

BEFORE THE OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

CASE NO. 72

IN THE MATTER OF THE APPLICATION OF GEORGE F. BREWINGTON, AL GREER, JOHN A. PIERCE, C. M. CARROLL, ROBERT L. MADDOX AND L. G. STEARNS FOR AN ORDER TO RESCIND ORDER NO. 541 LIMITING AND FIXING SPACING OF GAS WELLS IN THE FULCHER BASIN FIELD IN SAN JUAN COUNTY, NEW MEXICO ON ONE WELL TO 160 ACRES SO AS TO RETURN TO THE CUSTOMARY 40-ACRE SPACING OF THE OIL CONSERVATION COMMISSION.

Pursuant to notice by the Commission, duly made and published, setting May 3, 1946 at 10:00 o'clock A. M. for hearing in the above-mentioned matter, said hearing was convened on said day at said hour in the Coronada Room at La Fonda Hotel, Santa Fe, New Mexico, the Commission sitting as follows:

Governor John J. Dempsey, Chairman
Commissioner of Public Lands John E. Miles, Member
State Geologist R. R. Spurrer, Secretary
Carl B. Livingston

R E G I S T E R

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>
Lloyd L. Gray	Gulf Oil Company	Tulsa, Oklahoma
H. R. Markley	Phillips Petroleum Company	Odessa, Texas
Dan L. Mayer	Phillips Petroleum Company	Bartlesville, Oklahoma
A. M. Rippel	Phillips Petroleum Company	Bartlesville, Oklahoma
R. B. F. Hunter	Phillips Petroleum Company	Bartlesville, Oklahoma
H. B. Hurley	Continental Oil Company	Fort Worth, Texas
W. G. Hicketta	Amerada Petroleum Corporation	Tulsa, Oklahoma
J. E. Lowe	Amerada Petroleum Corporation	Midland, Texas
Al Greer		Astec, New Mexico
Robert L. Maddox		Astec, New Mexico
Dudley Cornell		Albuquerque, New Mexico
D. D. Bodie	Cities Service Oil Company	Hobbs, New Mexico
F. A. Catron	Charles Eneu Johnson Company	Santa Fe, New Mexico
A. K. Montgomery	Stanolind Oil Company	Santa Fe, New Mexico
W. B. Muey	Oil Conservation Commission	Artesia, New Mexico
A. R. Greer		Astec, New Mexico
G. H. Gray	Repselle Oil Company	Midland, Texas
Harve H. Mayfield	Magnolia Petroleum Company	Kernit, Texas
C. W. Paris	Shell Oil Company	Midland, Texas
Gordon A. Goodwin	Richfield Oil Corporation	Los Angeles, California
F. E. McPhillips	Richfield Oil Corporation	Los Angeles, California
George R. Gibson	Richfield Oil Corporation	Midland, Texas
E. H. Shaw	Richfield Oil Corporation	Midland, Texas
Foster Merrill	U. S. Geological Survey	Roswell, New Mexico
Glen Staley	Los County Operators Committee	Hobbs, New Mexico
D. A. Powell	Drilling & Exploration Company	Hobbs, New Mexico
George A. Graham	State Land Office	Santa Fe, New Mexico
E. J. Gallagher	Gulf Oil Corporation	Hobbs, New Mexico
Ray O. Yarbrough	Oil Conservation Commission	Hobbs, New Mexico
S. G. Sanderson	Gulf Oil Corporation	Tulsa, Oklahoma
John W. Spier	Charles Eneu Johnson & Company	Hobbs, New Mexico
R. U. Fitting, Jr.	Consulting Petroleum Engineer	Midland, Texas
L. C. Herinoss	Charles Eneu Johnson & Company	Philadelphia, Pa.
R. W. Ely	Cities Service Oil Company	Hobbs, New Mexico
F. C. LaFevre	Cities Service Oil Company	Bartlesville, Oklahoma
R. G. Schuchle	Texas-Pacific Coal & Oil Co.	Midland, Texas
Max M. Mahaffey	Cities Service Oil Company	Bartlesville, Oklahoma
D. R. McKeithan	Phillips Petroleum Company	Bartlesville, Oklahoma
C. C. Conner	Phillips Petroleum Company	Santa Fe, New Mexico
J. P. Cusack	Samson Oil Company	Astmore, Oklahoma
G. H. Card	Stanolind Oil Company	Fort Worth, Texas
Weldon Briganee	Roman Drilling Company	Fort Worth, Texas
Emmett White	Leonard Oil Company	Roswell, New Mexico
J. N. Dunlavy	Skelly Oil Company	Hobbs, New Mexico
B. W. Jarboe	Mc-Tex Oil Company	Hobbs, New Mexico

<u>NAME</u>	<u>COMPANY</u>	<u>ADDRESS</u>
J. W. House	H. O. and H. Company	Midland, Texas
C. M. Carroll		Farmington, New Mexico
Oliver Seth		Santa Fe, New Mexico
Harry Leonard	Leonard Oil Company	Roswell, New Mexico

**"Notice for Publication
 State of New Mexico
 Oil Conservation Commission**

"The Oil Conservation Commission, as provided by law, hereby gives notice of the following hearing to be held at Santa Fe, New Mexico at 10:00 A. M., May 8, 1946:

"Case 72.

"In the matter of the application of George F. Brewington, Al Over, John A. Pierce, C. M. Carroll, Robert L. Maddox and L. O. Stearns for an order to rescind Order 541 limiting and fixing spacing of gas wells in the Fletcher Basin Field in San Juan County, New Mexico of one well to 160 acres so as to return to the customary 40-acre spacing of the Oil Conservation Commission.

"Given under the seal of said Commission at Santa Fe, New Mexico on April 22, 1946.

"OIL CONSERVATION COMMISSION

"By:

"R. R. Spurrier, Secretary

"SEAL"

PROCEEDINGS

Mr. Livingston:

Miss Secretary, Mr. Dudley Cornell has asked that he be entered as attorney for the parties. Now a motion has been filed for a continuation of this particular hearing, the motion being by the Southern Union Gas Company for which purpose Mr. Manuel Sanchez appears as attorney, and is to be entered as attorney of record. If the Commission desires I will read the motion.

Mr. Sanchez:

This matter requires a great deal of study. We are not prepared here today. We do not have any witnesses at all. Whether one well is allowed for every 160 acres or 4 wells for every 160 acres means a difference between \$15,000, the cost to drill a well up there, and perhaps involves a study of whether one well would be sufficient for 160 acres. All we are interested in is gas.

Governor Dempsey:

As I understand your application, it is not to have the Commission make an order requiring 4 wells to 160 acres, but making it permissible.

Mr. Sanchez:

My understanding, of course, is that it requires them.

