead added the 1,312,000 barrels of crude oil due to this loss of market to its inventory. By June 1, 1957, our actual crude oil inventory had reached 15,869,000 barrels, which is $1\frac{1}{2}$ million barrels in excess of necessary working inventory.

2. On June 9, 1957, Socony Mobil Oil Company's East St. Louis, Illinois, refinery discontinued operations because of a labor strike. Of the total crude requirements of 38,000 barrels daily for this refinery, Magnolia supplies 36,000 barrels daily. Employees started returning to work at this refinery on October 7, 1957; however, because of the four-month

New Mexico Hearing
October 17, 1957
Page 2

shutdown, the plant will return to normal operations gradually. Also, during June, Sohio Petroleum Company discontinued the purchase of 7,000 barrels daily of crude from Magnolia because of labor strikes at their refineries. After their strikes were settled, this purchase of crude was not resumed.

3. During June, Magnolia's Beaumont, Texas, refinery reduced runs by approximately 20,000 barrels daily below May, 1957, because of an oversupply of products. Runs were reduced further at Beaumont during July and August, 1957, reaching a low throughput of approximately 35,000 barrels daily below May, 1957.

4. Due to refinery strikes and a decrease in demand for crude oil at refineries normally supplied by Magnolia, our overall demand for crude each month compared to May, 1957, has decreased as follows:

June below May	40,864 barrels daily	10.51%
July below May	77,990 barrels daily	20.06%
August below May	84,270 barrels daily	21.68%
September below May	74,666 barrels daily	19.21%
October below May	42,204 barrels daily	10.86%

With a surplus crude oil inventory in excess of 1½ million barrels on June 1, 1957 and faced with a decrease in demands as I have just indicated, Magnolia had no alternative but to prorate its purchases equally in all states.

5. During June, July and August, 1957, Magnolia's purchases from all leases, including Magnolia-owned leases, in New Mexico, Texas,

New Mexico Hearing
October 17, 1957
Page 3

Oklahoma and Illinois, were based on 85% of actual May, 1957, purchases, except that in New Mexico we have complied with the Commission's orders and have made 100% purchases from proration units with daily oil production of 10 barrels or less. Magnolia's crude oil inventory continued to increase during this period of proration, and on September 1, 1957, our actual inventory stood at 16,090,000 barrels.

6. Since our September demands were still drastically below normal, it was necessary for us to reduce our purchases an additional 10%. September purchases were based on purchasing 90% of actual August, 1957, purchases from all leases, including Magnolia-owned leases, in New Mexico, Texas, Oklahoma, Louisiana and Illinois. This additional reduction was necessary in order that our surplus crude oil stocks would not increase during September.

7. During October we had an increase in refinery demands and were able to make some spot sales of crude oil to other purchasers. This increase in demand enabled us to restore the 10% cut in purchases which we made in September. Due to decreased allowables in Texas and Louisiana since May, the 10% restoration enabled us to lift proration in these two states.

8. Our estimated purchases from leases in New Mexico during October, 1957, will average 23,457 barrels daily compared to actual purchases of 19,752 barrels daily during May, 1957 - an increase of 3,705 barrels daily, or 18.76%. Magnolia's estimated purchases during October, 1957, will be approximately 9% below normal purchases under the Commission's October allowable order.

New Mexico Hearing
October 17, 1957
Page 4

Magnolia Petroleum Company has been a purchaser of crude oil in New Mexico more than twenty years, and has made every effort to take care of its customers. Our increase in purchases, in spite of proration and an oversupply of crude, will bear this out. The Company regrets the necessity of having to prorate its purchases. However, until such time as our demands for crude oil increase sufficiently to enable us to handle 100% of allowables, we feel that our basis of prorating purchases in all states is fair and equitable.

EXHIBIT "A"

MAGNOLIA PETROLEUM COMPANY
ACTUAL PURCHASES
FROM WELLS IN NEW MEXICO
JANUARY TO SEPTEMBER, 1957

<u>Month</u>	<u>Barrels</u> <u>Daily</u>
January	17,991
February	18,753
March	20,001
April	19,706
May	19,752
June	17,917
July	19,170
August	20,212
September	20,005

DRW:lh

EXHIBIT "B"

MAGNOLIA PETROLEUM COMPANY
NEW MEXICO ORIGIN CRUDE OIL STOCKS
AS REPORTED TO U. S. BUREAU OF MINES
JANUARY - SEPTEMBER, 1957

<u>Date</u>	<u>Barrels</u>
January 6, 1957	28,000
13	34,000
20	90,000
27	36,000
February 3, 1957	32,000
10	29,000
17	26,000
24	28,000
March 3, 1957	53,000
10	47,000
17	34,000
24	31,000
31	38,000
April 7, 1957	49,000
14	62,000
21	34,000
28	45,000
May 5, 1957	37,000
12	38,000
19	52,000
26	63,000
June 2, 1957	44,000
9	31,000
16	31,000
23	32,000
30	36,000
July 7, 1957	29,000
14	37,000
21	30,000
28	31,000
August 4, 1957	33,000
11	45,000
18	61,000
25	43,000
September 1, 1957	27,000
8	39,000
15	35,000
22	34,000

Note: The above reports to the Bureau of Mines represent crude stocks of New Mexico origin identifiable as such, located in the State of New Mexico, in tanks and pipe line facilities, but do not include New Mexico origin crude in commingled stocks.

EXHIBIT "C"

DISPOSITION OF NEW MEXICO
ORIGIN CRUDE OIL
JANUARY - SEPTEMBER, 1957

<u>Month</u>	<u>Total Purchases B/D</u>	<u>Refined in Magnolia or Affiliated Co. Refineries B/D</u>	<u>To Storage B/D</u>
January	17,991	15,318	2,673
February	18,753	14,596	4,157
March	20,001	11,546	8,455
April	19,706	10,938	8,768
May	19,752	12,020	7,732
June	17,917	15,502	2,415
July	19,170	12,562	6,608
August	20,212	13,867	6,345
September	20,005	17,008	2,997

EXHIBIT "D"

AVERAGE CRUDE RUNS FOR WEEK ENDING THURSDAY
MAGNOLIA PETROLEUM COMPANY
BEAUMONT REFINERY

Expressed in Barrels Daily

<u>Date</u> <u>1957</u>	<u>Barrels</u> <u>Daily</u>	<u>New Mexico</u> <u>Crude</u> <u>Processed</u> <u>B/D</u>
January 3	187,387	2,544
January 10	213,529	
January 17	196,015	
January 24	199,655	
January 31	189,077	
February 7	183,099	8,948
February 14	208,252	
February 21	202,830	
February 28	205,251	
March 7	206,270	3,016
March 14	200,020	
March 21	190,474	
March 28	198,265	
April 4	152,297	5,210
April 11	170,692	
April 18	166,327	
April 25	215,613	
May 2	228,101	5,633
May 9	200,807	
May 16	214,467	
May 23	217,883	
May 30	210,108	
June 6	215,076	2,302
June 13	196,694	
June 20	191,904	
June 27	172,592	
July 4	186,241	1,926
July 11	182,491	
July 18	175,961	
July 25	175,786	
August 1	179,117	2,148
August 8	181,665	
August 15	162,866	
August 22	188,485	
August 29	173,049	
September 5	167,360	2,439
September 12	177,757	
September 19	183,084	
September 26	185,332	

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

**IN THE MATTER CONCERNING
PURCHASER PRORATIONING BY
MAGNOLIA PETROLEUM COMPANY,
IN LEA, EDDY, CHAVES AND
ROOSEVELT COUNTIES, NEW
MEXICO, COMMENCING JUNE 12,
1957.**

**EMERGENCY
ORDER A-91 (B)**

NOW, on this 13th day of June, 1957, the Commission, a quorum being present, having considered the necessity for an Emergency Order and being fully advised on the premises;

FINDS:

(1) That commencing June 12, 1957, Magnolia Petroleum Company will, for a period of time, be unable to purchase all oil authorized to be produced from the wells from which it purchases in the State of New Mexico.

(2) That an emergency exists which requires the promulgation of an order without notice and hearing to prescribe the manner in which Magnolia Petroleum Company shall prorate its purchases of oil in the State of New Mexico during the period of purchaser prorationing commencing June 12, 1957.

(3) That Magnolia Petroleum Company should be required to make its reductions in purchases of oil proportionately among all proration units from which it purchases, provided, however, that in order to preclude premature abandonment, Magnolia Petroleum Company should be required to make 100 percent purchases from proration units with daily oil production of 10 barrels or less.

(4) That a Commission hearing should be held on June 28, 1957, to permit all interested persons to appear and show cause why the provisions of this order should not be continued in effect.

IT IS THEREFORE ORDERED:

1. That in the event Magnolia Petroleum Company shall find it necessary to reduce its purchases of oil in the State of New Mexico below the amount legally authorized to be produced from the wells from which it purchases, then Magnolia Petroleum Company shall make the reduction in purchases of oil proportionately among all of said wells.

PROVIDED HOWEVER, That Magnolia Petroleum Company shall not reduce its purchases from any proration unit to an amount less than 10 barrels daily, provided the unit is capable of producing same.

PROVIDED FURTHER, That Magnolia Petroleum Company shall purchase 100 percent of the oil produced from any proration unit producing 10 barrels or less daily.

