

NOTICE FOR PUBLICATION
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

"The Oil Conservation Commission of New Mexico pursuant to law, hereby gives notice of the following hearings to be held July 15, 1947, beginning at 10:00 A.M., on said day at Santa Fe, New Mexico:

"CASE 100

In the matter of the petition of American Employers Insurance Company for an order directed to Charles R. Tarkenton, address unknown, W. R. Childers, Hobbs, New Mexico and Gene R. Burke, Hobbs, New Mexico to show cause why a well located in Chaves County, New Mexico in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 33, Township 11 South, Range 25 East, N.M.P.M., should not be declared abandoned and ordered plugged.

"CASE 101

In the matter of the petition of American Employers Insurance Company for an order directed to Frank Griggs, Lubbock, Texas, John Darden, Lubbock, Texas, and John H. Hawkins, Fort Sumner, New Mexico to show cause why a well located in DeBaca County, New Mexico, in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 11, Township 4 North, Range 26 East, should not be declared abandoned and ordered plugged.

"CASE 102

In the matter of the petition of American Employers Insurance Company for an order directed to San Juan Oil & Gas Co., Inc., 922 North Second Street, Phoenix, Arizona, G. R. Cassidy, 922 North Second Street, Phoenix, Arizona, Arthur Wilson, Phoenix, Arizona, L. E. Snavely, 900 East Van Buren, Phoenix, Arizona, A. H. Vaughn, 2314 Oak St., Phoenix, Arizona, J. A. DeWar, 2138 East Yale Street, Phoenix, Arizona, to show cause why a well located in San Juan County, New Mexico, in the SE $\frac{1}{4}$ SE $\frac{1}{4}$, Section 19, Township 29 North, Range 11 West, should not be declared abandoned and ordered plugged.

"CASE 103

In the matter of the petition of the Leonard Oil Company, a New Mexico Corporation, Roswell, New Mexico for authority to deepen Leonard Oil Company's State Well No. 8, located in Eddy County, New Mexico, 1177 feet north of the south line in 1230 feet west of the east line of Section 21, Township 17 south, Range 29 east to the oil producing horizon in that vicinity.

"CASE 104

In the matter of the application of Walter Famariss Jr., for permission to purchase and process tank bottoms, Pit Oil, Gasoline Plant "Catchings", and other Oil or Waste not otherwise Merchantable, and to sell the merchantable crude derived therefrom.

"CASE 105

In the matter of the application of the Panhandle Carbon Company, Inc., for an extension for ten years of its permit heretofore granted November 27, 1944 respecting use of residue and/or flare gas in the manufacture of carbon black.

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"CASE 105

In the matter of the application of the Panhandle Carbon Company, Inc., for an extension for ten years of its permit heretofore granted November 27, 1944 respecting use of residue and/or flare gas in the manufacture of carbon black.

"CASE 106

In the matter of application of the Oil Conservation Commission of New Mexico, upon its own motion for an order, as recommended by the New Mexico Nomenclature Committee, supplementing Supplemental Order No. 6 to Order No. 633, and relating to overlap in defining boundaries of Loco Hills and Grayburg-Jackson pools, Eddy County, New Mexico.

"CASE 107

In the matter of the application of Barney Cockburn, for an unorthodox well location in Eddy County, in the NE¹/₄SW¹/₄, Section 29, Township 17 South, Range 33 East, N.M.P.M., on State Lease B-2516 in connection with an application for unit operation.

"CASE 108

In the matter of the application of Southern Union Gas Company for approval of the Hope Unit Agreement, Eddy County, New Mexico, embracing the following lands:

Sections 17, 18, 19, 20, 29, 30, 31, 32 and the S¹/₂ and NW¹/₄ of Section 33 in township 18 South, Range 24 East, N.M.P.M; Sections 4, 5 and 6, in township 19 South, Range 23 East, N.M.P.M; Sections 13, 14, 15, 22, 23, 24, 25, 26, 27, 34, 35 and 36 in township 18 South, Range 23 East, N.M.P.M; Sections 1, 2, and 3 in Township 19 South, Range 23 East, N.M.P.M., containing 17,120 acres, more or less.

Given under the seal of the Oil Conservation Commission of New Mexico, at Santa Fe, New Mexico on June 27, 1947.

OIL CONSERVATION COMMISSION

BY: /s/ R. R. SPURRIER

R. R. SPURRIER, Secretary

S E A L"

Said meeting was called at 10:00 o'clock A.M., Tuesday, July 15, 1947, in the Coronado Room of the La Fonda Hotel, Santa Fe, New Mexico.

MEMBERS OF THE COMMISSION PRESENT:

Hon. John E. Miles, State Land Commissioner, Member
Hon. R. R. Spurrier, Secretary, Oil Conservation Commission, Member
Hon. L. J. Frazier, Attorney
Hon. George Graham, Attorney

R E G I S T E R

| <u>NAME</u> | <u>COMPANY</u> | <u>ADDRESS</u> |
|----------------------|-----------------------------------|-----------------|
| Foster Morrell | U.S. Geological Survey | Roswell, N. M. |
| J. O. Seth | American Employers Insurance Co. | Santa Fe, N. M. |
| W. B. Macey | Oil Conservation Commission | Artesia, N. M. |
| Walter Famariss, Jr. | | Hobbs, N. M. |
| Roy D. Yarbrough | Oil Conservation Commission | Hobbs, N. M. |
| John M. Kelly | Independent | Roswell, N. M. |
| C. E. McKinney | Panhandle Carbon Company | Amarillo, Texas |
| Max A. Minnig | Panhandle Carbon Company | Amarillo, Texas |
| E. R. Wright | Panhandle Carbon Company | Santa Fe, N. M. |
| Willis L. Lea, Jr. | Southern Union Gas Company | Dallas, Texas |
| Frank A. Shultz | Southern Union Production Company | Dallas, Texas |
| C. L. Withers | New Mexico Asphalt | Artesia, N. M. |
| E. M. Allen | New Mexico Asphalt | Artesia, N. M. |