Governor Dempsey:

Oh no, not at all. It would permit them to drill a well for each 160 acres, but would not require them to do so. You might be forced to drill an offset well, depending upon your lease.

Mr. Sanchez:

Could we have a little more time?

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Governor Dempsey:

The Commission has put this matter on the agenda today, and we do not want to bring all of these men back here.

Mr. Sanchez:

We will not want any more than a reasonable time.

Governor Dempsey:

Whatever testimony you bring in should be heard today. Let us hear what is to be said here first. Mr. Cornell, do you want to be heard now?

Mr. Cornell:

It seems to me this issue here this morning is very simple. Actually, I do not know whether it is going to require taking testimony. This is a hold-over from war-time regulations. The question of proper spacing for the Fulcher Basin Field would be a question involving study, but this is only a hold-over that the oil and gas operators here have to face. When the NISC was issued December 21, 1941 it hit the petroleum industries like a bomb shell, limiting them to 640 acres. As its name indicates, it stands for material order, and limits the use of steel. Recognizing a difference in this shallow gas field from the larger reservoirs that the petroleum industries deal with, an exception, permitting drilling in this area on 160 acres, was granted. To get in line with that exception, the Commission issued this Order in question. Order 541 specifically is for the purpose of meeting this PAN situation that provides in order to get an exception under the 160-acre spacing they shall first get the permission of the Commission. It was tied in as a War Order, and as soon as the war was over the PAN immediately revoked their spacing order. That was PAO 4, revoked September 28 of last year. For over six months now Order 541 has been meaningless. By its very terms it was to be effective for the war and six months thereafter. If it is continued even for another week or two weeks to enable additional testimony, it is causing unnecessary restrictions in this field. I have in mind one of the signers of the petition who had a 120-acre lease. He made application to the PAN for exception, but was turned down. He is sitting with 120 acres in this field, has a contract to drill a well within a limited time, but is restricted by this Order from drilling. There is no way for him to get an exception. The only way he can do so is to obtain an exception from the PAN, and the PAN wound up its affairs promptly after the war, revoked its Order, and went out of existence on the 8th of this month. That is today. There may be some questions regarding the proper spacing in this field which will require some engineering testimony from the Commission. That would be proper in a new application, if you please, by the Southern Union, who is interested in having a spacing order, and if the basic 40-acre spacing is not satisfactory. It appears to me that it is not proper or necessary simply in order to get rid of this war-time regulation. We have several of the signers of this Order here. I will be glad to put them on, but it does not seem that it should be required at this time. We will be glad to meet any issues. If the Southern Union Gas Company wants to apply to the Commission for a new spacing order, it might be that the Order would be set and that we would not oppose it. This Order is out of date, and it seems to me it should be revoked here and now, then if there is going to be a question regarding spacing up there we will have a hearing. I will leave it to you gentlemen, and if you desire testimony I will put those gentlemen on the stand. This is just some dead timber that I believe the Commission is as anxious to close off their books as is everyone else. If you desire some testimony, as I say, I will be glad to call some of these gentlemen.

Governor Dempsey:

Unless they have something additional to offer than what you have offered, then the picture is just as you have stated it; that is, that this is a War Order now out of existence. Let us hear Mr. Sanchez.

Mr. Sanchez:

We are informed that the U. S. Geological Survey is opposed to the new patterning to 40-acre spacing. Now what they have to say about it I do not know.

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Governor Dempsey:

Do you have anything in writing?

Mr. Sanchez:

Yes. The Southern Union Production Company has discussed this matter with Foster Merrell. As you know, a large part of the acreage in this area is Federal land, and, of course, we should have some of the Government agencies here.

Governor Dempsey:

This meeting has been publicized.

Mr. Sanchez:

I understand that. I am called down here with 2 days' notice. If you think it advisable, I would be willing to agree, pending the filing of the application. As Mr. Cornell states, there is nothing at this time about new spacing by the Commission.

Governor Dempsey:

The Commission is asked to revoke the Order.

Mr. Sanchez:

When the Order is revoked they go back to the old rules that they be spaced every 40 acres. Pending that time, if they go on ahead and start spacing new wells we will be up against it unless we could have a new Order issued.

Governor Dempsey:

If the Commission should adjudicate this Order at this time it could be a war emergency regulation enforced by the FAN. There is nothing to stop you from coming in and asking for any kind of spacing regulation that you deem advisable.

Mr. Sanchez:

In the meantime we would be before the Commission all of the time. If we will submit our testimony now we would be convinced that we were right or else wrong, and we could appeal. If we come in with an application for a new spacing Order it continues this matter, and in this way we could dispose of the matter now.

Mr. Cornell:

Governor, I am fairly familiar with the attitude of the U. S. Geological Survey. They have more or less tried to continue this 160-acre spacing, but there is a certain give and take in that situation. It is not a strict order like this one where you can't get an exception. Now the operator up there operating on a Government lease will not have any particular difficulty. We have had a conference within the past month, and came to complete agreement. This is simply an agreement on the part of some individuals, and then Mr. Sanchez can come in and you are not going to have a flood of drilling on 40 acres in the next year or two. It is not going to change the picture materially, that is in the field that has possibly 30 or 40 wells in it, and then when you have all of the information it may be that 80 acres would be the spacing. That was the opinion of the Southern Union from their data. Possibly some other information might come in that would indicate 120. I believe it would relieve the situation all the way around to get this clear.

Governor Dempsey:

There is not going to be a great deal of drilling, because you can't get steel now. Does anyone else wish to be heard on this matter?

Foster Merrell:

I will be glad to enter a few remarks in connection with the state-

ments made concerning the U. S. Geological Survey. I think the request for the termination of the Order as drafted has considerable merit, but some consideration should be given for a replacement to some extent. In the last winter meeting of the Interstate Compact Commission a resolution was passed by the Commission recommending that States, where ever practical, carry into effect well spacing adopted by the PAW. The reason for that is to protect the equities of the operators who have already drilled, from other operators at a later date. In the majority of the Valcher Basin Field there are public lands. Now the development is extending North where we have a mixture of lands, largely fee, some State, and a few Federal tracts. These tracts do not lend themselves to satisfactory 160-acre units without a lot of work, and it is questionable whether that could be satisfactory. If this Order is rescinded without some other replacements, there are situations where wells would be drilled on 40s, and to protect the property of others, wells would be drilled on 40s. Considerable discussion has been had with the Southern Production to take care of this matter of spacing, which would permit an operator to drill on whatever size tract he had, and get a fair proportion of the gas. I just offer this for your consideration, that if this Order is rescinded on the technicality

Governor Dempsey:

What do you mean by technicality?

Mr. Morrall:

That it was based on PAW regulations.

Governor Dempsey:

What, in your opinion, would have been the result had the PAW not made this 640 regulation?