-2-

Emergency Order A-81 (B)

2. That a Commission hearing be held on June 28, 1937, to permit all interested persons to appear and show cause why the provisions of this order should not be continued in effect.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



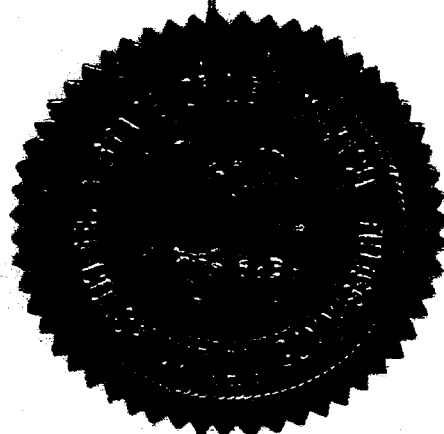
EDWIN L. MECHEM, Chairman



MURRAY E. MORGAN, Member



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



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BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER CONCERNING
PURCHASER PRORATIONING BY
MAGNOLIA PETROLEUM COMPANY
IN CERTAIN OIL POOLS IN LEA,
EDDY, CHAVES AND ROOSEVELT
COUNTIES, NEW MEXICO.

CASE NO. 1273
Order No. R-1019

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 o'clock a.m. on June 28, 1957, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this the 28th day of June, 1957, the Commission, a quorum being present, having considered the evidence adduced at said hearing and being fully advised in the premises,

FINDS:

1. That due notice of the time and place of hearing having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof.
2. That commencing June 13, 1957, Magnolia Petroleum Company will, for a period of time, be unable to purchase all oil authorized to be produced from the wells from which it purchases in the State of New Mexico.
3. That on June 13, 1957, the Commission entered Emergency Order No. A-91 (B) prescribing the manner in which Magnolia Petroleum Company should prorate its purchases of oil in the State of New Mexico during the existence of said emergency order.
4. That Magnolia Petroleum Company should be required to make its reductions in purchases of oil proportionately among all proration units from which it purchases, provided, however, that in order to preclude premature abandonment, Magnolia Petroleum Company should be required to make 100 percent purchases from proration units with daily oil production of 10 barrels or less.

IT IS THEREFORE ORDERED:

- (1) That in the event Magnolia Petroleum Company finds it necessary to reduce its purchases of oil in the State of New Mexico below the amount legally authorized to be produced from the wells from which it purchases during the effective period of this order, then Magnolia Petroleum Company shall make the reductions in purchases of oil proportionately among all of said wells.

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Case No. 1273
Order No. R-1019

PROVIDED HOWEVER, That Magnolia Petroleum Company shall not reduce its purchases from any proration unit to an amount less than 10 barrels daily, provided the unit is capable of producing same.

PROVIDED FURTHER, That Magnolia Petroleum Company shall purchase 100 percent of the oil produced from any proration unit producing 10 barrels or less daily.

(2) The provisions of this order are effective on June 28, 1937, and will remain in effect until such time as Magnolia Petroleum Company resumes 100 percent purchases of all oil legally produced from its lease connections in the State of New Mexico.

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

M. E. Morgan

MURRAY E. MORGAN, Member

A. L. Porter, Jr.

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



ga/

DEARNLEY-MEIER AND ASSOCIATES
INCORPORATED

605 SIMMS BUILDING
ALBUQUERQUE, NEW MEXICO
Telephone 3-6891



106 BOKUM BUILDING
SANTA FE, NEW MEXICO
Telephone 2-1859

July 1, 1957

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

Dear Bobby:

I failed to get from Jack Cooley the documents from which he read at the hearing last Friday, one was a letter and the other was I believe an emergency order.

Would you be so kind as to send them to me immediately.

Very truly yours,

Ada

*Letter from Magnolia
dtd: 6-13-57 to operators
Porter & Miller sent
attached to letter 7-2-57 BP*

AD:sm

*Case
file*



MAGNOLIA PETROLEUM COMPANY

A SOCONY MOBIL COMPANY

P. O. BOX 900
DALLAS 21, TEXAS

CRUDE OIL PURCHASES AND SALES

D. R. WALL, JR.
MANAGER

J. E. MCHALE
ASSISTANT MANAGER

June 13, 1957

*copy
mailed
docket
6/19/57
BR*

Hon. A. L. Porter
New Mexico Oil Conservation Commission
P. O. Box 871
Santa Fe, New Mexico

Dear Mr. Porter:

Confirming our telephone conversation of June 12, 1957, it will be necessary for Magnolia Petroleum Company to reduce its purchase of crude oil in the State of New Mexico during the month of June, 1957 and thereafter, until further notice, by fifteen per cent (15%).

As I explained to you, this reduction is necessary because of our excessive inventory and the recent refinery strikes and refinery cutbacks.

We are enclosing a copy of the notice to all producers from whom we purchase, advising them of this reduction.

We are sorry that this action is necessary, and hope that the strikes will be settled before long so that we will be able to return to a normal purchasing schedule.

Very truly yours,

D. R. Wall, Jr.

DRW:lh
encl.



MAGNOLIA PETROLEUM COMPANY

A SOCONY MOBIL COMPANY

CRUDE OIL PURCHASES AND SALES

P.O. BOX 900
DALLAS 21, TEXAS

D. R. WALL, JR.
MANAGER

J. E. MCMALE
ASSISTANT MANAGER

June 12, 1957

TO PRODUCERS IN
TEXAS, OKLAHOMA, NEW MEXICO AND ILLINOIS:

Due to recent refinery cutbacks and strikes which shut down refineries normally supplied by Magnolia Petroleum Company, it is necessary for Magnolia to reduce its purchase of crude oil by fifteen per cent (15%) from all leases, including Magnolia-owned leases, in Texas, Oklahoma, New Mexico and Illinois. This reduction is effective during June, 1957, and thereafter until further notice, and will be based on purchasing eighty-five per cent (85%) of actual May, 1957 purchases.

The Company greatly regrets having to take this action and hopes for an early return to its normal purchasing schedule.

MAGNOLIA PETROLEUM COMPANY

By D. R. Wall, Jr.
Manager, Crude Oil
Purchases and Sales

DRW:lh

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

October 1, 1957

C
O
P
Y

Mr. D. R. Wall
Magnolia Petroleum Company
P.O. Box 900
Dallas 21, Texas

Dear Sir:

We are enclosing a copy of our docket for the October 17th Regular Commission hearing. Please note that Case 1273 has to do with the Magnolia purchaser prorationing.

We are enclosing a copy of Commission Order R-1037-A concerning Gulf prorationing and are requesting that Magnolia supply us with the same information that is requested of Gulf in this order.

Yours very truly,

A. L. Porter, Jr.
Secretary - Director

ALP:bp
Encls.

DOCKET: REGULAR HEARING OCTOBER 17, 1957

Oil Conservation Commission 9 a.m., Mabry Hall, State Capitol, Santa Fe, NM

- ALLOWABLE: (1) Consideration of the oil allowable for November, 1957.
- (2) Consideration of the allowable production of gas for November, 1957, from the six prorated pools in Lea County, New Mexico; also consideration of the allowable production of gas from the six prorated pools in San Juan and Rio Arriba Counties, New Mexico, for November, 1957.

NEW CASES

- CASE 1273: In the matter of the hearing called by the Oil Conservation Commission to permit Magnolia Petroleum Company to appear and 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 in the State of New Mexico.
- CASE 1299: In the matter of the hearing ordered by Paragraph (2) of Order R-1037-A to permit Gulf Oil Corporation to appear and 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 in the State of New Mexico.
- CASE 1323: Application of the Oil Conservation Commission upon its own motion for an order revising Rule 803 of the Commission Rules and Regulations. Applicant, in the above-styled cause, seeks an order revising Rule 803 of the Commission Rules and Regulations concerning the authorization of liquid hydrocarbon production from gas wells and to eliminate the necessity of individually listing each of said wells on the oil proration schedule.
- CASE 1324: Application of Graridge Corporation for an order authorizing capacity production for its pilot water flood project in the Caprock-Queen Pool, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order authorizing capacity production of all its wells in its pilot water flood project authorized by Order R-972 in Section 31, Township 12 South, Range 32 East, Caprock-Queen Pool, Lea County, New Mexico.
- CASE 1325: Application of Amerada Petroleum Corporation for an order amending Order R-991 insofar as said order pertains to the Bagley-Upper Pennsylvanian Gas Pool in Lea County, New Mexico, to extend the horizontal limits of said pool, and to provide for standard drilling units of 320 acres. Applicant, in the above-styled cause, seeks an order extending the Bagley-Upper Pennsylvanian Gas Pool to include the W/2 SW/4 of Section 2; N/2, SE/4 and N/2 SW/4 of Section 3; N/2 and N/2 SE/4 of Section 4, all in Township 12 South, Range 33 East; the S/2 and S/2 N/2 of Section 33; S/2 and S/2 N/2 of Section 34, all in Township 11 South, Range 33 East, Lea County, New Mexico. Applicant further requests the establishment of 320-acre spacing and drilling units in the Bagley-Upper Pennsylvanian Gas Pool and

such other rules and regulations as the Commission may deem necessary for the purposes herein stated.