REGISTER (Cont'd.)

| <u>NAME</u> | <u>COMPANY</u> | <u>ADDRESS</u> |
|--------------------------|------------------------------|--------------------|
| F. W. Catron | At Large | |
| Neil B. Watson, Attorney | Barney Cockburn, Inc. | Artesia, N. M. |
| W. D. Girand, Jr. | Attorney | Hobbs, N. M. |
| Joe W. Lackey | Malco Refineries, Inc. | Roswell, N. M. |
| C. D. Thomas | Sinclair Prairie Oil Co. | Tulsa, Okla. |
| Frank D. Gardner | Sinclair Prairie Oil Co. | Midland, Texas |
| Wm. E. Bates | The Texas Company | Midland, Texas |
| M. P. Paritt | Standard Oil Co., of Texas | El Paso, Texas |
| H. E. Miller | Standard Oil Co., of Texas | Albuquerque, N. M. |
| Oliver Seth | Leonard Oil Company | Roswell, N. M. |
| Emmett D. White | Leonard Oil Company | Roswell, N. M. |
| H. Allen Weatherby | Stanolind Oil Purchasing Co. | Tulsa, Oklahoma |
| M. G. Langhorne | Stanolind Oil Purchasing Co. | Midland, Texas |
| O. D. Crites | Shell Oil Company, Inc. | Houston, Texas |
| M. T. Smith | Shell Oil Company, Inc. | Midland, Texas |
| Glenn Staley | Lea County Operators | Hobbs, N. M. |
| E. H. Foster | Phillips Petroleum Company | Amarillo, Texas |
| Robert O. Anderson | Malco Refineries, Inc. | Roswell, N. M. |
| E. J. Gallagher | Gulf Oil Corporation | Hobbs, N. M. |
| Otis M. Ramsey | Pipe & Supply Company | Monahans, Texas |

P R O C E E D I N G S

Meeting called to order by John E. Miles, Presiding member.

BY JUDGE SETH:

The first three cases all involve plugging of wells and the same witness, I ask that they be consolidated for the purpose of taking the testimony.

TESTIMONY OF MR. WM. D. MACEY:

(After being duly sworn, Mr. Macey testified as follows)

JUDGE SETH:

Please state your name.

MR. MACEY:

William D. Macey.

Q. What is your official position?

A. Petroleum Engineer for the Oil Conservation Commission.

Q. Mr. Macey, have you examined the well of Charles R. Tarkenton and others involved in Case No. 100, the SE/4 NW/4 of Section 33, Township 11 South Range 25 East, in Chaves County, New Mexico?

A. I examined the well last Friday (July 11, 1947) morning, talked with Mr. Penter the land owner and examined the well, he informed me the well had been plugged approximately 1 1/2 years ago by the Conservancy District - the well being in the Roswell artesian water basin. He said the Conservancy District had complete records on the plugging, he did not know exactly what had been done but the well apparently had been plugged. I went in there and talked to Mr. Minton and he confirmed Mr. Penter's statements. He said he was sure the Conservancy District would conform with the laws of the Commission if they were so requested and would tell exactly what they had done in regard to plugging the well.

Q. Will the Commission get that information?

MR. SPURRIER: Yes, sir.

Q. Then I suppose your office will have to check it and see if it conforms with the regulations of plugging.

Q. There was no evidence of production?

A. No, sir.

CASE NO. 101

JUDGE SETH:

This has to do with the Griggs well which is located in the NE/4 NE/4 of Section 11, Township 4 North, Range 26 East, Did you examine that well?

MR. MACEY:

I have visited that well from time to time over the last six months.

Q. Will you state what the records of the Commission show?

A. According to the records, the well is a total depth of 5580 feet, there is a combination rig on the site of the hole and about 5 months ago when I was there they were working on the well attempting to recover a drill stem tester they had lost in the hole. They had tried for a long time to recover that tester, they attempted to side track the drill stem tester, don't know whether they were successful or not. The equipment on the well is torn apart - not completely assembled parts all over the place.

Q. Is the rig in such a shape that they could go ahead and dig further?

A. I really don't know.

Q. Was there anybody there the last time you were there?

A. No, sir. From the appearances no one had been in there for quite sometime. The pot they had to store the mud was torn down, everything was in a disorderly manner. I believe the rig engine was still there.

Q. Rotary?

A. Combination.

Q. Did any of these people answer the notice of the Commission?

MR. SPURRIER: No, not that I know of.

CASE NO. 102

JUDGE SETH:

Case No. 102 has to do with the SE/4 SE/4, Section 19, Township 29 North, Range 11 West, well located in San Juan County. I believe you did not examine that well.

MR. MACEY:

Our Representative, Mr. Green, stated he had examined the well but I don't believe he is here this morning. however, we do have a notice on a Commission form which the Operator submitted on November 21, 1938, signed by Mr. Vaughn, Manager and Director of the San Juan Oil and Gas Company which states as follows:

"Having reached the depth of 933 feet with 6" hole, we now find our present equipment inadequate and now intend to install heavier machinery in order to reach the deeper sands.

"At such time as we are ready to resume operation we will notify the Commission."

Q. That was dated November 21, 1938?

A. That is right.

Q. There have been no other reports in the Commission's file from it at all?

A. No, sir.

MR. GEORGE GRAHAM:

With reference to the producing horizons,
how is that hole bottomed?