Mr. Morrall:

The type and size of the well make it a matter that there would be waste to drill too many wells.

Governor Dempsey:

If the PAW had not been created, and the 640-acre regulation was not put in as a war measure, what would have been your recommendation?

Mr. Morrall:

A man would have to be allowed to drill, but to protect the equity, the Commission could take the matter of withdrawals to account for that.

Governor Dempsey:

Would you recommend that where a man has less than 160 acres he should be permitted to drill on that?

Mr. Morrall:

He should not be prevented, but with notice that his allowable would not be in the same proportion if he had a larger basin.

Governor Dempsey:

At this particular time there is not going to be any great amount of drilling, even if you had the desire to do it. The members of the Commission feel that something should be done now on this particular Order, and we feel something should be done on a more permanent spacing, but it is unfair to have a man with 123 acres prohibited from drilling because the war Order requires 160. I do not know how the other members of the Commission feel, but I would be willing to rescind this Order today and give you an opportunity for a hearing. We would be very glad to set a hearing date in the very near future for spacing in that area. I am agreeable to terminating this Order today.

Governor Miles:

That is agreeable with me.

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Governor Dempsey:

If you can get together on this spacing we will have a hearing, and bear in mind that we desire to conserve the resources of our State.

Mr. Sanchez:

I would request the Commission that the matter of an order for re-spacing be set for, say, a hearing 30 days from today.

Governor Dempsey:

It is agreeable to me. Make it sooner if you want to. The Commission, I am sure, from what Governor Miles has said to me, and the Director of the organization, would be very sympathetic to a proper spacing up there, which would not penalize someone up there. I think we can come to a satisfactory agreement here.

Mr. Sanchez:

Suppose we fix a certain date. I do not have a calendar here, but as soon as convenient for the Commission.

Governor Dempsey:

June 4 is Tuesday. I know that date. From thereafter what date do you want?

Mr. Sanchez:

How long do you want to celebrate after June 4? We might get all of the information and we might come in with a stipulated proposal. Suppose we say we set the hearing for June 11?

Governor Dempsey:

Would it be satisfactory with you if the Commission advised you of the date some time within the near future?

Mr. Sanchez:

You fix the date, whatever will be agreeable to the Commission, and it will be agreeable with us.

Mr. Livingston:

Before calling the next case, I will pass the register, and will everyone please register? The next case is No. 73 in the matter of the application of the Richfield Oil Corporation for an order of approval of the unit agreement for the development and operation of the Comanche Area within T. 10S, R. 25E, and E. 11S, R. 25E, and T. 10S, R. 26E, and T. 11S, R. 26E, and T. 11S, R. 27E, N.M.P.M. constituting a compact unit area of 16,901.14 acres, Chavez County, New Mexico. Mr. Gordon A. Goodwin is attorney for the Richfield Corporation.

Mr. Goodwin:

Do you have the file, Mr. Livingston? I may want to refer to it.

Governor Dempsey:

Is there anyone here who is opposed to this unit agreement on 16,000 acres in Chavez County? As far as I know there is no opposition.

Mr. Goodwin:

There is no opposition, and it is in the same form as you last approved for us, with slight changes. Mr. Livingston has been over the agreement and has found no objections.

Governor Dempsey:

The Commission has no objections, and will approve that. We don't want to bar you from making a speech, Mr. Goodwin.

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Mr. Goodwin:

I am not running for a political office at the moment.

Governor Dempsey:

What do you mean "at the moment"?

Mr. Livingston:

The next case is No. 74 in the matter of the application of the Oil Conservation Commission of the State of New Mexico upon its own motion for a revision of Operators' Monthly Report, Form C-115, affecting all producing counties in New Mexico.

Mr. Spurrier:

Governor and gentlemen, this amended Form C-115, or proposed amendment, has been recommended by the engineers in the oil field to the Commission, and I won't go into the detail of it, because I am sure everyone here is familiar with it, and, Governor, with your permission, all I can do is to ask for objections, if there be any. It makes a change in the form to correct a condition now prevalent. Many of the operators who fill out this form do not understand it -- not due to lack of intelligence, but due to the way the form is worded.

Governor Dempsey:

I am sure of that. Do you recommend the changing of the wording of the form?

Mr. Spurrier:

Yes, sir.

Governor Dempsey:

Will the Governor be able to understand it then?

Mr. Spurrier:

I can't say, Governor.

Governor Dempsey:

Is there any objection on the part of the operators to the changing of this form?

Mr. Selinger:

I am with the Shelly Oil Company, and I have something to bring up in connection with that form, and which I would like for the Commission to give some serious thought to. It has to do with the Nomenclature as well, but I believe it is proper to bring it up at this time, and that is in connection with the reporting and requiring of separate tankage on wells with depths down to 5,000 feet. Under the present method all fields and units in the fields down to 5,000 feet have a proportionate factor known as one, and it is beyond 5,000 feet that we start getting larger allowables. There will be several wells which will produce in depths shallower than 5,000 feet. We have one large well and several small wells producing down to 5,000 feet. Under this present Nomenclature and regulations of the Commission we are required to make separate reports on this form for each of these separate pays. We feel it is an economical waste and likewise a waste of administrative personnel to require the setting of a separate tank and have to fill out a separate report each month for each well. I know that a good portion of the acreage lies on Government land, and this notice came particularly to my attention when the U. S. Geological Survey advised the operators that they would be required to set separate tankage and make separate reports.

Governor Dempsey:

Is there anything in that report that requires separate tankage?

Mr. Selinger:

Yes.

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Governor Dempsey:

Mr. Spurrier tells me not.

Mr. Selinger:

That is the point I want to get straight. This schedule shows the Fron Pool, and then it follows with the Grayburg-Jackson, and you have separate allowables set for a particular well, and under the reporting system we have to make a separate report for the Fron Pool and the wells in the units therein. We could not make a separate report for the well "A" in the Fron Pool and we could not make a separate report on well "B" in the Grayburg-Jackson Pool unless you have separate tanks. We do not think it justifiable to set a separate tank for smaller wells. Since it is Government property, we will have to take that up through the proper channels. The Commission, we feel, should not require the setting of separate tankage nor the requirement of separate reports for wells and units producing shallower than 5,000 feet for the purpose of report is for production only, and if the allowables are the same there is no purpose in requiring these additional burdens on the operators. Ordinarily when the State regulatory body issues a schedule setting forth separate fields, it carries the requirements of separate reports, and if the Commission would make the rule that such is not necessary we believe it would relieve a great deal of the burden.

Governor Dempsey:

When did you receive notice of hearing in this matter?

Mr. Selinger:

About 4 or 5 days ago.