CASE 1326: Application of Southern California Production Corporation for an order promulgating special pool rules for the Teas Pool in the Potash-Oil Area in Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order promulgating special pool rules for the Teas Pool in the Potash-Oil Area in Lea County, New Mexico, to provide a casing program for wells drilled in said pool in lieu of the Shallow-zone Casing Requirements set forth in Order R-111-A.

CASE 1327: Application of Texas Pacific Coal and Oil Company for an order immediately terminating gas prorationing in the Jalmat Gas Pool; or in the alternative, revising the Special Pool Rules for the Jalmat Gas Pool in Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order immediately terminating gas prorationing in the Jalmat Gas Pool, or in the alternative, an order immediately cancelling all accumulated underproduction and redistributing such underproduction to overproduced wells in the Jalmat Gas Pool, and requiring gas purchasers to nominate a sufficient amount of gas from the pool to permit wells from which purchasers are able to take gas to have an allowable equal to their actual production, and upon this basis to thereafter balance the pool production at the end of each proration period, and establishing deliverability of gas wells as a factor in the proration formula for the pool, and establishing a maximum amount of gas which may be taken from any well in the pool during a specified period of time. Applicant further requests the Commission to issue such further order or orders as will bring the pool immediately into balance and maintain such balance without waste and without abuse of applicant's or others' correlative rights.

CASE 1328: Southeastern New Mexico nomenclature case calling for an order for the abolishment, deletion and extension of existing pools in Lea, Chaves, and Eddy Counties, New Mexico.

(a) Abolish the Premier Pool described as:

TOWNSHIP 17 SOUTH, RANGE 30 EAST

Section 22: S/2

Section 23: S/2 & SW/4 NW/4

Section 24: S/2

All of Sections 25, 26, 27, 28, 33, 34, 35 & 36

TOWNSHIP 17 SOUTH, RANGE 31 EAST

Section 19: S/2

Section 20: S/2

All of Sections 29 & 30

Section 31: N/2

- (b) Delete portions of the Square Lake Pool described as:

TOWNSHIP 17 SOUTH, RANGE 31 EAST

Section 3: NW/4
Section 4: N/2
Section 5: N/2
Section 6: N/2

- (c) Extend the Grayburg-Jackson Pool to include:

TOWNSHIP 17 SOUTH, RANGE 30 EAST

Section 22: S/2
Section 23: S/2
Section 24: S/2
All of Sections 25, 26, 27, 28, 33, 34, 35 & 36

TOWNSHIP 17 SOUTH, RANGE 31 EAST

Section 3: NW/4
Section 4: N/2
Section 5: N/2
Section 6: N/2
Section 19: S/2
Section 20: S/2
All of Sections 29 & 30
Section 31: N/2

- (d) Extend the East Anderson Ranch-Pennsylvanian Pool to include:

TOWNSHIP 16 SOUTH, RANGE 33 EAST

Section 3: Lots 15 & 16, S/2
Section 4: E/2 SE/4

- (e) Extend the Artesia Pool to include:

TOWNSHIP 18 SOUTH, RANGE 27 EAST

Section 26: NW/4

- (f) Extend the Atoka-Grayburg Pool to include:

TOWNSHIP 18 SOUTH, RANGE 26 EAST

Section 12: S/2

TOWNSHIP 18 SOUTH, RANGE 27 EAST

Section 7: SW/4

- (g) Extend the Blinebry Gas Pool to include:

TOWNSHIP 22 SOUTH, RANGE 37 EAST

Section 16: SE/4

- (h) Extend the Caprock-Queen Pool to include:

TOWNSHIP 13 SOUTH, RANGE 32 EAST

Section 30: SE/4

TOWNSHIP 14 SOUTH, RANGE 31 EAST
Section 17: NE/4 SW/4

- (i) Extend the Caudill-Wolfcamp Pool to include:

TOWNSHIP 15 SOUTH, RANGE 36 EAST
Section 9: SE/4
Section 16: E/2

- (j) Extend the Cave Pool to include:

TOWNSHIP 16 SOUTH, RANGE 29 EAST
Section 31: S/2 S/2
Section 33: S/2 & NE/4

TOWNSHIP 17 SOUTH, RANGE 28 EAST
Section 1: NE/4

TOWNSHIP 17 SOUTH, RANGE 29 EAST
Section 6: N/2

- (k) Extend the Dayton-San Andres Pool to include:

TOWNSHIP 18 SOUTH, RANGE 26 EAST
Section 27: SE/4 SE/4
Section 34: E/2 NE/4
Section 35: NW/4

- (l) Extend the Four Lakes-Pennsylvanian Pool to include:

TOWNSHIP 12 SOUTH, RANGE 34 EAST
Section 2: NW/4

- (m) Extend the Gladiola Pool to include:

TOWNSHIP 12 SOUTH, RANGE 37 EAST
Section 13: NE/4

- (n) Extend the Gladiola Wolfcamp Pool to include:

TOWNSHIP 12 SOUTH, RANGE 37 EAST
Section 27: E/2

- (o) Extend the Grayburg-Keely Pool to include:

TOWNSHIP 17 SOUTH, RANGE 29 EAST
Section 14: S/2 SW/4

- (p) Extend the King-Devonian Pool to include:

TOWNSHIP 13 SOUTH, RANGE 37 EAST
Section 26: S/2 SE/4

- (q) Extend the North Mason-Delaware Pool to include:

TOWNSHIP 26 SOUTH, RANGE 32 EAST
Section 18: S/2

- (r) Extend the Square Lake Pool to include:

TOWNSHIP 16 SOUTH, RANGE 30 EAST
Section 29: NE/4

- (s) Extend the Teague-Grayburg Pool to include:

TOWNSHIP 23 SOUTH, RANGE 37 EAST
Section 21: SW/4

- (t) Extend the Young Pool to include:

TOWNSHIP 18 SOUTH, RANGE 32 EAST
Section 20: S/2 S/2

CASE 1329: Northwestern New Mexico nomenclature case calling for an order creating a new pool and extending the vertical and horizontal limits of existing pools in San Juan and Rio Arriba Counties, New Mexico.

- (a) Create a new oil pool for Gallup production, designated as the Horseshoe-Gallup Oil Pool, and described as:

TOWNSHIP 30 NORTH, RANGE 16 WEST
Section 3: W/2 W/2
Section 4: E/2 and SE/4 NW/4
Section 9: W/2 NE/4, NE/4 NE/4, E/2 SW/4
and NW/4 SE/4

- (b) Extend the vertical limits of the Otero-Graneros Pool to include the Dakota formation and change the name of said pool accordingly to the Otero Graneros-Dakota Pool.

- (c) Extend the horizontal limits of the Otero Graneros-Dakota Pool to include:

TOWNSHIP 25 NORTH, RANGE 5 WEST
Section 25: SW/4
Section 27: S/2

- (d) Extend the Aztec-Pictured Cliffs Pool to include:

TOWNSHIP 28 NORTH, RANGE 9 WEST
All of Sections 23 & 27

- (e) Extend the Tapacite-Pictured Cliffs Pool to include:

TOWNSHIP 25 NORTH, RANGE 3 WEST
Section 10: N/2
Section 11: W/2

TOWNSHIP 26 NORTH, RANGE 3 WEST
Section 28: E/2

TOWNSHIP 27 NORTH, RANGE 5 WEST
Section 26: S/2

(f) Extend the South Blanco-Pictured Cliffs Pool to include:

TOWNSHIP 24 NORTH, RANGE 2 WEST
Section 20: All
Section 21: S/2

TOWNSHIP 25 NORTH, RANGE 3 WEST
All of Sections 28 & 29
Section 32: N/2
Section 33: N/2

TOWNSHIP 25 NORTH, RANGE 5 WEST
Section 34: N/2

TOWNSHIP 28 NORTH, RANGE 9 WEST
Section 26: All
Section 34: N/2

(g) Extend the Otero-Chacra Pool to include:

TOWNSHIP 25 NORTH, RANGE 5 WEST
Section 18: All
Section 34: N/2

(h) Extend the Bisti-Lower Gallup Oil Pool to include:

TOWNSHIP 25 NORTH, RANGE 11 WEST
Section 24: SW/4

TOWNSHIP 26 NORTH, RANGE 13 WEST
Section 20: SE/4

(i) Extend the Verde-Lower Gallup Oil Pool to include:

TOWNSHIP 31 NORTH, RANGE 15 WEST
Section 31: NE/4

CASE 1330: Application of Northwest Production Corporation for an order for the extension of the South Blanco-Pictured Cliffs Pool in Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order extending the South Blanco-Pictured Cliffs Pool to include the following area:

TOWNSHIP 25 NORTH, RANGE 4 WEST
All of Sections 5 & 6
Section 7: E/2
All of Section 8

-7-
No. 31-57

TOWNSHIP 26 NORTH, RANGE 4 WEST
All of Sections 29, 30, 31 & 32

CONTINUED CASE

CASE 1292: Application of John H. Trigg for an order authorizing a pilot program for the injection of gas into the Caprock-Queen Pool, Chaves County, New Mexico, for purposes of pressure maintenance, and further, authorizing the transfer of allowables for the injection well to other wells on the same basic lease, and further, to exempt certain of his wells from gas-oil ratio penalties. Applicant, in the above-styled cause, seeks an order authorizing the injection of gas into the Caprock-Queen Pool through his Federal Trigg No. 10-9 Well located in the NW/4 SE/4 of Section 9, Township 14 South, Range 31 East, Chaves County, New Mexico. Applicant further requests that the allowables assigned to the injection well be transferred to another well or wells on the same basic lease, and further, that during the period of the pilot program all wells in Section 9, which are on the same lease as the injection well, be exempt from gas-oil ratio penalties.

ir/

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Magnolia EXHIBIT No. 1
CASE 1273

NEW MEXICO HEARING

October 17, 1957

*Statement
of
Magnolia
1273*

Magnolia Petroleum Company was first required to institute purchaser proration during the month of June, 1957. Prior to public announcement, Magnolia notified this Commission of the action to be taken and the reasons therefor. The Commission, on its own motion, entered Emergency Order A-91(B), prescribing the manner in which such purchases should be prorated. After a public hearing held on June 28, 1957, the Emergency Order was continued in effect until such time as Magnolia resumed 100% purchases.