A. There are - I would say there were about 800 feet above the picture gas sand, which is the producing horizon in the nearby wells. I believe they drilled through the Farmington sand and our records show no production.

JUDGE SETH:

Anybody here representing the American Employers' Insurance Company?

(No response)

I merely want to read in the record - this San Juan bond has not been paid in ten years and we want of course to bring it to a head if we have to plug it ourselves. The bond down here at Roswell has not been paid on since 1944, but that is the one that had been plugged and the Griggs well near Ft. Sumner, no premium has been paid on it for three or four years. We would like to get rid of it if we have to plug it ourselves.

COMMISSIONER MILES:

I don't see any excuse for them standing that long without taking any action, and I think we should take immediate action and have something done.

JUDGE SETH:

We want to either get a new bond or permission to plug the wells.

CASE NO. 103

BY MR. OLIVER SETH - Attorney

There is a notice in this petition to deepen the existing well which is irregularly spaced.

(After being duly sworn Mr. Emmett White testified as follows)

MR. SETH:

Mr. White, when was the well drilled?

MR. WHITE: In 1932.

Q. That was prior to the Oil Conservation Commission law?

A. Yes, sir.

Q. Did the Company get permission at that time for the location?

A. Yes, sir.

Q. Is the well a producing well?

A. No.

Q. Would you describe the location of the well?

A. Located in SE/4 SE/4 Section 21, Township 17 south, Range 29 East.

Q. You have a plan of the location?

A. Yes, sir.

Q. We would like to introduce this plan into the record as evidence.

Who is the owner of the surrounding acreage?

A. Leonard Oil Company owns all the land colored in the plat, which is 160 acres.

Q. The Petitioner owns the adjoining acreage which is all state lands?

A. Yes, sir.

Q. The well is located according to the present regulation, too close to which boundary?

A. I believe the objection of the Commission is the fact that the well isn't located at the location which was originally given as being the location. This well was drilled quite a few years ago and believed to be in the center of the 160 acres, and we have had a survey made and it is out of center around 87 feet I believe.

COMMISSIONER MILES:

Was it ever a producing well?

A. Yes, sir. It was a gas well and produced gas until around 1943 or 1944, and it was shut in and now we want to deepen the well to the oil producing horizon.

MR. SPURRIER:

Approximately how much?

A. About 500 feet.

MR. SETH: That is all.

MR. SPURRIER:

In the event you get a dry hole in the lower zone, what do you intend to do then?

A. In the event we cannot develop any production at all we will plug it.

MR. SPURRIER:

In the event you get production you will produce the deeper zone by itself?

A. Yes, sir.

MR. SPURRIER:

Then the purpose of deepening this hole actually is to save drilling cost on another hole?

A. Quite true. Drilling cost and pipe situation - we will save about 3,000 feet of pipe by going into this old well.

COMMISSIONER MILES:

Anybody have any questions they would like to ask?

(No response)

Case taken under advisement.

BY JUDGE SETH:

If the Commission please, the purpose of this is to get authority to purchase crude that is really being wasted - oil that is run into the pits at the time of the completion or acidation of the well and the catchings from the gasoline lines that has some purities in it. Mr. Famariss desires to show that he can purchase that oil at a price which he will discuss. The reclaiming the oil and selling it needs the action of this Commission to make it legal oil. Petroleum in the pit is burned to get rid of it. The tank bottoms are just wasted. We believe a considerable amount of crude can be saved and sold - it is a matter of establishing a safeguard and has to be done pretty carefully, the regulations should be worked out with care and in the case of Mr. Famariss he is willing to post a bond of considerable amount.

(Examination of Mr. Famariss, Jr. - after being duly sworn)

JUDGE SETH:

State your name please.

MR. FAMARISS:

Walter Famariss, Jr.

Q. Where do you live?

A. Hobbs, New Mexico.

Q. What is your business?

A. I am an oil field contractor.

Q. You filed the petition here to be permitted to purchase and purify and sell certain wasted crudes - is it feasible, take, for instance, first the oil run into the pit, will you describe to the Commission what that amounts to.

A. Briefly, the oil which is termed pit oil in the producing field results from the completion or work over of wells in the treatment of wells with hydrochloric acid out of the lime formation through oil which is used or comes from production or is used to acidize in the well, the whole mass or commonly used in emulsification which is not merchantable products. The quantity of this oil varies, no exact amount you could set would come from wells. As an average we believe there is sufficient oil to justify going out there and picking up this oil and transporting it to a reclamation plant, cleaning it up and selling the merchantable crude derived therefrom. This single item probably represents the greatest destruction of hydro-carbons in the oil fields.

Q. How is it handled?

A. Burned principally, another method it is used for ciling roads.

Q. The cleaning of the tank bottoms - will you explain what is involved there?

A. In tank bottoms, which might vary from 13 to 64 barrels in production, they are taken below the pipe line connection where there is mass fluid. Normally pipe line companies will stop withdrawing oil from that tank when the pipe line oil is 4" from the connection. That would mean there is 4" of oil in there below that is emulsion of some type, some that is free water. The procedure at the present time - my idea is this is drawn off by tank cleaning outfits. It is disposed of in like manner as I described pits - that is, by burning or disposal under the lease oil fire wall tank grade or road. It is a waste of hydro-carbon.

Q. What about the gasoline plant catchings?

A. Scrubber oil, the greatest volume of that probably results from sticking of float valve and separator, when the well is flowed into the separator instead of the oil going into the stock tank as it should, there by

virtue of a float valve stick, the oil will go down the gasoline plant's gathering oil. They cannot use and don't want this oil, they destroy it or dispose of it in some manner. It is probably a higher quality of fluid than the tank bottoms or pit oil.