Governor Dempsey:

It would be a great help for the Commission if we could get something in writing for the reasons of the opposition.

Mr. Selinger:

Governor, this is tied up with the hearings you had on the Nomenclature some time ago, and it is a joint proposition with the present and the previous case, but that matter was not clear in my mind. Perhaps it would be clear in the minds of the operators.

Governor Dempsey:

The Commission does not desire to burden you. The Order that Mr. Spurrier refers to reads that the records, the production, the casing, everything about these separate wells and pools shall be maintained toward the end of operation. It does not say you will use separate tanks. The Commission is concerned with the record. We want all of these operators to interpret this as the Commission interprets it. How do you interpret it, Mr. Spurrier? Do you require separate tankage?

Mr. Spurrier:

No. I think we should require that the oil be kept separate.

Governor Dempsey:

Is this a new form we are discussing? I don't think Mr. Selinger's case here is on Form C-115.

Mr. Selinger:

No. I tried to make it clear that it is in no way opposition to the present form.

Governor Dempsey:

You don't object to the present form?

Mr. Selinger:

Oh, no, sir. There is some question in the minds of the operators.

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Governor Dempsey:

Then there is nothing in this form that would change the situation you are talking about?

Mr. Selinger:

No. You would have to make out different reports, and that is this separation right there.

Governor Dempsey:

You want this form to correct an existing evil in your opinion?

Mr. Selinger:

The effect of the requiring of separate New operators are undecided. For example, you have well "A" in one pool and well "B" in another pool, and under that circumstance you report your wells by pools and you would have to report these wells on separate forms.

Governor Dempsey:

You are injecting something in this form that should be corrected in another matter. Why don't you operators get together and suggest to the Commission the simplest way, and do that which the Commission requires?

Mr. Selinger:

I can only speak for myself. That confusion has only arisen in our minds within the last 30 days.

Mr. Spurrier:

Insofar as this particular form is concerned, I don't see that it is involved with Mr. Selinger's objection. This form is simply to straighten out the operators on what they are to report with reference to oil-gas ratios. There seems to be some confusion in the minds of operators as to what they are to report.

Governor Dempsey:

Now is there any objection to this new form in view of the statements made by the Director of the Department? If not, we will approve the form, and if you operators feel there is any burden or misunderstanding we will be very happy to have another hearing and straighten the matter out for you.

Mr. Spurrier:

I may state that this is the same old form revised.

Mr. Livingston:

The next case is No. 75 in the matter of the application of Charles Eneu Johnson and Company that it be issued a permit in lieu of or as supplemental to and amendatory of the permit issued to it by this Commission on May 25, 1945 to use up to 42,000,000 cubic feet of natural gas per day from the South Eunice Field in Lea County, New Mexico for the manufacture of carbon black in its plant approximately eight and one-half miles South of Eunice, New Mexico, said permit to continue in effect for a term of ten (10) years from the date of the issuance thereof. The applicant in said application further requests that this Commission's Order No. 589, in case 99, be amended with respect to the term thereof so as to have it conform with the term of the permit hereinabove applied for. Order 589, now requested to be amended, is the Order providing for the lifting of the gas-oil ratio for the South Eunice Field for the duration of the war and six months thereafter for the purpose of the use of gas from said field for the manufacture of carbon black when a carbon black plant with facilities is ready. Mr. Fletcher Catron is attorney of record for the petitioner.

Mr. Catron:

As the notice indicated, this is merely an application to secure an

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amendment, first of the Order which lifted the oil-gas ratio in the South Emsco Field, and, second, of the permit which was issued to the Johnson Company to use 40,000,000 cubic feet of gas for the manufacture of carbon black. The original permit was issued for a term of the duration in the emergency existing in the manufacture of rubber tires and other rubber products. The Order changing the oil-gas ratio read for the duration of the war and six months thereafter. The question has arisen as to whether either of the terms has ended. I think it is recognized that the war is not yet at an end. Some have taken the view that when hostilities ceased the six months period began to run. I feel that is incorrect.

Governor Dempsey:

The legal status is that the war is not over, and will not be until so declared by the President of the United States.

Mr. Catron:

The language of the permit was put in that form with the idea of offering facilities for the manufacture of carbon black as long as there was an emergency in the manufacture of tires and rubber products. At the time that the hearing was held on the Order — that is, Order 589 in Case 99 — I did not participate but I was present. No objection whatever was made at that time to lifting that oil-gas ratio, as I remember, and I think the records will support me in that. The only question which was raised was as to how that gas was to be used, and, insofar as I can see, there has been absolutely no change in conditions. The very fact that this Commission lifted the Order, the very fact that the Commission subsequently issued its permit to the Johnson Company was in itself a finding by the Commission that the use of the gas for that purpose was not economic waste, and it was a sign that the increasing of the production of gas from that field was not detrimental to the field itself. So we come down merely to the question now of whether there is any reason why the permit issued and the Order lifting the gas-oil ratio should not be continued in effect for a sufficient term to enable the Johnson Company to go into this enterprise and recover its investment. There have been changes in the set up. I appreciate that at the time of the issuance of the permit we were still at war, and the fact that we were at war had some bearing on it. At that time the permit which was issued prescribed that the gas to be used was to be obtained from the Lea County Water Compressor Plant in that field. Since then it has been sold and the Lea County Water Company is no longer interested. It is now the plan of the Johnson Company to obtain the gas from the producers, and it has obtained an option from two of the producers who are the greatest producers of gas in that field. In order to carry this forward, the permit issued would have to be amended to eliminate the Lea County Water Company and open it to the Johnson Company to obtain the gas from whatever source it can in that field. The permit and the Order should certainly conform as to term. In the application I prepared and filed I asked that the term be fixed at ten years. At the time of the original permit, the Commission was hesitant about any fixed term. As the Commission knows, when hostilities ceased the Government decided not to complete the plant, however, it has expended over two million dollars there, and the plant is not yet in condition to be operated at this time. It will take some million and a half dollars to complete the plant, and the Commission can see that the Johnson Company, which has negotiated for the purchase of the plant, cannot very well undertake to complete it unless it has some reasonable assurance that it will be able to obtain the gas and continue with the manufacture of carbon black, so their position is simply this. So far as the prime factor in which the Commission is interested has not changed. This Commission is concerned with whether there is waste in the use of gas for that particular purpose. It has found that there is no waste. I think that is amply corroborated by the fact that in Texas alone there are some 36 carbon black plants, and Texas is governed by the Interstate Compact Commission, just as New Mexico. In that respect I think we have ample backing to say there is no waste in using the gas for that purpose. The only other element of waste that may be of concern is in what respect a withdrawal of a greater amount of gas from the field would have on the field. That was also considered by the Commission at the time it issued its Order, otherwise the Commission would not have entered that Order. All we can ask is an explanation at the outset on the part of the Commission of what it regards as the term of the permit and the Order, and then of some assurance that we can go ahead with the completion of this plant and have gas with which to oper-

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ate for a long enough time to recover our investment. I personally felt there was no occasion for a public hearing because all of the facts had already been passed on, but it was considered advisable to have a public hearing on the matter. We are here ready to offer evidence on the different points involved if considered necessary. As I say, though, this Commission has already made its findings, and has entered its permit and Order accordingly. Whether there are any objections I do not know, but, if so, I think we are in a position of waiting while we hear the objections, because our case is already made.