A brief review of the conditions which existed at the time of the public hearing held on June 28, 1957, and the current market conditions which have forced Magnolia to continue purchaser proration follows:

1. On March 19, 1957, Socony Mobil Oil Company's Trenton, Michigan, refinery shut down for 41 days because of a labor strike. Magnolia supplies the total crude requirements of 32,000 barrels daily for this refinery; however, the Company did not prorate its purchases in any state, but instead added the 1,312,000 barrels of crude oil due to this loss of market to its inventory. By June 1, 1957, our actual crude oil inventory had reached 15,869,000 barrels, which is $1\frac{1}{2}$ million barrels in excess of necessary working inventory.

2. On June 9, 1957, Socony Mobil Oil Company's East St. Louis, Illinois, refinery discontinued operations because of a labor strike. Of the total crude requirements of 38,000 barrels daily for this refinery, Magnolia supplies 36,000 barrels daily. Employees started returning to work at this refinery on October 7, 1957; however, because of the four-month

New Mexico Hearing
October 17, 1957
Page 2

shutdown, the plant will return to normal operations gradually. Also, during June, Sohio Petroleum Company discontinued the purchase of 7,000 barrels daily of crude from Magnolia because of labor strikes at their refineries. After their strikes were settled, this purchase of crude was not resumed.

3. During June, Magnolia's Beaumont, Texas, refinery reduced runs by approximately 20,000 barrels daily below May, 1957, because of an oversupply of products. Runs were reduced further at Beaumont during July and August, 1957, reaching a low throughput of approximately 35,000 barrels daily below May, 1957.

4. Due to refinery strikes and a decrease in demand for crude oil at refineries normally supplied by Magnolia, our overall demand for crude each month compared to May, 1957, has decreased as follows:

June below May	40,864 barrels daily	10.51%
July below May	77,990 barrels daily	20.06%
August below May	84,270 barrels daily	21.68%
September below May	74,666 barrels daily	19.21%
October below May	42,204 barrels daily	10.86%

With a surplus crude oil inventory in excess of $1\frac{1}{2}$ million barrels on June 1, 1957 and faced with a decrease in demands as I have just indicated, Magnolia had no alternative but to prorate its purchases equally in all states.

5. During June, July and August, 1957, Magnolia's purchases from all leases, including Magnolia-owned leases, in New Mexico, Texas,

New Mexico Hearing
October 17, 1957
Page 3

Oklahoma and Illinois, were based on 85% of actual May, 1957, purchases, except that in New Mexico we have complied with the Commission's orders and have made 100% purchases from proration units with daily oil production of 10 barrels or less. Magnolia's crude oil inventory continued to increase during this period of proration, and on September 1, 1957, our actual inventory stood at 16,090,000 barrels.

6. Since our September demands were still drastically below normal, it was necessary for us to reduce our purchases an additional 10%. September purchases were based on purchasing 90% of actual August, 1957, purchases from all leases, including Magnolia-owned leases, in New Mexico, Texas, Oklahoma, Louisiana and Illinois. This additional reduction was necessary in order that our surplus crude oil stocks would not increase during September.

7. During October we had an increase in refinery demands and were able to make some spot sales of crude oil to other purchasers. This increase in demand enabled us to restore the 10% cut in purchases which we made in September. Due to decreased allowables in Texas and Louisiana since May, the 10% restoration enabled us to lift proration in these two states.

8. Our estimated purchases from leases in New Mexico during October, 1957, will average 23,457 barrels daily compared to actual purchases of 19,752 barrels daily during May, 1957 - an increase of 3,705 barrels daily, or 18.76%. Magnolia's estimated purchases during October, 1957, will be approximately 9% below normal purchases under the Commission's October allowable order.

New Mexico Hearing
October 17, 1957
Page 4

Magnolia Petroleum Company has been a purchaser of crude oil in New Mexico more than twenty years, and has made every effort to take care of its customers. Our increase in purchases, in spite of proration and an oversupply of crude, will bear this out. The Company regrets the necessity of having to prorate its purchases. However, until such time as our demands for crude oil increase sufficiently to enable us to handle 100% of allowables, we feel that our basis of prorating purchases in all states is fair and equitable.

EXHIBIT "A"

MAGNOLIA PETROLEUM COMPANY
ACTUAL PURCHASES
FROM WELLS IN NEW MEXICO
JANUARY TO SEPTEMBER, 1957

<u>Month</u>	<u>Barrels Daily</u>
January	17,991
February	18,753
March	20,001
April	19,706
May	19,752
June	17,917
July	19,170
August	20,212
September	20,005

DRW:lh

EXHIBIT "B"

MAGNOLIA PETROLEUM COMPANY
NEW MEXICO ORIGIN CRUDE OIL STOCKS
AS REPORTED TO U. S. BUREAU OF MINES
JANUARY - SEPTEMBER, 1957

<u>Date</u>	<u>Barrels</u>
January 6, 1957	28,000
13	34,000
20	90,000
27	36,000
February 3, 1957	32,000
10	29,000
17	26,000
24	28,000
March 3, 1957	53,000
10	47,000
17	34,000
24	31,000
31	38,000
April 7, 1957	49,000
14	62,000
21	34,000
28	45,000
May 5, 1957	37,000
12	38,000
19	52,000
26	63,000
June 2, 1957	44,000
9	31,000
16	31,000
23	32,000
30	36,000
July 7, 1957	29,000
14	37,000
21	30,000
28	31,000
August 4, 1957	33,000
11	45,000
18	61,000
25	43,000
September 1, 1957	27,000
8	39,000
15	35,000
22	34,000

Note: The above reports to the Bureau of Mines represent crude stocks of New Mexico origin identifiable as such, located in the State of New Mexico, in tanks and pipe line facilities, but do not include New Mexico origin crude in commingled stocks.

EXHIBIT "C"

DISPOSITION OF NEW MEXICO
CRUDE OIL
JANUARY - SEPTEMBER, 1957

<u>Month</u>	<u>Total Purchases B/D</u>	<u>Refined in Magnolia or Affiliated Co. Refineries B/D</u>	<u>To Storage B/D</u>
January	17,991	15,318	2,673
February	18,753	14,596	4,157
March	20,001	11,546	8,455
April	19,706	10,938	8,768
May	19,752	12,020	7,732
June	17,917	15,502	2,415
July	19,170	12,562	6,608
August	20,212	13,867	6,345
September	20,005	17,008	2,997

EXHIBIT "D"

AVERAGE CRUDE RUNS FOR WEEK ENDING THURSDAY
MAGNOLIA PETROLEUM COMPANY
BEAUMONT REFINERY

Expressed in Barrels Daily

<u>Date</u> <u>1957</u>	<u>Barrels</u> <u>Daily</u>	<u>New Mexico</u> <u>Crude</u> <u>Processed</u> <u>B/D</u>
January 3	187,387	2,544
January 10	213,529	
January 17	196,015	
January 24	199,655	
January 31	189,077	
February 7	183,099	8,948
February 14	208,252	
February 21	202,830	
February 28	205,251	
March 7	206,270	3,016
March 14	200,020	
March 21	190,474	
March 28	198,265	
April 4	152,297	5,210
April 11	170,692	
April 18	166,327	
April 25	215,613	
May 2	228,101	5,633
May 9	200,807	
May 16	214,467	
May 23	217,883	
May 30	210,108	
June 6	215,076	2,302
June 13	196,694	
June 20	191,904	
June 27	172,592	
July 4	186,241	1,926
July 11	182,491	
July 18	175,961	
July 25	175,786	
August 1	179,117	2,148
August 8	181,665	
August 15	162,866	
August 22	188,485	
August 29	173,049	
September 5	167,360	2,439
September 12	177,757	
September 19	183,084	
September 26	185,332	

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

June 14, 1957

C
O
P
Y

Magnolia Petroleum Company
Box 900
Dallas, Texas

ATTENTION: Mr. Wall

Gentlemen:

We enclose a copy of Emergency Order A-91 (B) issued June 13, 1957, by the Oil Conservation Commission.

As per your telephone request this date, we also enclose copies of Emergency Orders A-70 (A), A-70 (B) and A-71 (A).

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encls.

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

June 12, 1957

MEMORANDUM

TO: Governor Machen & Commissioner Morgan
FROM: A. L. Porter, Jr.