- Q. Mr. Famariss, in your judgment can these various waste products be transported to a recleaning or reclamation plant and the pipe line crude extracted from it.
- A. I believe the various methods now available to the industry will permit the reclaiming of the oil which in years gone by was not possible.
- Q. Have you had experience with this reclamation?
- A. I have, yes.
- Q. Have you the equipment or can you get it?
- A. The equipment has not been purchased, however, it is available and the plant could be in partial operation within 30 days.
- Q. Have you any idea of the amount of pipe line crude that might be reclaimed from these wastes?
- A. Due to the fact that there is not what is called a tank cleaning plant - cleaning permit in the State of New Mexico, my estimate would be (and it is probably wrong) there is available in Lea County somewhere around 7 to 8 ~~thousand~~ barrels of emulsified fluid per month.
- Q. How much of that would pipe line crude?
- A. The amount would be recovered - pipe line oil - would be varied from the source from which it was obtained. In the tank bottom the best I have been able to recover is roughly 50% of the volume of the tank oil. In pit oil that is variable cases; if it rained your percentage would be lower than in hot weather. I would give an estimate of 60% - 40% of it would probably be salt water disposal. Scrubber oil - the gasoline plants - it would improve above those two. A fair estimate would be 75% of the scrubber oil and 25% roughly would be disposal.
- Q. In your view then, 4, 5 or 6 thousand barrels of pipe line crude might be recovered.
- A. It is entirely possible.
- Q. The process of reclamation, the crude involves the the heating of the mass.
- A. It depends upon the type of emulsification you are installing, some require heat, some chemicals, some acidation and some two or three of them.
- Q. The application of heat particularly, would lower the gravity of the crude?
- A. It certainly would.
- Q. The crude you would reclaim would probably be considerably lower gravity than what was produced through the well into the tank?
- A. Absolutely.
- Q. Are you in a position, financially, to begin this procedure if the Commission so desires?
- A. I can furnish the Commission with substantial resources, proof of them.
- Q. Are you willing to give bond?
- A. I am not only willing to give bond, but ask that the Commission include that when they give permission for any reclamation plant - that they be required to post a bond in the amount of \$50,000 for the handling of this emulsification.

There is another purpose in that there are people who cannot get bonds, those are the people who you don't want in this business.

Q. If the Federal Government would require a separate bond you are willing to comply?

A. Yes, sir. I would do that also.

Q. Have you any idea of what system should be followed when you purchase pit oil - did you say this purchase should be shown something in the nature of a Bill of Sale on the Commission's form and a copy filed with the Commission?

A. My suggestion in regard to that would be that I, as a reclamation plant owner, would be required to furnish the producing company with a carbon copy to the Oil Conservation Commission and a copy for myself, what would in my judgment normally termed a pick-up ticket. It would show the gross barrels of fluid picked up, the exact tank number or the well number in which the pit exists or the gasoline plant name if it is scrubber oil - I would urge a complete identification of the oil.

Q. Then when you completed it, what procedure should be followed with respect to your selling the oil?

A. I should then be required to send a supporting report to the Commission indicating the gross barrels of fluid taken into my plant within a calendar month, the number of gross barrels would be supported by these pick-up tickets, which would eliminate the suspicion of having obtained oil which did not have identity or exactly as given. I would propose it give the amount of sales to the pipe line company, the number, date and barrels of oil run. This report should also reflect the amount of water or other disposal. I would have gross receipts, net sales and net disposal. In that way it appears to me complete control over the fluid taken into the plant would be accounted for.

Q. In other words, you would account at least in your sales of pipe line crude and disposal of refuse, a volume equal to what you have taken in on these run tickets?

A. It would be a great percentage less than taken into the plant.

Q. What you took from the pipe line and what you dispose of should amount to the run tickets?

A. Yes, sir.

Q. Is this wast oil, in your opinion, of some economical value at this time?

A. At this time it is of no economical value.

Q. If you had permission to work on it?

A. Yes, sir, it would be.

Q. In your opinion should the producing companies be paid for this product?

A. It is my opinion that is the only practical method by which a reclamation plant can operate.

Q. It is your opinion they should be paid so that the royalty owner could get the benefit as well as the producing company?

A. That is right. In the missionary work I have done over the past two months with major companies in regard to this, they have expressed their opinion it is a royalty owner's liability when any hydrocarbons are removed from their lease. The royalty owner would be entitled to his percentage of whatever would be paid for the removal of the waste.

- Q. Have you some idea on how these payments should be computed?
- A. I have a suggestion which can only prove to be correct or incorrect by experience. It seems an amount of 25¢ per barrel could be paid for tank bottom, 40¢ per barrel for pit oil, Scrubber oil would have to be treated as an individual case because of the wide variation of contamination. However, it would be higher than 40¢.
- Q. But your idea is to enter contracts that the price you pay, that it fluctuate with the price of crude?
- A. I believe it is necessary the price fluctuate with the price of crude oil, in that regard I am suggesting the prices I have quoted be tied to 20 gravity crude as now in my area.
- Q. You would have to make individual contracts with the producers?
- A. Yes, sir.
- Q. Would you be in a position to work over the pit oil for a producer?
- A. It is not much difference - whether I work it over for the producer or for the reclamation. I can set up a satisfactory price for treating oil for the producing company, which price would include a price comparable to the price I would receive from the reclamation. I would say 15¢ per barrel.
- Q. You believe this 7 or 8 thousand barrels per month of this waste stuff could result in a large saving of crude that might be disposed of as pipeline crude?
- A. I believe it is good conservation.
- Q. As I understand it, the pit oil would be available at a well only once or twice in two years?
- A. It would be available first on the drilling of the well and might be in case of working over that well it later would - - -
- Q. In other words, no definite schedule in which the oil might be run into the pit?
- A. No, sir.
- Q. Then you think it should not be included in the allowable?
- A. It should be excess to the allowable.
- Q. Not charged to the allowable?
- A. That is right.
- Q. The tanks fluctuate a lot?
- A. An average tank cleaning is probably once a year.
- Q. The value in the tank would vary greatly?
- A. Yes, sir - it would.
- Q. Any trouble with paraffin?
- A. Considerable trouble in certain areas. Instead of emulsification you will find a thick paraffin fluid which will not move off from the tank.
- Q. As I understand it, you are willing under any reasonable regulation the Commission would make, and secured by bond to force your complying with the law to undertake this project and try to reclaim this fluid?