Governor Dempsey:

Any objections to the request made by the attorney for the Johnson Company?

Mr. Hummer:

My name is R. B. P. Hummer. I am attorney for the Phillips Petroleum Company, and I desire to state our position. It is my understanding that this Order was made by the Commission during the war emergency, which, as I understand it, involved the shortness of the channel carbon black for the manufacture of tires, and the PAM being interested in securing carbon black for that purpose appealed to the Commission in Texas, and I assume to your Honorable Commission here, to help. Under those conditions Phillips Petroleum Company did not object to the Order, but under present conditions we want to state our position. We do not have any production in the South Eumice Field of oil. We are interested in the gas production, because we now have casing head gas contracts for the purchase of gas. Our interest in the casing head gas purchases in the entire basin is for pipe line purposes. An application is now pending to build a pipe line which will extend from this basin out to California for the transportation of gas, and we have a contract with the applicant for a line from Dumas and the basin to supply some of their gas. We are interested as an operator for oil and gas in the State of New Mexico and in the Eumice Field. It is my information that so far as the gas is concerned there is some inner-connection between the two fields and that the withdrawal of gas from the South Eumice Field or the Eumice Field proper might effect the oil in other fields. It is my information that the South Eumice Field produces both oil and gas, with 6,000 feet of gas to one barrel of oil, but to withdraw production control entirely from the gas and oil in the South Eumice Field, in the opinion of my company, is a mistake, and I think is not an aid to conservation. It is further the position of my Company that withdrawal of production control in the State makes the Commission's efforts less effective with regard to production of gas and oil in other pools. We think to eliminate production control entirely would result in waste. We further take the position, and I state the facts as I understand them, that the purpose of the applicant here is to take the waste gas without processing it for gasoline purposes. All gas used for the carbon black purposes should first be processed to recover the gasoline content. That is required by law in the State of Texas, and we think it should be required by order of your Honorable Commission. Our position in connection with that matter is that if we were successful in obtaining the gas in this pool for the purpose already stated, we plan to process it to recover the gasoline content before the same is delivered to the pipe line for transportation. It is indispensable to our contract for furnishing the gas to the applicant, but if we do get it, it will go to a pipe line for the purpose of light and heat. That is our position in the matter, and in answer to the suggestion of the attorney for the applicant we thought we should state it.

Mr. Catron:

It is my understanding that insofar as the law in Texas requiring the extraction of gasoline, it applies only to sweet gas. We are not dealing with sweet gas here. It is my information that this particular gas is so lean that it would not be a paying proposition to extract the gas from it.

Mr. Hummer:

What is that based on?

Mr. Catron:

I have it on report which I have in my file, and I think possibly on

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correspondence with the Phillips Company itself. There are a good many features which could be brought out but these various factors have already been considered by the Commission. When it entered its Order it took these things into consideration. As to whether the extraction of additional gas from the South Eunice Field might effect the Eunice Field, that is speculative. There again those elements were considered by this Commission at the time the Order was entered. We are not asking that the limit be taken off completely. We are merely asking that it be lifted sufficiently to enable this Company to obtain the gas necessary for the successful operation of that plant. We are confident that the expenditure already made by the Government of over two million dollars should be taken into consideration. If there is to be waste considered, after all, a waste of two and one-half million dollars of the taxpayers' money is something to be considered as against an enterprise in this State which will be for the benefit of the State. If I remember in the hearing in February this was one of the factors which led the Commission to word its Order as it did "for the express purpose of use of gas from said field for the manufacture of carbon black" (Case No. 99, Order 589). Now that language would not have been put in had it not been considered by this Commission that the use of gas for that purpose in this State was more desirable than piping it out of the State to California or somewhere else. The enterprise which the Johnson Company is undertaking is within the State, and would be to the best interests of the State and its people. The question of whether there is still an emergency in the production of carbon black is really a side issue. This Commission has already found that the extraction of an additional amount of gas from that field would have no detrimental effect on the field itself. There is nothing in the way of extension to show there is any change in these respects, and we are merely asking for an amendment of the permit to open the gate to the Johnson Company to obtain its gas from other sources than the Lea County Water Company, and then to have the Order and permit conform to the length of time. It is not essential that these orders be made for a period of ten years, and once having made a finding that the use of gas for this purpose is not waste, the element of time is immaterial. There is not apt to be any change. We do want to know that the Order and permit are in effect and that they will not expire arbitrarily in six months after the war has been proclaimed to be at an end. In other words, we would be agreeable to an amendment of both the permit and the Order, eliminating the time element entirely, and just say that the Charles Egan Johnson Company is granted a permit to use up to whatever maximum the Commission is willing to fix for the manufacture of carbon black, and that the Order be amended to read that the oil-gas ratio be lifted to whatever measure is necessary. There is nothing offered here which can be called a valid objection because the questions involved have already been passed upon. I will be glad to produce witnesses and convince the Commission both as to the need of carbon black at this time, which is a far greater need than we have ever had before, and to satisfy the Commission concerning the situation in that particular field down there.

Governor Duggan:

I think there is some misunderstanding. When the Commission called a hearing in connection with the carbon black, it did so at the request of the WPA to get tires, of which there was a great shortage, and I do not know whether the Commission took into account whether there would be waste in the manufacture of carbon black, because the Commission was interested in making contributions to the war effort. I recall some opposition by those desiring to pipe the gas from New Mexico to California. The Commission felt then, and I feel now, that we should conserve our natural resources to the greatest extent possible, and I prefer to do so. Whether New Mexico would suffer if the gas is piped to California, I think, is a matter for the Commission to consider.

Colonel L. C. Herkness, after being first duly sworn, testified as follows:

Mr. Catron:

Please state your name.

Col. Herkness:

L. C. Herkness.

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Mr. Catron:

You are connected with the Charles Ewen Johnson Company?

Col. Herkness:

I am the President of that Company.

Mr. Catron:

You are familiar with the permit which was issued to your Company by this Commission back in June 1945 under which you were authorized to take 40,000,000 cubic feet per day from the South Eureka Field?

Col. Herkness:

I am.

Mr. Catron:

That plant, which was being erected by the Government, has not been completed?