Mr. Wall of Magnolia Petroleum Company called me from Dallas at 2:15 p.m. today advising that it would be necessary for Magnolia to reduce crude oil purchases in the states of New Mexico, Oklahoma, Texas and Illinois by 15% for the entire month of June. He further advised that this action had become necessary due to the shut-down of several refineries on account of labor troubles to which they supplied crude oil. The total reduction in their takes from the states mentioned will be 58,000 barrels daily. The reduction in New Mexico takes would amount to approximately 2940 barrels daily.

I instructed Mr. Wall that no reduction could be made in the takes from wells producing 10 barrels or less daily and that they should make no reductions from wells located in water flood projects. However, I do not believe that they are purchasing from any water flood projects in New Mexico. I further advised Mr. Wall that his company might be required to make the entire reduction in takes from top allowable wells, and if so, an emergency order would be issued making that requirement. We will immediately review the pools from which Magnolia is purchasing oil to determine whether or not the reduction can be taken from top allowable wells.

ALP:bp

DOCKET: SPECIAL COMMISSION HEARING JUNE 28, 1957

Oil Conservation Commission 9 a.m., Mabry Hall, State Capitol, Santa Fe, NM.

CASE 1273: Application of the Oil Conservation Commission of New Mexico upon its own motion for an order concerning purchaser prorationing by Magnolia Petroleum Company commencing June 12, 1957. Applicant, in the above-styled cause, seeks an order prescribing the manner in which Magnolia Petroleum Company shall prorate its purchases of oil in the State of New Mexico during the period of purchaser prorationing commencing June 12, 1957. The applicant proposes to require Magnolia Petroleum Company to effect its reduction of oil purchases in substantially the same manner as set forth in Emergency Order No. A-91 (B) dated June 13, 1957.

EXAMINER HEARING July 2, 1957

Oil Conservation Commission 9:00 a.m., Mabry Hall, State Capitol, Santa Fe

The following case will be heard before Daniel S. Nutter, Examiner:

CASE 1274: Application of Southern California Petroleum Corporation for an exception from the shallow-zone casing requirements in the Potash-Oil Area as established by Order R-111-A. Applicant, in the above-styled cause, seeks an order authorizing the following casing program in lieu of the shallow-zone casing requirements established by Order R-111-A for its proposed well to be drilled at a point 1980 feet from the North and East lines of Section 13, Township 20 South, Range 33 East, in the Teas Pool, Lea County, New Mexico:

13 3/8-inch casing in the top of the Red Beds at about 60 feet.

8 5/8-inch or 10 3/4-inch casing at approximately 1,000 feet, but in any event below the water.

5 1/2-inch casing at approximately 3,200 feet in the top of the Yates formation.

In the event production is encountered, applicant proposes to pull all casing except the production string and to cement the production casing to the surface.

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

June 28, 1957

C
O
P
Y

Mr. Jack M. Campbell
Campbell & Russell
P.O. Box 721
Roswell, New Mexico

Dear Mr. Campbell:

We enclose a copy of Order R-1019 issued June 28, 1957, by the
Oil Conservation Commission in Case 1273, which was heard on June 28th.

Very truly yours,

A. L. Porter, Jr.
Secretary - Director

bp
Encl.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 28, 1957

TRANSCRIPT OF HEARING

Case 1273

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTA FE
3-6691 2-2211

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
June 28, 1957

REGISTER

NAME:	REPRESENTING:	LOCATION:
D. R. Wall, Jr.	Magnolia Petroleum Co.	Dallas, Texas
Jack Vickrey	Magnolia Petroleum Co.	Dallas, Texas
W. S. Richardson	Magnolia Petroleum Co.	Dallas, Texas
Nancy Royal	N. M. Statehouse Reporting Service	Santa Fe, N. M.
Warren Mankin	N. M. O. C. C.	Santa Fe, N. M.
Jack M. Campbell	Campbell & Russell	Roswell, N. M.
Wm. J. Cooley	N. M. O. C. C.	Santa Fe, N. M.
E. A. Utz	N. M. O. C. C.	Santa Fe, N. M.

-----)
IN THE MATTER OF:)

Application of the Oil Conservation Commission)
of New Mexico upon its own motion for an order)
concerning purchaser prorationing by Magnolia)
Petroleum Company commencing June 12, 1957.)
Applicant, in the above-styled cause, seeks an)
order prescribing the manner in which Magnolia)
Petroleum Company shall prorate its purchases)
of oil in the State of New Mexico during the)
period of purchaser prorationing commencing)
June 12, 1957. The applicant proposes to re-)
quire Magnolia Petroleum Company to effect its)
reduction of oil purchases in substantially)
the same manner as set forth in Emergency)
Order No. A-91 (B) dated June 13, 1957.)
-----)

Case No.
1273

BEFORE:

Honorable Edwin L. Mechem
Mr. A. L. Porter

TRANSCRIPT OF HEARING

MR. PORTER: The meeting will come to order, please.

The case to be considered this morning is Case 1273.

MR. COOLEY: Application of the Oil Conservation Commission of New Mexico upon its own motion for an order concerning purchaser prorationing by Magnolia Petroleum Company commencing June 12, 1957.

On June 13, 1957, the Oil Conservation Commission received a letter from Magnolia Petroleum Company which reads as follows: "Confirming our telephone conversation of June 12, 1957, it will be necessary for Magnolia Petroleum Company to reduce its purchase of crude oil in the State of New Mexico during the month of June, 1957 and thereafter, until further notice, by fifteen per cent (15%).

As I explained to you, this reduction is necessary because of our excessive inventory and the recent refinery strikes and refinery cutbacks.

We are enclosing a copy of the notice to all producers from whom we purchase, advising them of this reduction.

We are sorry that this action is necessary, and hope that the

strikes will be settled before long so that we will be able to return to a normal purchasing schedule."

"TO PRODUCERS IN
TEXAS, OKLAHOMA, NEW MEXICO AND ILLINOIS:

Due to recent refinery cutbacks and strikes which shut down refineries normally supplied by Magnolia Petroleum Company, it is necessary for Magnolia to reduce its purchase of crude oil by fifteen per cent (15%) from all leases, including Magnolia-owned leases, in Texas, Oklahoma, New Mexico and Illinois. This reduction is effective during June, 1957, and thereafter until further notice, and will be based on purchasing eighty-five per cent (85%) of actual May, 1957 purchases.

The Company greatly regrets having to take this action and hopes for an early return to its normal purchasing schedule."

MR. PORTER: Is Magnolia ready to proceed in this case?

MR. VICKREY: Yes, sir. My name is Jack Vickrey, Post Office Box 900, Dallas, Texas, attorney for Magnolia.

Magnolia is complying with the Emergency Order A-91 (B) and does not object to the Commission continuing the order in effect during the time Magnolia is forced to prorate its purchases. Mr. D. R. Wall, Manager of the Crude Oil Purchases and Sales Department is here to answer any questions the Commission might have.

Mr. Wall, would you take the stand, please? Would you like

to swear the witness?

(Witness sworn.)

D. R. WALL, JR.

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. VICKREY:

Q Will you state your name, please?

A D. R. Wall, Jr.

Q By whom are you employed?

A Magnolia Petroleum Company.

Q What is your present occupation?

A Manager of Crude Oil Purchases and Sales.

Q Mr. Wall, how long have you been employed by Magnolia?

A Fifteen years.

Q Magnolia recently was forced to prorate its purchases in the State of New Mexico. Will you please tell the Commission the events which led to this prorationing?

A Yes. We supply various refineries with crude oil each month and we received notice that the East St. Louis Refinery, which we supply 36,000 barrels a day, was shut down on June 9 due to a strike. We are also supplying 7,000 barrels a day to Sohio Petroleum, and their refineries are on strike. In addition to this 43,000 barrels a day cutback due to refinery strikes, Magnolia's Beaumont, Texas refinery reduced their June through put by

15,000 barrels a day. That's a total of 58,000 barrels a day that we were faced with surplus crude.

Our inventories are excessive by approximately 1,800,000 over our desired level of inventory, and we were just unable to handle this additional 58,000 barrels a day reduction.

Q Mr. Wall, the Commission entered its Emergency Order A-91 (B) on June 13, 1957, setting forth the conditions under which Magnolia should prorate its purchases. Has Magnolia been complying with this order and the rules and regulations of the Commission in reducing its take? A Yes, sir.

MR. VICKREY: I have no further questions.

MR. PORTER: Anyone else have a question? Mr. Campbell?

MR. CAMPBELL: Jack M. Campbell, Roswell, New Mexico.

I would like to ask a few questions on behalf of the Independent Producers and Royalty Owners Association of New Mexico.

CROSS EXAMINATION

By MR. CAMPBELL:

Q Mr. Wall, where are you making these cutbacks, in what states?

A New Mexico, Texas, Oklahoma, and Illinois.

Q Is that all of the states in which Magnolia purchases?

A No, we purchase crude in Louisiana.

Q That crude is, none of that had been going to Beaumont Refinery?

A A small amount, about 2,000 barrels a day, goes to Beaumont. None of it goes to these refineries that are shut down by strike.

Q What do you purchase in Louisiana approximately each month?

A In Louisiana we purchase approximately about, let me see, I can give you just exactly my latest month's figures. The last figure that I have, actual purchases in May, amounted to 20,683 barrels a day.

Q Why have you not reduced your runs in Louisiana?

A Effective the first of June, the Louisiana Conservation Commission cut the allowable on dually completed wells 25 percent, and that reduced our actual purchases in Louisiana some four or five thousand barrels a day. They automatically gave us a 25 per cent cut effective the first of June, and our reduction in the other states in which we're prorating is only a 15 per cent cut.