A. In summarizing, I do not believe as mentioned in the past, any of these waste products should be charged against the allowable of the unit. I believe anyone in my type of business should be required to pay for the crude or waste products so there would be protection for the royalty owner. I have word from two major companies if they were not purchased they would not participate because of royalty liability. I have contacted and discussed with some 15 or more major companies and have not had reverse reaction. Beyond those two items which I have cited, there - it is my desire that the Commission make their ruling as hard and tough as it can be made. We all realize the danger involved in an industry of this kind - a practical regulation I believe is the thing we need in the regulation, including the making of bond.

Q. That is all.

COMMISSIONER MILES:

Any of these products being produced now?

A. Not that I know of, I cannot specifically state.

MR. SPURRIER:

Aren't they being produced in Texas?

A. Yes, sir. A plant in Odessa. At the present time many of the companies are now producing their own oil. It is costing a small percentage of the price they can get from the oil. They consider it good conservation.

MR. W. D. GIRAND:

I would like to ask Mr. Famariss some questions.

You say you are in the oil field construction business at Hobbs?

A. Maintenance and construction.

Q. Do you operate a tank cleaning outfit at this time?

A. I do not.

Q. Is it your proposal you will operate it?

A. I do not propose to operate a tank separating outfit, if I can work I will operate with the tank cleaning companies.

Q. You propose to pay for this oil?

A. I do.

Q. How will you arrive at the recoverable oil in a lease?

A. I do not propose to arrive at it - I am purchasing waste products.

Q. You propose to pay for that wasted?

A. I do.

Q. You will pay for it on the quantity received from a particular lease?

A. Free water excepted.

Q. You are going to buy that from a transporter?

A. I will not buy oil from a transporter, I will only deal with the producing company; securing what I need.

Q. You are not going to set yourself up as a common purchaser?

A. You will have to clarify that.

Q. You will buy waste oil?

A. From any producing company.

Q. Or individual?

A. No, sir. I will not buy from a transporter.

Q. Individual lease owner?

A. If an individual lease owner is a producer, yes.

Q. Where do you propose to build your plant?

A. At the most advantageous spot where the fluid is now available.

Q. Do you know where that is now?

A. I do.

Q. Where is it?

A. I don't think that is relevant.

COMMISSIONER MILES:

Let me hear the question again.

Q. I asked where he proposed to build this plant.

COMMISSIONER MILES:

You do propose to build it in New Mexico?

A. Yes, sir, in New Mexico and Lea County.

MR. SPURRIER:

Have you ever treated any oil?

A. Yes, in Andrews County, Texas.

Q. Are you operating a treating plant there?

A. What is known as a portable steamer.

Q. You use a portable steamer?

A. The Fullerton Oil Company of California, where considerable acidizing work is done in Andrews, Texas, I proposed to the men they no longer burn their pit oil, but permit me to go out and pick that oil up, scrub it, clean it and transfer it to their stock tanks. They have seen it as a good conservation practice and in such an operation they are charging that against allowable.

Q. That is a rule in Texas it is charged against the allowable of the well?

A. Yes, but most companies burn it.

Q. If I understand you correctly, all you ask of this Commission is for them to set down certain general rules and regulations governing the processing of waste oil.

A. With the provisions which I have thoroughly stated, and I believe necessary to good operations.

Q. Those provisions being payment of a certain amount - - -

- A. No charges against allowable, the necessary protection for the oil owners, the posting of a very substantial bond by me with the state and federal government, and to make every other provision that will result in clean operations of a suspicious business.
- Q. If you get your order here authorizing you to purchase the waste, you will expect the Commission to give you the dope on pipe line oil?
- A. Yes, sir.
- Q. You have the right to go out and buy this waste oil now.
- A. I know of no right by which I can go out and buy hydro-carbons.
- Q. What kind of plant do you propose to construct?
- A. Heat, chemical and mechanical.
- Q. All those plants uniform in construction?
- A. Similar, not uniform.
- Q. You have such a plant in operation in Andrews?
- A. I did not say I had one in Andrews, I said I had a portable steamer which is serving a producer in cleaning up his own oil.
- Q. So far you have never operated a reclamation plant, is that right?
- A. No one has ever operated a reclamation plant in New Mexico.
- Q. Have you ever operated one anywhere else?
- A. I have never operated one in Texas or any other place, but I am completely familiar with emulsification of oil.
- Q. In order to clarify this payment - as I understand it you are going to pay on the volume of emulsification you have picked up.
- A. Free water excepted.
- Q. How do you propose to gauge that?
- A. In the same manner the pipe line companies gauge their run tank, the initial procedure will more than likely be to pull off, by method already determined, the free water from the bottom of the tank when the emulsification starts coming it will be put into a pit or my transport.
- Q. Do you a transport at this time?
- A. They are available on the market. I will not get one until I get an order from the Commission to process oil.
- Q. It is your opinion about 75% of the emulsification you will take to your plant will be pipe line oil?
- A. I did not ever make that statement.
- Q. What is your opinion?
- A. In my test experiments I find no more than 50% of an emulsified tank bottom recovery, I have found no more of pit oil that is beyond 60% recovery. I will qualify that by stating every one is an individual case. The first pit might be 80% or 20%, your scrubber oil might be as low as 20%.
- Q. How do you propose to keep the Commission informed as to the amount of recoverable oil from place to place?