Col. Herkness:

No. It is approximately 60% complete.

Mr. Catron:

Do you know what has been expended in the erection of the plant?

Col. Herkness:

\$2,642,000.

Mr. Catron:

Is any part of the plant in such condition that it could be operated?

Col. Herkness:

No.

Mr. Catron:

What, in the way of expense, would be entailed to complete the plant?

Col. Herkness:

The engineer's estimate is \$1,252,000.

Mr. Catron:

You have another plant in operation in New Mexico?

Col. Herkness:

We operate a plant that belongs to the Government at Hobbs.

Mr. Catron:

Are there other carbon black plants in operation in New Mexico?

Col. Herkness:

There is one at Eureka which belongs to the Government and is operated by the Panhandle Carbon Company, and another plant is at Eureka owned by the Columbia Carbon Company.

Mr. Catron:

The original agreement at the time you had this contract with the Government was that gas which you were to use would be furnished by the Lea County Water Company, was it not?

Col. Herkness:

That is correct.

Mr. Catron:

What is your information as to the position of the Lea County Water Company now furnishing you the gas?

Col. Herkness:

The Company cancelled that contract.

Mr. Catron:

Were you not directly informed that that company had sold its plant to the Phillips Petroleum Company?

Col. Herkness:

Yes.

Mr. Catron:

In the event you should now enter into a contract with the Government for the partially completed carbon black plant, you would have to obtain your gas from other sources?

Col. Herkness:

That is correct. We have an option from two companies — The Texas Pacific Coal and Oil Company and the Cities Service Oil Company.

Mr. Catron:

What, under the options with those companies, will you be called upon to pay them?

Col. Herkness:

2½ cents per 1,000 feet plus penalty royalty.

Mr. Catron:

What is your understanding as to the volume of gas production from those two companies as compared to other fields? Are those companies the largest producers in that field?

Col. Herkness:

Yes.

Mr. Catron:

In the event a permit should be issued to you under the conditions which you have requested, would it be your intention to limit the purchase of gas which you would make to those two companies?

Col. Herkness:

It is our understanding that we would take from all producers in the field who would care to furnish it to us. It is an understanding between our company and the oil companies.

Mr. Catron:

Have you any information as to the price for gas of this type when sold to pipe line companies and for the purpose of extracting gas?

Col. Herkness:

That is out of my realm.

Mr. Catron:

Can you give the Commission a little information concerning the present

need for carbon black?

Col. Herkness:

The shortage of carbon black is more acute now than at any time. It is estimated that a minimum shortage of 150 million pounds will exist.

Mr. Catron:

I think that expresses the situation pretty well. Have you any other information on that particular subject?

Col. Herkness:

I have a letter which indicates that there is a shortage in export black, which conforms with that other letter.

(NOTE: At this point Mr. Catron read the letter in question, marked "Exhibit A" in the file of the petitioner.)

Mr. Catron:

Looking at it with a little longer view, as I understand it, there are different types of carbon black.

Col. Herkness:

Generally speaking, there are two types -- channel black and furnace black.

Mr. Catron:

Can you give the Commission a little information relative to the use of the two types of black?

Col. Herkness:

Ordinarily speaking, channel black is used for the manufacture of rubber tires, and furnace black is used largely in the production of synthetic rubber.

Mr. Catron:

As we get back to the normal production of rubber goods from crude rubber, the demands of channel black will remain consistent, while furnace black is liable to decrease. Is that correct?

Col. Herkness:

Yes, that is correct. It is to be expected that channel black will increase.

Mr. Catron:

Have you any information as to the gasoline content of the gas from that field?

Col. Herkness:

All the information I have is from other people's reports.

Mr. Catron:

What in the way of carbon black can be derived from the gas in that field?

Col. Herkness:

From the analysis which I have seen, we anticipate a yield of 1.6 pounds per 1,000 feet.

Mr. Catron:

What would be the value of that?

Col. Harkness:

The black is worth 5 cents per pound.

Mr. Catron:

What would you estimate the total gross revenue from the operation of that plant?

Col. Harkness:

It is about one and one-half million dollars a year.

Mr. Catron:

Have you made any effort to figure what that would mean in the way of royalties to the State of New Mexico?

Col. Harkness:

No, I am not familiar with that.

Mr. Catron:

What would the production of rubber amount to in the way of revenue?

Col. Harkness:

The freight would amount to \$700 per day, and it would provide employment for about 30 people.

Mr. Catron:

What would you consider the labor requirements of the plant?

Col. Harkness:

Approximately 200 people for 7 or 8 months.

Mr. Catron:

I think that is all at this time. I have one thing I would like to state. When this thing first came up we found that by stripping the gas first we could produce only .9 of a pound to 1,000 feet because the gas was very lean. When gas becomes lean it is impossible to produce, and the conclusion of our engineers was that if the gas is stripped it could not be immediately processed.

Governor Miles:

These questions I want to ask may be out of order, and I am not familiar with them. Do these carbon plants operate under a special permit?

Mr. Catron:

It is my information that the Columbia Company started without a permit; that thereafter the Panhandle Company came in during the war and obtained a permit, and it was then suggested to the Columbia Company that it should make application for a permit.

Mr. Livingston:

The Columbia Company came in for a permit. Later it desired to increase its intake, and they came back with an application for an increase in the amount of gas to be consumed.

Governor Miles:

When this contract was cancelled to the Lea County Water Company, what did that include?

Col. Harkness:

It was a contract to supply us gas. The contract provided for the supply of gas, but we had to purchase the gas from the suppliers. They sold it

to us at a higher price than they purchased it for, of course.

Mr. Hammer:

Was that a contract between the Government and the Lea County Water Company?

Col. Harkness:

No, between Charles Eneu Johnson and the Government.

Mr. Hammer:

Did you have a contract with the Government?

Col. Harkness:

Yes. I still have.

Mr. Hammer:

I understood you to say that was cancelled about the time the Lea County Water Company cancelled its contract.

Col. Harkness:

Technically it has never been cancelled. That contract is still in force and effect.

Mr. Hammer:

Do you have any option to purchase the plant under that contract, or are you competitive with others?

Col. Harkness:

We are competitive with others, but I do not see what that has to do with what we are talking about.

Mr. Hammer:

The only point I think it may have, if at all, would be my next question. If the Commission here grants you a permit, as you now request, it would give you an advantage over other competitors in the purchasing of the plant, would it not?

Col. Harkness:

No. We have already released our option.

Mr. Hammer:

I do not believe you understood my question. I asked if the Commission grants you a permit it would give you an advantage over other competitors in purchasing the plant, wouldn't it?

Col. Harkness:

My answer is no.

Mr. Hammer:

Why do you desire a permit then, before you complete your purchasing arrangement with the Government?