Q What is the over-all effect of your 15 per cent cut in all of the four states in which you are cutting?

A You mean barrels a day?

Q Barrels a day.

Q From lease connections, approximately 50,000 barrels a day. And from spot purchases, that would be truckers that deliver us oil, and outside pipelines that deliver oil to us for our account, about 10,000 barrels a day. In other words, we had a cutback due to refinery strikes and reduced refineries runs of 58,000, and our

best calculation is that we are reducing about 60,000.

Now, after we received the order from the New Mexico Commission not to prorate wells making ten barrels or less, that reduced that figure about a thousand barrels a day. So its somewhere close to sixty.

Q Who owns the East St. Louis Refinery?

A Socony Mobil.

Q Who owns the Beaumont?

A Magnolia Petroleum Company.

Q Are any imported products or any imported crude being used in either of the refineries?

A No, sir.

Q Did you appear before the Texas Railroad Commission in connection with the anticipated import of Socony Mobil?

A No.

Q Is Magnolia an affiliate or subsidiary of Socony Mobil?

A Yes, sir.

Q Are you acquainted with the import estimates of Socony Mobil Oil Company the next few months?

A No, sir. Only the schedule that I pick up at the Railroad Commission.

Q You are acquainted with that, are you?

A Well, no, just to look at it. I'm not familiar with their imports at all.

~~Q Are you acquainted with the fact that that report to which~~

9
you refer indicates that in the month of May, Socony Mobil Oil Company imported some 62,874 barrels per day exclusive of Canadian imports of 30,000 barrels, and that in the month of June they anticipate importing 68,500 barrels and in the month of July, 71,821 barrels, and in the month of August, 78,200 barrels? Are you aware of that?

A Well, if that is what the report reflects, I'll take your word for it.

Q Do you know whether there's any move on the part of Socony Mobil Oil Company to adjust those figures in the light of the market conditions you referred to existing in this country?

A The market conditions that I referred to have no effect on imports, none of the refineries that are affected are using imported crude.

Q You have other Socony Mobil, they operate other refineries?

A Socony Mobil does, Magnolia does not. We have just the one in Beaumont.

Q Are there other refineries of Socony Mobil in Texas or Louisiana area?

A No, sir.

Q Where are they situated?

A The only ones I'm familiar with, they have a refinery at East Chicago, one at Buffalo, New York, one at Trenton, New Jersey, and the East St. Louis refinery, Illinois, that I mentioned that is on strike.

Q All of the imported crude of Socony Mobil Oil Company is used in those refineries?

A No, sir. No imported oil is used in those refineries that I mentioned. I know nothing about their other refineries or where the imported oil does go.

Q Do you know if taking that, any of the imported crude by exchange is taking up some of the slack of domestic crude?

A No, sir.

Q What effort has Magnolia made to dispose of the crude through other purchasing companies?

A We have contacted them and explained the problem to them and offered to sell them crude and been unable to do so.

Q Does Magnolia intend to make up crude in back allowable form in the State of New Mexico after the pipeline purchasing has expired?

A We will make every effort to run the allowable oil.

Q How much of your own production do you buy in New Mexico approximately a month, do you know that?

A Yes, sir. April is the last actual figure that I have and on the, our net interest during the month of April was 10,548 barrels a day.

Q What are your total purchases for that month in New Mexico?

A In April we actually purchased in New Mexico, 16,000, no, excuse me, 19,706.

Q So that approximately half of your purchases were from your own wells, is that correct?

A No, sir, of that 10,548 barrels, we only purchased for our supply, 7,243 barrels a day. The balance is sold to some other purchasers and we don't nominate for it or use it in our supply.

Q Then the figure is your production?

A That is total production.

Q Your purchases as purchaser amount to 7,000?

A That's correct, 7,200.

Q The balance of it you sell to other purchasers?

A Yes.

Q What is the, let's take the field for example, the Denton Field, what is the comparison between what you are taking from your connections and what the allowable may be on a top allowable well?

A Well, we didn't base, we couldn't base our proration on allowables in order to accomplish a 50,000 barrel a day cutback in leases. We had to base it on actual runs, and in any field we took the actual May runs and are only taking 85 percent of those runs in June. In other words, I can't tell you what the allowable of the Denton Field was compared, for May, compared with what we actually ran. I just don't know the allowable. We do know physically what we purchased and ran from that field, and the only way to reduce the barrels is to make a reduction based on those runs.

Q Do you do that by wells or by fields?

A Well, we are following the Commission's rules and regulations. We are not prorating any well that makes ten barrels or less, and are taking our proration from the top allowable wells.

Q What I'm referring to, if I have a well in the Denton Field and for a part of the month of May maybe my well was shut in or my storage was full or something of that nature, and you didn't run from it for a period of several days, my neighbor may be in a different position, are you applying your cuts from what you run from my well?

A No, all it would be necessary for you to do would be to explain your problem to the Pipeline Superintendent in that area if your pumps were down high water. We're trying to be as fair in this thing as we can. If, say, your rate was 80 per cent, instead of using the May figure, we would take 80 per cent in April or get a normal month that you did have normal runs and then take 85 per cent of those normal runs.

Q Mr. Wall, do you have any estimate of how long this situation may continue to exist?

A No, sir, we do not.

Q What is the present status of the strike at the St. Louis Refinery?

A They had a meeting Wednesday of this week, and it is my understanding that they didn't come to any agreement and just adjourned the meeting. That's all I know.

Q Does the marked reduction in the Texas allowable for this month, do you anticipate it will have any beneficial effects insofar as the operation of your Beaumont Refineries are concerned?

A State that again.

Q Will the marked reduction in Texas allowables for June materially --

A (Interrupting) You mean for July?

Q Yes, do you think they will relieve to some extent your refinery situation at Beaumont?

A No, they have no relation to Beaumont. We testified before the Texas Commission, in fact, we turned our nominations in on twelve days and we are calculating now to see if the 13th day allowable in Texas would accomplish that reduction. We don't know at this time whether or not we'll be able to get off proration or not. I just doubt it.

Q If the strike at the East St. Louis refinery is settled, will you immediately return to normal purchases in New Mexico or not?

A Yes, sir.

Q That is irrespective of the condition at Beaumont or the Sohio Refinery?

A You are just talking about the one refinery?

Q That is the most sizeable.

A That is 36,000, yes. Well, I'll say this, it may be that Beaumont or some of the other refineries will reduce their runs.

They tell us that from day to day, and I can't say that much, if East St. Louis announces they are going back to work, that we can lift the proration immediately. We'll have to consider the 7,000 barrels a day cutback and the 15,000 barrels a day that Beaumont has cut back. It is our understanding that they are looking at reducing it further than the 195 that they run in June. If other refineries slow down we could be just about in the same position we are in even if Loubright came back. We can't say that we would go back.

Q Let me ask you this last question. Is the pipeline prorationing, which you have instituted in these four states, caused primarily by the strike situation or by the fact that you consider that your inventories are too high, your refineries' runs are being cut back? What is the basic reason for this? You say you nominated twelve days in Texas?

A Yes, sir.

Q You nominated below what was granted in New Mexico?

A Yes, sir.

Q Is this cutback actually the result of these strikes or is it just that you are trying to comply with what you think your market is, irrespective of that?

A It's a combination of both or all of them. They all amounted to 58,000 barrels a day reduction in June, and that's the figure we had to look at. We have 1,800,000 surplus crude in our tanks now. We just couldn't handle it. It's a combination of all

of those factors.

Q In your tanks, what do you mean, Magnolia Petroleum Company?

A Yes.

Q At your Beaumont Refinery?

A No, sir, that's over the whole system.

Q Does your system supply crude to any other refineries than the ones that are mentioned here today?

A No, just the ones that I mentioned to you.

Q That's the total refinery market for Magnolia Petroleum Company crude?

A Yes, that's correct.

Q Including the Louisiana one?

A We don't supply any refineries in Louisiana.

Q You supply the Chicago refinery?

A Yes.

Q East Chicago?

A East Chicago, East St. Louis, the one on strike, Trenton, New Jersey, and Buffalo, New York, and our Beaumont.

Q You don't know whether the ones in Buffalo and the one in Trenton use imported crude or not?

A They do not.

Q None of them do?

A No, sir, we supply their full requirements from Texas, Oklahoma, and Illinois crude.

Q Where does the Socony Mobil imported crude go?

A I said I don't know.

MR. CAMPBELL: That is all.

MR. PORTER: Anyone else have a question?

MR. VICKREY: I have one question I would like to clear up.

MR. PORTER: Go ahead, Mr. Vickrey.

RE-DIRECT EXAMINATION

By MR. VICKREY:

Q Mr. Campbell asked you a question about pipeline proration. I wanted to clear up that mistake.

A The pipeline has the facilities to move the oil. It is purchaser's proration. We are just not able to handle the purchases.

Q This is purely the case of purchaser's rateable take?

A Yes.

Q Rather than pipeline proration?

A Yes.

MR. VICKREY: That is all.

MR. PORTER: Mr. Cooley.

RE-CROSS EXAMINATION

By MR. COOLEY:

Q How many pools do you purchase from in the State of New Mexico?

A I believe it is twenty-two.

Q How many of these connections do you have in the

twenty-two pools?