A. There is no manner by which the recoverable oil from place to place can be determined. The thing is to see that I do not have more pipe line oil than I have gross receipts.

Q. It gives you a lee-way to run 100% of your pick-ups.

A. No.

Q. Your tank can be 80% and - - - -

JUDGE SETH:

Mr. Girand would you state who you are representing?

MR. GIRAND: Hardin-Houston Tank Cleaning Company.

MR. GEORGE GRAHAM:

I understood you expected to charge for this waste oil - if another tank cleaner wanted his oil cleaned could you do it?

A. If a producing company, in lieu of selling me the waste, would engage me to clean his oil.

Q. You wouldn't process for some tank cleaning company?

A. No, sir. Only a producer - producing companies and pipe line companies.

Q. You stated you would'nt purchase from a tank cleaning company.

A. No, sir. Only a producer.

Q. You stated you would serve producing companies only.

A. Yes, sir. I think in your question you were citing the liability involved in me as a processor and someone else as a tank cleaner.

Q. I got the idea another tank cleaner might have some waste products, and he could bring them to you for service charges.

A. I frankly will stay completely out of any tank company.

MR. GIRAND:

What will be the capacity of the plant you propose to build?

A. It will be designed to equal the volume of fluid handled.

Q. How much is going to be the capacity of the initial plant?

A. If you had 5 cows you would buy a small separator.

Q. How much have you bought at the time?

A. I have bought none because I have no permission of the Commission.

Q. What will be the capacity of the plant?

A. Equal to the gross fluid.

Q. What will be the gross fluid you will take out of the territory?

A. Your guess is as good as mine.

MR. GRAHAM:

We have no objection so far as the particular application is concerned.

MR. NEIL WATSON (Representing the Artesia Pipe Line Company)

Mr. Famariss, in purchasing this oil from the operator or producer, what evidence what title or ownership will you require?

- A. I will have a form, which is satisfactory to the Commission, for tank cleaning with an affidavit attached to the bottom of it. That, in my opinion, should constitute title.
- Q. Is it your idea Mr. Famariss to pay the operator on a 100% basis for the emulsion you purchase.
- A. There will be no grade of the emulsion purchased - except the provision I cannot pay or transport free water.
- Q. Do you intend to pay the producer or operator for all the oil or emulsion purchased and expect him to pay the division of that payment or do you intend to pay individually to each one?
- A. That question has come up in my contacts with the oil companies. I am prepared to set up whatever is necessary to satisfy the royalty owners. Most of the companies propose to handle their own royalty payment.
- Q. What do you propose to do with this oil after you have treated it?
- A. It my intention to sell the oil to pipe line companies - I do not intend to refine or top or crack.
- Q. In selling to a pipe line company will you expect them to make payment to you on 100% basis?
- A. If I sell the 100% pipe line oil, yes.
- Q. In that case are you in a position to make some identity bond to protect them on the division of the purchase price?
- A. I am.

COMMISSIONER MILES:

Anybody any questions?

MR. SETH:

We have no further questions.

MR. GIRAND:

I would like to make a statement.

It is my opinion the Applicant has the authority to do exactly what he is asking to do here with ~~the~~ ^{the} benefit of the Commission. The waste is property and property can be transferred without the benefit of the Commission.

The question that is raised by this application is the question of providing for the processing product. That is the recovery oil that the Applicant expects to get from the pits that he is to take into this plant - it strikes me the Commission should enter a general order that would be applicable to all tank cleaners, transporters and all processors of this waste oil. There is, no doubt but what the State of New Mexico should preserve and conserve this product at all recoverable points, but it is my opinion the Commission should set out a rule for tank cleaners requiring reports so that this Commission at all times in the State of New Mexico would be protected against the running of hot oil. If this application is granted the man is to buy emulsion- his next request of this Commission is to run the oil. Where is the Commission's check of this oil - I believe if the Commission should enter a general order to require the tank cleaners and operators to report to this Commission the volume of emulsion removed from any pit tank, particularly removed from any lease, and the disposition of that processing, so that the processor in turn may make a report to the Commission of the amount of emulsion received and by whom - how much oil is recoverable I am not in a position to state - it is certain the State of New Mexico should not run over 100% of the waste.

JUDGE SETH:

It is our opinion this should be controlled by the Commission from the time of its purchase - the time it is taken out of the tank clear to the disposition of the oil; that they should be required to balance the volume at all times under the supervision of the Commission and under a heavy bond. We don't want any hot oil run into these tanks, we want careful supervision of the Commission.

By submitting what the man processes and the check on everything that goes through the plant, that is the only way in my judgment the Commission can hold everything under control. It is a matter that has to be safeguarded by the most rigid requirements the Commission can have. Anyone goes out and buys pit oil and has to be handled like any other type of product produced from the lease -

Mr. L. J. FRAZIER:

You are not in favor of purchase of the waste fluids?

MR. GIRAND:

Yes, sir. My position is that there is absolutely no way in the world where a producer can allocate or show how much recoverable product is produced from his lease. Through an ordinary tank - a 500 barrel tank will produce about 33 barrels of waste at the time the pipe line turns the tank down. From that you might be able to recover 6 or 7 barrels of fluid - all depends on the particular well and tank. It is economically impractical for a producer to take one tank or tank battery and take them into his processing plant and re-produce that amount of oil.