Col. Harkness:

When I purchase from the Government I have to pay for it, and I don't want to pay for it and then find that I can't get a permit.

Mr. Hammer:

Do you understand that if you are granted a permit up to the full 42 million feet per day it will require the entire output of gas from the South Eunice Field?

Col. Harkness:

That, I think, is a question which could be better answered by oil experts.

Mr. Hammer:

Do you know how much the open flow of gas is there?

Col. Harkness:

No.

Mr. Hammer:

You contemplate using raw gas, and not removing any of the gasoline contents?

Col. Harkness:

It would not be suitable if the gasoline is removed.

Mr. Hammer:

In the other plants you mentioned, which manufacture carbon black, do you know whether they use residue gas?

Col. Harkness:

Yes, they do.

Mr. Hammer:

Is that generally true with reference to carbon black plants in the State of Texas?

Col. Harkness:

Yes, it is generally true.

Governor Miles:

I did not get the full answer to these other plants being operated under a special permit.

Mr. Livingston:

If I may explain them, the permits heretofore issued have been issued under the Commission's general powers to prevent waste. Upon the application to use gas from a certain source for this particular purpose in a certain plant, the Commission gave its permit if it shall not constitute waste. The Columbia Company lead out first, then Pashandle, then Charles Eben Johnson.

Governor Miles:

Who says to use up to a certain number of cubic feet of natural gas?

Mr. Livingston:

The original permit granted heretofore, that is now sought to be extended, was not quite that amount, and I presume that was perhaps a typographical error. The other permits had the maximum amounts.

Mr. Catron:

The 40 million cubic feet mentioned in the Order was simply round numbers without regard for the plant itself. This plant is composed of a certain amount of burning units, each of which has a consumption of so much a day, and to put the plant on a full operating schedule, 42 million feet would be the minimum.

Governor Miles:

What I am trying to arrive at is not the plant, but whether they are all operating under such an order as your order.

Mr. Catron:

Similar, but for different amounts. The amounts are the maximum amounts they may use, and they were all issued under the nature of an emergency.

Governor Dempsey:

Mr. Appel, what is the largest plant operating in the State?

Mr. Rippel:

I believe it is the Panhandle Carbon Company, with 35 million cubic feet.

Governor Dempsey:

What do you contemplate in the gas you expect to pipe from New Mexico to California?

Mr. Rippel:

For the first 5 years between 40 and 50 million feet from New Mexico. This is the Phillips Petroleum Company. We have a contract for the first 5 years to produce 80 million feet, and that not furnished from New Mexico will be furnished from Texas.

Governor Dempsey:

What is the disposition of this gas in question?

Mr. Catron:

It will be used in its present state if the permit is granted. These other plants use residue gas and use it under a different set up and because that gas is of a richer quality. This gas has been going to waste for years down there. Why, if these other companies are so interested in it, is that interest so new-born? What we are trying to do is to put that gas into use. These other companies have had the opportunity for ten or twelve years or longer. As I understand it, there are 11 million cubic feet of gas down there flared, if not more. That has been going on for years. It was not until recently that the necessity for the manufacture of carbon black has arisen. On the other hand, Phillips and the El Paso Natural Gas have known of that condition, but now is the first time they have made any effort to avail themselves of the gas.

Governor Miles:

The question was asked, but I do not believe it was answered, whether it would take all of the gas in the South Eunice Field.

Mr. Catron:

My information is that it would not.

Governor Miles:

Is any of that gas being used for any other purpose?

Mr. Catron:

It is not being used for anything now, insofar as I know.

Governor Dempsey:

In connection with your application for an amended order, there are no companies operating that have any ten-year permit.

Mr. Catron:

I am perfectly willing to consider my application amended insofar as that particular term is concerned. We want to feel that the Commission, in effect, backs up the findings which it already has made. In other words, that the use of this gas is not to be construed as waste, because as long as that is true the Commission is not interested in terminating the permit for that purpose. It is merely that it shall not be waste. As I say, I would like to have the Commission go on record as backing up the findings which it has already made, so that we may say "O. K.". The use of the gas for this purpose is not waste, and is used for advantage, both to the Nation and the State. That is the thing in a nut shell. We stand just where we began.

Mr. Spurrer:

I wish to make it clear that no gas-oil ratio has ever been lifted; the 40 million feet of gas has never been dedicated, because no carbon black plant was completed.

Mr. Hummer:

Mr. Harkness, I do not believe I clearly understand your statement as to your present application. Is it of such a nature that you are asking the Commission here to permit the use of this gas for carbon black purposes to anyone who might be a successful bidder?

Mr. Harkness:

It is very obvious that I would not have asked for a permit for anyone other than my own company.

Mr. Spurrer:

You stated, as I understood, that you do not think that by getting your permit it would put you to an advantage over other competitive bidders.

Mr. Harkness:

I assure that if the Commission grants me a permit it would grant anyone else a permit under the same circumstances.

Mr. Hummer:

You would be the only one who would have an exclusive permit under your application and your theory of it.

Mr. Harkness:

It seems to me that it is futile.

Mr. Catron:

I think I can answer that. After all, anybody who is negotiating with the Government for the purchase of that plant would want to be sure they would have a permit to get the gas. Now as to whether there are other concerns who are interested in acquiring this plant from the Government, it is time they come before this Commission to find out whether they can get the gas. The Johnson Company has been negotiating with the Government for many months, and it wants to know from this Commission whether it can get the gas. If the Company is granted the permit it will be in an advantageous position.

Mr. Hummer:

How could you answer the question, if your company is granted an exclusive permit, how can anyone else get a permit?

Mr. Catron:

That will be up to the Commission. We are not asking for an exclusive permit.

Mr. Hammer:

If it is for the same plant, and there is an exclusive permit, no one else could bid for that plant.

Governor Dempsey:

I would not think so. I do not believe the purchase of the plant is a concern of this Commission. Mr. Catron, may I remind all of you gentlemen that there has not been an exclusive permit issued to anyone. The gas-oil ratio has not even been lifted. Is there anyone else who wishes to be heard on this matter?

Mr. Sanderson:

We are a small operator in the South Buena Vista Pool, and we would object to having the Commission remove all control over the production there for the fact that any one well might produce large volumes of gas unrestricted. To get 42 million feet as a whole would mean that the gas-oil ratio would be excessive. We have no objection to the company taking the gas, but we think the Commission should continue some kind of control over the production.

Governor Dempsey:

This Commission is not going to permit the gas to be raised to the point that it is going to be detrimental to the field, and that is the only thing in which I am interested. I think 10 years is too long to grant a permit. Frankly, I think this Commission does not have the authority to grant a ten-year permit.