A Mr. Cooley, I can't answer that question.

Q Could you tell me approximately how many of your connections, what percent of your connections, or how many are top allowable wells?

A No. I can tell you this, that of our total purchases in New Mexico, about 950 barrels a day come from wells that produce 10 barrels or less.

Q That's what I was getting at. A Yes, sir.

Q Is it possible for you to accomplish the desired reduction in purchases without affecting or reducing the takes from these wells which produce 10 barrels or less per day?

A We are, yes, sir.

Q Further, that you could accomplish this cut without cutting say a twelve barrel well below ten, that no well would be cut below ten barrels?

A That's correct.

Q What is the effective date of the prorationing in this state?

A June 12.

Q At this time you have no idea when the termination date will be?

A No, sir, we do not.

Q Concerning back allowable possibilities at the time this strike is concluded, and some time thereafter, what are your thoughts concerning Magnolia's possibility of taking this back

allowable that would result as a result of the pipeline pro-
rationing?

A We will make every effort to take it just as soon as we can.

MR. COOLEY: That's all.

MR. PORTER: Mr. Richardson, do you have a question?

By MR. RICHARDSON:

Q Mr. Wall, does Magnolia Petroleum sell oil to Socony
Mobil? A Yes, sir.

Q For use on East Coast refineries?

A Yes.

Q Does Socony Mobil use any foreign oil in the refineries?

A The only refinery, in trying to answer Mr. Campbell's
question, I'm not familiar with Socony's imports. The only re-
finery on the East Coast that we supply crude to is their Pauls-
borough in New Jersey refinery. By the way, I didn't mention
that. It is not supplied by pipeline, it is a tanker movement,
and we are currently supplying them about 40,000 barrels a day.

Now that is the full requirement for that refinery versus
the supply in full requirements for the refinery that I mentioned
to Mr. Campbell. I just don't know how much imported oil they
use at that refinery or any other refinery that they do take their
imports to.

Q Has the amount of oil that Magnolia supplies to Socony Mobil
for coastwise movement by tanker been altered in the last three

or four years?

A Normally we supply about 32,000 barrels a day for that refinery. We're currently supplying 40,000 barrels a day.

Q How long have you supplied 32,000?

A Well, that has been our average for at least the last year or two, in I'll say '55 and '56.

Q How much did you supply in 1954 to that refinery?

A I couldn't answer that. I would say it is in the neighborhood of thirty-two. It has ranged somewhere between thirty and thirty-two ever since I have been in the crude oil department.

Q So the amount of coastwise oil that you supply Socony Mobil has not been decreased in the last few years for that refinery?

A No, it has not.

Q Last March Magnolia appeared before the Railroad Commission and stated that the expected increase in demand for crude oil would be approximately four or five percent over 1956?

A Yes, sir.

Q Do you feel that the situation that you have today is altering that picture?

A Well, that was an industry-wide estimate. Our position is surely that it probably won't come up to that since we have had the strike and these unforeseen refinery reductions.

Q But not knowing the duration of the strike, you don't know how much the figure will be reduced downward?

A No, sir, I wouldn't hazard a guess at that.

MR. PORTER: Mr. Mankin.

By MR. MANKIN:

Q You mentioned awhile ago that you were purchasing from twenty-two pools, but did you mean both Magnolia Petroleum and Magnolia Pipeline Company?

A Well, the Magnolia Pipeline doesn't purchase oil. I'm speaking from a purchasing standpoint, the oil may be purchased and connected by the Magnolia Pipeline for our account, or it may be purchased and trucked to some facility that we designated, but I'm speaking only for purchasing and not for the Pipeline Company.

Q We get two reports, both from the pipeline people, which the major part of transporters and storers is shown by the pipeline company.

A They do transport most of our oil. We have very little oil trucked.

Q The area to be prorated concerns itself with Lea, Eddy, Chaves and Roosevelt Counties, is that correct?

A That's correct.

Q Nothing as far as Rio Arriba or San Juan County?

A No, that is, another purchaser is buying that oil. We are not buying it direct.

MR. PORTER: Mr. Cooley.

By MR. COOLEY:

Q Mr. Wall, does Magnolia Petroleum Company purchase any oil in any of the twenty-two pools which is being produced from a water flood project?

A No, sir.

MR. COOLEY: That is all.

MR. PORTER: Mr. Nutter.

By MR. NUTTER:

Q Does Magnolia Petroleum Company make any purchases in New Mexico from trucking companies?

A Yes, sir, we do. I don't know how much trucked oil we have, but we do buy some from the McWood Corporation. I would say a conservative estimate is that our truck purchases would amount to somewhere between three and five hundred barrels a day.

Q Have those purchases been reduced?

A They are, yes, sir. We have advised the truckers that we will again only take 85 per cent of what they deliver to us in May.

Q So you have reduced them by the same percentage?

A Yes, sir, that's correct.

MR. PORTER: Mr. Campbell.

By MR. CAMPBELL:

Q Mr. Wall, you stated that this amounts to purchaser proportioning inasmuch as Magnolia Petroleum Company either does not transport or has adequate transportation facilities for transportation of the crude. Are you generally acquainted with the availability of pipeline outlets from southeast New Mexico?

A No, sir.

Q Capacities and so forth? A No.

Q Do you know if there is excess capacity in the Magnolia Pipeline or Magnolia Petroleum Company system for the movement of crude oil from southeast New Mexico to the Gulf Coast and other marketing points for your crude?

A Out of New Mexico we could move in excess of the 19,700 that we purchased, that crude goes into Midland, and out of Midland it is necessary for us to arrange outside transportation. We do not have the facilities to move all of the West Texas-New Mexico crude out of Midland.

Q Do you experience difficulty in acquiring that capacity or not?

A Under normal conditions we have been able to get our oil moved. We did experience some difficulty during the period of the Suez Canal trouble.

MR. PORTER: Is that all, Mr. Campbell?

MR. CAMPBELL: Yes, sir.

MR. PORTER: Anyone else have a question of Mr. Wall?

The witness may be excused.

(Witness excused.)

MR. PORTER: Does anyone have a statement to make? Mr. Vickrey.

MR. VICKREY: I would just like to reaffirm a statement

that I made earlier that we are complying with that Emergency Order and we'll continue to do so as long as it is in effect, and have no objection to the Commission continuing it in effect.

MR. PORTER: Anyone else have a comment on the case? We will take the case under advisement. The hearing is adjourned.

C E R T I F I C A T E

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 9th day of July, 1957.


Notary Public-Court Reporter

My commission expires:

June 19, 1959.

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

October 17, 1957

TRANSCRIPT OF HEARING

Case 1273

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

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

October 17, 1957

IN THE MATTER OF:

The hearing called by the Oil Conservation Com-
mission to permit Magnolia Petroleum Company to : Case No.
appear and show cause why it should not be required : 1273
to purchase 100% of the oil authorized to be pro- :
duced from the wells from which it purchases in :
the State of New Mexico. :

BEFORE: Honorable Edwin L. Mechem
Mr. Murray Morgan
Mr. A. L. Porter

TRANSCRIPT OF HEARING

MR. PORTER: We will take up next Case 1273.

MR. COOLEY: In the matter of the hearing called by the
Oil Conservation Commission to permit Magnolia Petroleum Company
to appear and 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 in the State of New Mexico.

MR. VICKREY: I would like to make a statement before we
swear the witness. My name is Jack Vickrey. I am an attorney for
Magnolia, address is Post Office Box 900, Dallas, Texas. Magnolia
has filed a written reply with the Commission stating its position
in the case. Please consider this reply as part of the record in
this proceeding. The Commission has requested that Magnolia

present evidence as to the actual market conditions which have resulted in the need for the continuance of purchaser prorationing in this State. Mr. D. R. Wall, Manager of Magnolia's Crude Oil Purchasing Sales Department is here to present such evidence and answer any questions the Commission might have. I would like to have Mr. Wall sworn. (Witness sworn.)

D. R. WALL

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By MR. VICKREY:

Q Will you state your name, please?

A D. R. Wall.

Q By whom are you employed? A Magnolia Petroleum Corp.

Q What is your present position?

A Manager of the Crude Oil Purchasing Sales Department.

Q How long have you been employed by Magnolia?

A Sixteen years.

Q Have you prepared a statement relating the current market conditions which have resulted in the need for the continuance of purchaser prorationing in the State of New Mexico?

A I have.

Q Please read this statement to the Commission.

A Magnolia Petroleum Company was first required to institute

purchaser proration during the month of June, 1957. Prior to public announcement, Magnolia notified this Commission of the action to be taken and the reasons therefor. The Commission, on its own motion, entered Emergency Order A-91(B), prescribing the manner in which such purchases should be prorated. After a public hearing held on June 28, 1957, the Emergency Order was continued in effect until such time as Magnolia resumed 100% purchases.

A brief review of the conditions which existed at the time of the public hearing held on June 28, 1957, and the current market conditions which have forced Magnolia to continue purchaser proration follows:

1. On March 19, 1957, Socony Mobil Oil Company's Trenton, Michigan, refinery shut down for 41 days because of a labor strike. Magnolia supplies the total crude requirements of 32,000 barrels daily for this refinery; however, the Company did not prorate its purchases in any state, but instead added the 1,312,000 barrels of crude oil due to this loss of market to its inventory. By June 1, 1957, our actual crude oil inventory had reached 15,869,000 barrels, which is 1½ million barrels in excess of necessary working inventory.