I believe he says here there would be approximately 7,000 barrels of waste per month - that being true you can run about 500 barrels in a 24 hour period, so you would have an idle plant for a long time during a month on a 500 barrel daily capacity. It is my opinion if this Commission changes its prior regulation and this waste is not waste anymore - when the price of oil goes down the question will come to every producer whether or not he will have to put in a re-cycling plant for each lease and recover the oil that is marketable from it - because we are now establishing a market for this oil - he is supposed to operate his lease and produce it to the best of his ability.

MR. FANARISS:

There seems to be an insinuation that the processing companies will be paid concerned with the amount of reclaimed oil. If you will recall, I have made no commitment to account to the producing companies for the reclaimed oil. I am purchasing an emulsion, how I handle that emulsion will depend upon the ability I have and efficiency as a reclamation plant operator. There is no agreement between the producer and me as to how much reclaimed oil - I am offering to purchase a mass. In case to what will happen in case the price of oil drops - in prices I have proposed these prices be tied to 20 gravity oil at its present marketable price, and that my price fluctuate as does the price of 20 gravity crude.

COMMISSIONER MILES:

Anything else to say - I don't know, I am not familiar enough to know, but is it your thought it should be processed or should not be processed.

MR. GIRAND:

It should be processed, but to make it a removable product this Commission does not have the manpower to properly supervise it. I am not making any accusation against the Applicant but think we would be opening the door for fraud. Any shady operator can turn over his waste oil and it may run 100% pipe line oil - if so as you make it marketable why not turn your well into the pit. It has been waste heretofore in New Mexico and has not cost the royalty owners a great deal, if any, and it should remain waste. Because of the complications that will arise by making it a salable product.

MR. FAMARISS:

The attorney has a good question. One of the large oil producing states in this country has faced the same problem - in one field it was found they were cleaning tanks every 18 days. The ruling has been passed where they have been permitted to clean their tanks once a year. Any cleanings beyond that is either done by special permit or the bottom is charged back directly against their allowable which has resulted in very satisfactory control.

MR. H. N. SWEENEY - Permian Oil Company.

On this last comment of Mr. Famariss' - I happen to be quite familiar with that. There is a hearing this Friday (July 18, 1947) in Austin on the matter of relaxing that particular regulation, for this reason, that is applying only to East Texas District and there has been so much complaint from the operators - some fields the tanks have to be cleaned more often than once a year, in this particular case instead of having their tanks cleaned they would more or less run them surreptitiously and burn their oil, got to be a standard practice and the State had to take cognizance of it. In the Odessa District alone they have three inspectors - Midland, Wink and Crane. The cost has been so excessive over the advantages this hearing Friday is to consider the matter of releasing the regulation. It has been a handicap, encourages the disposing of waste products rather than gaining some sort of recovery from it. It is a realistic viewing of it rather than a theoretical.

COMMISSIONER MILES:

Anybody else any information regarding this matter?

MR. SPURRIER:

I think I may have missed a point, but how will you determine who gets the royalty on the gas getting by the gasoline line?

MR. FAMARISS:

The fellow - pump production man - on the lease who has allowed that float valve to stick, through his negligence or over-sight, will never admit his act but it shows up at the gasoline line and they have no manner of determining it. There is no satisfactory method by which this can be identified. Gasoline plants have no control over it whatsoever.

MR. SPURRIER:

I wonder if one of you gentlemen can give me the Texas attitude on this percentage business. How do they check on an operator and feel satisfied he is not producing more oil from the tank than it contains.

MR. SWEENEY:

On each tank cleaning permit granted to the State the inspector is required to go out and inspect that tank and ascertain the fact that it is emulsion and not crude. Most inspectors through necessity cannot cover all the tanks cleaned. Most of them sign the permit without inspecting the tank. A monthly report is required of the tank cleaning plant showing the origin of the oil and total runs of the pipe line. The percentage will vary in some areas, but I think it comes from those monthly reports - can fairly well determine what the plant is doing. When it starts over the plant isn't efficient and they know there is something funny somewhere. I agree if you make it a marketable product it will be a detriment rather than help in disposing of these products - you have a number of plants you won't get but 4 or 5 barrels of oil, and a plant set up to purchase that oil cannot afford to go out and get it, but a tank cleaner can afford to take the product in and treat it. There going to be a lot of tanks the waste won't be removed from it.

MR. FAMARISS:

It is my proposal that I treat all producing companies alike. I intend to serve the industry so far as the product is transported from the tank or pit is concerned, that is to be my problem in establishing my plant within a practical transporting distance. I do not intend to make exceptions.

MR. GIRAND:

Mr. Famariss at this time you have neither plant nor transporting equipment, is that right?

A. That is exactly right.

Q. The proposal in which you propose to operate - where did you get your information of the cost?

A. I have not spent 18 years in the oil business with my eyes closed.

Q. If you will explain where you got your information, as to how you would operate your cycling plant -

A. I could do it but that will take hours - I am capable and have the experience.

Q. You tell this Commission you will operate as a common purchaser?

A. That is right.

Q. In that regard you will be a common purchaser - you have had no experience in operating one of these plants.

A. I have had considerable experience in cleaning of emulsified oil.

COMMISSIONER MILES:

Let me see if I understand - so long as he proposes to do this or does it will we be concerned with that?

MR. GIRAND: It is my opinion the Oil Conservation Commission of New Mexico was set up for conserving natural resources of the State of New Mexico - the Commission is granted, through the Act, the authority to regulate and conserve the waste of its natural resources.

JUDGE SETH:

There is no doubt about that and no doubt the oil lawfully recovered can be lawfully sold unless this Commission authorizes this.