Mr. Catron:

That we would be willing to waive. As long as there is not waste, which it is the objective of this Commission to prevent, there can be no objection to the use of gas for that purpose.

Governor Dempsey:

I am willing to grant this request.

Mr. Tesch:

I am a Chief Engineer for the Texas-Pacific Coal and Oil Company, and I would like to say at the outset that I have not been here for a number of years, and I am certainly glad to be back. I would like to review this matter briefly from the point of a producer in that field. We are the chief producers in that field, having 27 wells. We have been operating in that field for a number of years. It was only until the last few years that anyone was at all interested in doing anything about the gas in that field. We had no offers at all. It was lean gas. Now we are faced with the proposition of two companies competing for that gas -- Phillips and Mr. Harkness. We are somewhat in the same position as the State is. As a matter of fact, our 27 wells are located on State acreage, and it is a matter of interest to the State as well as to ourselves as to the final outcome of the disposition of that gas. Our offer from Harkness is considerably more lucrative to us than from Phillips. Our offer from Phillips is a lot less, consequently our revenue and the State's revenue would be considerably less than if we sell to Harkness. Phillips was not interested in doing anything about the gas down there until there was competition. If your Order is not issued we will be forced to sell our gas at a less price than if we could sell to Harkness.

Governor Dempsey:

You are the largest producer in that field?

Mr. Tesch:

Yes, sir. We are primarily oil producers in that field, and, as a matter of fact, it will greatly increase the oil recovery in that field. As you know, every well reaches a point sometime when it is not economical to operate. I might say this: We are an old operator in West-Central Texas. There we are selling gas and producing oil that we would not produce if it

was not from the revenue we get from the sale of the gas and the production of oil has been increased because we got additional revenue by the sale of the gas. This same thing will happen in the South Eunice field at some time. We will be able to keep our wells operating for a much longer time. It is all a matter of dollars and cents. One company wants us to sell gas cheaper than another company, and, naturally, we want to sell our gas for the highest price, and we are also interested in oil production, and we feel this is the only thing that will continue the life of that field.

Mr. Bodie:

We are the next largest producer in that field, and we are the discoverers of that field. We drilled the first well there in 1928. Up to now we have seen the gas dissipated from that field in large amounts, with no market. We are very much interested in seeing this Order amended, as requested by Mr. Herkness, that we can market our gas.

Governor Dempsey:

Have either of you gentlemen made any estimate of the increased revenue to the State regarding this matter?

Mr. Tesch:

Strictly from a price standpoint on the case, it amounts to between fifty and seventy-five thousand dollars to the State over a period of ten years.

Governor Dempsey:

I do not feel that this Commission can grant this company a 10-year contract.

Mr. Tesch:

That can be broken down to say it amounts to between five and six thousand dollars a year, which is revenue coming into the State which otherwise would be lost. I feel the fundamental question is the waste element. That is what this Commission is concerned with.

Governor Dempsey:

Mr. Bodie, how many wells do you have in the field?

Mr. Bodie:

24. Under 50% of the wells in the field. For our part, we have figured this out as to the difference in revenue, based on 40 million cubic feet of natural gas. The sale to the Johnson Company would net the operators \$800 per day. The sale to the Phillips Company, at its average price, would be \$568, or a difference of \$232 lost to the operators daily. The State's royalty, if sold to the Johnson Company, would be \$49.88. If sold to the Phillips Company it would be \$31.50, or an \$18 per day loss.

Governor Dempsey:

Mr. Rippel, do you have something you wish to say at this time?

Mr. Rippel:

The only thing is an answer as to why Phillips has not been down in that field before. Until we made this contract with the El Paso Natural Gas Company we did not have a sale for the residue gas. Since we do have a sale for the residue gas, it is profitable to us.

Governor Dempsey:

I see no objection to complying with the request of the applicant here, not as to any length of time, because that we can't do. We want to treat all plants now operating exactly as we would treat the Johnson application. I am not qualified to say to what extent the gas-oil ratio be lifted, but to a degree sufficient to furnish this Company 42 million cubic feet, which it has applied for. We do not want to lose control, however, thus cutting our own throats.

Mr. Catron:

The Commission might readily see that kind of production is detrimental to the field, and we are going to stop it. As suggested by Mr. Tesch, it can be lifted, and as the volume of gas required is met, the ceiling can be brought down to meet it. We have this situation. The plant is not yet complete, and it will probably take some seven or eight additional months to complete it in its entirety. When it reaches its maximum production capacity we will know exactly what the ratio will be to fill this 42 million cubic feet per day. The Commission would want to reserve the right to put a ceiling on that would not be detrimental to the field, and I think the operators feel the same way. I think that would be absolutely essential, but, on the authority which I have, you can readily produce the 42 million cubic feet we are asking here without having any waste at all.

Mr. Tesch:

I do not believe there would be any waste. I think there are 14 wells shut in on account of high gas-oil ratios, and wells producing now are only producing at 50% over their rate capacity. That would more than produce enough gas to meet this 42 million cubic feet.

Mr. Spurrer:

Approximately how much oil would be produced? Would it exceed 40 barrels per well per day?

Mr. Tesch:

No, it would not. If the field was allowed to produce 40 million cubic feet per day you could expect 500 barrels more oil per day still under the allowable. We are not interested in seeing gas flared down there. That is why we say the best way to approach this is to open the field and find out what the field will produce, because by the time this plant is completed there will be changes, and the Commission can reinstate a gas-oil ratio limit. To me this is the engineer's approach.

Governor Dempsey:

Apparently the Commission has no objection to the request you are making, Mr. Catron, except as to the time limit.

Mr. Catron:

As I say, I am perfectly willing to eliminate the time element. All we are asking is the volume of gas necessary to operate the plant economically and properly.

Mr. Bodie:

At the present time the gas is being flared, with no measurements, and you have no idea how much is being wasted. It is not the intention of the Commission to write an order to eliminate the amount of gas which our company is purchasing under our contracts?

Governor Dempsey:

This gives your company the right, if they can obtain the gas, to purchase and use it. The Commission is not an agent for any company. The Commission has in mind limiting the gas-oil ratio to the outlet of the gas channel for all purchasers. Mr. Catron, do I understand there will probably be no gas flared in the South Dixie Field if your permit is issued?

Mr. Catron:

You are getting over my head, but insofar as the Johnson Company is concerned, it wants to utilize the gas furnished it entirely. Insofar as the producers are concerned, I presume they would rather sell it than flare it. It has been reported that approximately 11 million feet are being flared daily, and we anticipate these 11 million shall be a part of the 42 million.

Governor Caspey:

There being nothing further, the Commission will adjourn.

I certify that the above is a transcript of the proceedings in this matter as taken from my shorthand notes.

Mary E. Martin, Stenographer