2. On June 9, 1957, Socony Mobil Oil Company's East St. Louis, Illinois, refinery discontinued operations because of a labor strike. Of the total crude requirements of 38,000 barrels daily for this refinery, Magnolia supplies 36,000 barrels daily. Employees started returning to work at this refinery on October 7, 1957;

however, because of the four-month shutdown, the plant will return to normal operations gradually. Also, during June, Sohio Petroleum Company discontinued the purchase of 7,000 barrels daily of crude from Magnolia because of labor strikes at their refineries. After their strikes were settled, this purchase of crude was not resumed.

3. During June, Magnolia's Beaumont, Texas, refinery reduced runs by approximately 20,000 barrels daily below May, 1957, because of an oversupply of products. Runs were reduced further at Beaumont during July and August, 1957, reaching a low throughput of approximately 35,000 barrels daily below May, 1957.

4. Due to refinery strikes and a decrease in demand for crude oil at refineries normally supplied by Magnolia, our overall demand for crude each month compared to May, 1957, has decreased as follows:

June below May	40,864 barrels daily	10.51%
July Below May	77,990 barrels daily	20.06%
August below May	84,270 barrels daily	21.68%
September below May	74,666 barrels daily	19.21%
October below May	42,204 barrels daily	10.86%

With a surplus crude oil inventory in excess of 1½ million barrels on June 1, 1957 and faced with a decrease in demands as I have just indicated, Magnolia had no alternative but to prorate its purchases equally in all states.

5. During June, July and August, 1957, Magnolia's purchases

from all leases, including Magnolia-owned leases, in New Mexico, Texas, Oklahoma and Illinois, were based on 85% of actual May, 1957, purchases, except that in New Mexico we have complied with the Commission's orders and have made 100% purchases from proration units with daily oil production of 10 barrels or less. Magnolia's crude oil inventory continued to increase during this period of proration, and on September 1, 1957, our actual inventory stood at 16,090,000 barrels.

6. Since our September demands were still drastically below normal, it was necessary for us to reduce our purchases an additional 10%. September purchases were based on purchasing 90% of actual August, 1957, purchases from all leases, including Magnolia-owned leases, in New Mexico, Texas, Oklahoma, Louisiana and Illinois. This additional reduction was necessary in order that our surplus crude oil stocks would not increase during September.

7. During October we had an increase in refinery demands and were able to make some spot sales of crude oil to other purchasers. This increase in demand enabled us to restore the 10% cut in purchases which we made in September. Due to decreased allowables in Texas and Louisiana since May, the 10% restoration enabled us to lift proration in these two states.

8. Our estimated purchases from leases in New Mexico during October, 1957, will average 23,457 barrels daily compared to actual purchases of 19,752 barrels daily during May, 1957 — an increase of

3,705 barrels daily, or 18.76%. Magnolia's estimated purchases during October, 1957, will be approximately 9% below normal purchases under the Commission's October allowable order.

Magnolia Petroleum Company has been a purchaser of crude oil in New Mexico more than twenty years, and has made every effort to take care of its customers. Our increase in purchases, in spite of proration and an oversupply of crude, will bear this out. The Company regrets the necessity of having to prorate its purchases. However, until such time as our demands for crude oil increase sufficiently to enable us to handle 100% of allowables, we feel that our basis of prorating purchases in all states is fair and equitable.

Q Mr. Wall, have you prepared exhibits containing the statistical information requested by the Commission?

A Yes, I have.

Q Are such exhibits attached to the statement which you just read?

A They are.

MR. VICKREY: Mr. Chairman, I offer this statement in evidence.

MR. PORTER: Do you want to identify it?

MR. VICKREY: Yes, Magnolia has no further testimony to offer.

(Marked Magnolia's Exhibit
No 1 for identification.)

MR. PORTER: Any objection to the admission of Exhibit No 1 and the attached exhibits into the record? They will be so admitted. Anyone have a question of Mr. Wall? Mr. Nutter.

CROSS EXAMINATION

By MR. NUTTER:

Q Mr. Wall, right there toward the end of your statement I missed a couple of figures. What did you say your actual purchases during the month of November are estimated to be?

A Our estimated purchases from leases in New Mexico during October, 1957, will average 23,457 barrels daily compared to actual purchases of 19,752 barrels daily during May, 1957 - an increase of 3,705 barrels daily, or 18.76%.

Q This increase is despite the reduction of some nine or ten percent below the normal level? A That's correct. Yes, sir.

Q Are you aware of what the normal unit allowable for the State of New Mexico was for the month of May?

A No, I'm not, Mr. Nutter.

Q Mr. Wall, the normal unit allowable was 40 barrels at that time. A That's right.

Q Of course, the normal unit allowable is 37 barrels now.

A Thirty-seven now.

Q What do you feel is the ultimate answer to this? The normal unit allowable is way down and your purchases are way up and yet you are prorating. How can we reconcile these differences?

A That is due to the fact we have been buying new oil in the state and have been taking it on our prorated basis. We haven't stopped taking new leases that are available to us for our supply,

and New Mexico production has just increased to the point that this has occurred.

Q I know that you don't like to purchaser prorate any more than any other purchasers like to prorate.

A That's right.

Q What is the answer, how can purchaser prorating be eliminated under a deal like that?

A I didn't say it can be eliminated, Mr. Nutter. When we have from 4,075 or 80,000 barrels a day decrease in our demands each month for five months, the only way that I can see that we can take care of that decrease in demand is to continue to take new oil that is available to you if it's in your area and just reduce the overall purchases across the board to take care of any cutback that is necessary. We don't feel like that much because we are ^{we} in trouble at this time that should discontinue buying any new oil at all. We are still continuing to take new oil, but we are taking it under our prorated basis which we feel is fair to the new operator the same as the ones that we have had for some time.

Q Well, now, what was the basis for being able to restore your purchases in the States of Louisiana and Texas?

A Yes, sir, we started prorating in June, and since May, Texas and Louisiana have reduced their allowables to the point that when we restored the ten percent cutback for October that we had made in September, that enabled us to lift proration in those two

states and it has affected only a nine percent proration in New Mexico.

Now, had New Mexico allowable been reduced from May, percentage-wise, I'll say as much as Texas and Louisiana, then our restoration of the ten percent would have automatically eliminated proration in New Mexico.

Q Have you taken proportionally as many new connections in those states?

A Our percentage of new oil has been greater in New Mexico than in any state.

MR. NUTTER: Thank you.

MR. PORTER: Would you say that percentage is largely due to connection in the North Gladiola Pool?

A I would say North Gladiola, Denton and Crossroads.

MR. PORTER: Is Magnolia the only purchaser in the North Gladiola?

A I don't know about in Gladiola. I don't think so. I think there are other purchasers in North Gladiola, Denton and Crossroads where our big increase has been.

MR. PORTER: Does anyone else have a question of Mr. Wall?

MR. CAMPBELL: If the Commission please, I would like to ask a question or two. Jack M. Campbell, Roswell, New Mexico, representing the Independent Producers and Royalty Owners Association of New Mexico.

By MR. CAMPBELL:

Q Mr. Wall, do you have any figures with you, or do the figures attached to your statement to the Commission reflect the imports of Socony Vacuum for the comparable period to which you referred, of May of 1957 through September of 1957?

A No, sir.

Q Are you acquainted with the report made to the Director of the Voluntary Imports Program by Socony Vacuum Company covering the July, ~~August, and September~~ **estimated imports for that company?**

A They filed a report to this Commission. I saw the report.

Q You have no reason to question the figures that are published by the Director of the Voluntary Imports Program?

A No, sir.

Q If that report shows that in July the allocation for Socony Vacuum was 67,110 barrels per day, the July actual imports were 73,700 barrels, the August actual was 76,900 barrels, and the September estimate was 79,000 barrels, wouldn't it appear to you that during the same period that Magnolia has been required, according to your testimony, to reduce their domestic purchases as Socony Vacuum has been increasing its imports of crude, isn't that correct?

A Well, now, you are getting to the, since you're on this Directors' Voluntary request for reduction of imports, as far as I know Socony has stated that they will follow their directive and reduce their imports to June 1958 to average that sixty-seven one

that you mentioned.

Q I hope they do. What I am talking about is what they have actually done up to now.

A I can't question that, but our reduction had nothing to do with any plant receiving foreign oil. It is due to East St. Louis and Trenton, Michigan refinery strikes and one other, the reduced runs at Beaumont, Texas.

Q You testified before this Commission in connection with the particular problem of yours, it is my recollection that your testimony, that Magnolia did supply some crude for some of your East Coast refineries from its source of supply in the Midwest and Southwest.

A We supply about 160,000 to 170,000 barrels a day.

Q Then can you deny as a matter of mathematics, if nothing else, that this situation with regard to imported crude into any of your refineries does have some impact on your domestic picture?

A I don't think it does.

MR. CAMPBELL: That's all.

MR. PORTER: Anyone else have a question of Mr. Wall?

The witness may be excused.

(Witness excused.)

Anyone else have any testimony in the case? Any statements?

We will take the case under advisement.

C E R T I F I C A T E

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 24th day of October, 1957.

Ada Dearnley
Notary Public-Court Reporter

My commission expires:

June 19, 1959.