COMMISSIONER MILES:

You believe the oil should be processed?

MR. GIRAND:

It should be.

COMMISSIONER MILES:

How do you believe - you think it should be given to the tank cleaners then processed, you do not believe in purchasing it?

MR. GIRAND:

I don't believe it ought to be set up as a marketable product, this waste oil.

COMMISSIONER MILES:

After it is processed.

MR. GIRAND:

I don't believe the processor should have a right to run oil. The State of New Mexico oil is not equal to to the emulsion that is processed.

JUDGE SETH:

It is this Commission's duty to protect the royalty on it.

MR. GIRAND:

Mr. Seth, I ask how do you propose to account to the royalty owners on the waste?

JUDGE SETH:

If he pays 50¢ per barrel on it that is all they get. Let him buy it under contract with the producer and pay for the emulsion.

MR. GIRAND:

Then your shady operator can produce his allowable from his well at the posted pipe line price and the royalty owner is paid on the 50¢ per barrel and your royalty owner is not protected.

JUDGE SETH:

The Commission can protect that, we are willing to secure a bond for that.

MR. WATSON:

Have you made any investigation to determine whether or not the State of New Mexico and the Federal Government, in case of federal leases, would accept this royalty reserved in the leases on the basis of 25¢ or 40¢ per barrel.

JUDGE SETH:

No sir, I have not.

MR. WATSON:

You do not know then whether the payment of that amount to the producer, whether the lessor would accept payment of its royalty interest on that same basis?

MR. FAMARISS:

They are now not raising any objections to getting nothing for it, if they get something it is more than they are getting.

MR. WATSON:

Have you made any investigation in that?

A. No, sir, I have not. Should the Commission grant me the permission asked I will go into that.

JUDGE SETH:

In the case of the Federal leases, all these contracts have to be submitted to the Federal supervisor and you present them to the State also?

A. Yes, sir.

COMMISSIONER MILES:

Whenever that emulsified product is cleaned would it become the property of the tank cleaners?

MR. GIRAND:

It is their obligation to get it out of the tank.

COMMISSIONER MILES:

That becomes the property of the man who has the contract for cleaning the tank and he is to dispose of it as he pleases?

MR. GIRAND:

Yes, sir.

COMMISSIONER MILES:

Then he will produce it and sell it?

MR. GIRAND:

That is right.

COMMISSIONER MILES:

Then it becomes his property?

MR. GIRAND:

It is impossible to treat out any particular tank battery at one time. You will have 99 barrels of emulsion to treat out. The majority of these re-cycling plants set up tanks and clean the oil.

COMMISSIONER MILES:

He would have to take it out too - what prevents the same abuse applying to either or both of them?

MR. GIRAND:

It could unless the Commission provides a ruling preventing it. A permit to tank cleaners telling the amount of emulsion and the disposal of the emulsion.

COMMISSIONER MILES:

Isn't that what he proposes to do?

MR. GIRAND:

He proposes to deal direct with the operator. As I understand Mr. Famariss he did not intend to engage in the tank cleaning business.

COMMISSIONER MILES:

He would be paying on a certain basis?

MR. GIRAND:

He will be in the tank cleaning business unless he can get the producer to have the tanks cleaned and instruct the tank cleaners to take the emulsion to him.

MR. FAMARISS:

I will not restrict the tank cleaners to take the emulsion to my tank. My suggestion is that the tank cleaners dump that oil in a pit, then my transport picks the oil up from the pit. I intend to avoid that connection as much as possible.

MR. GIRAND:

It appears to me that the applicant here, if granted the authority, is willing to go ahead and establish what he is asking to operate. He has done a lot of investigating but he admits to this Commission a theory of what he will do, he is granted to do it the Commission is asked to go ahead and pass on something before they know whether or not he can take care of the requirements of the New Mexico fields.

MR. FAMARISS:

I state I will take care of whatever is available and anytime the Commission wishes I will show my financial resources and ability and availability. I will not take care of what I can handle but what is completely available.

COMMISSIONER MILES:

Is this mandatory that the oil wells sell this product?

MR. FAMARISS:

I would say that is not advisable, the oil companies should have the option of selling to me or continuing what they are doing.

MR. GIRAND:

If it is salable it will have to be sold or kept right on the place, the leases. You won't use anymore oil on the lease roads after there is a market established for it.

MR. FRAZIER:

You are not asking for exclusive authority from this Commission?

MR. FAMARISS:

I don't want a monopoly - the time, the money and neglecting my business for the past two months and asking for this permit if it is granted it is for everybody, not just my own ability to handle.

MR. FRAZIER:

You would be operating purely on a competitive basis?

A. No doubt they are waiting for it.

COMMISSIONER MILES:

Anybody else any question or information?

MR. SWEENEY:

May I ask Mr. Famariss, if he gets this general order permit what is necessary on the cleaning tank laws, to satisfy everybody in the fields.

MR. FAMARISS:

I like to qualify that - it is my opinion the purchase of these emulsions is the satisfaction of all involved parties.

MR. GIRAND:

I do not think it is the Commission's prerogative to establish certain conditions under which it must be sold - I think the acquisition of the subject matter which this application deals is a matter between the producer and the owner of the product and this Commission is over-representing itself when it says it must be bought.

MR. FAMARISS:

If someone wants to take it for nothing and I want to pay 25¢ - - -

(Case taken under advisement)

CASE NO. 105

MR. L. C. WRIGHT:

If the Commission please; on November 27, 1944 this Commission granted to the Panhandle Carbon Company a permit to use residue and flare gas in the manufacture of Channel Carbon Black. The permit being effective from November 27, 1944 for the duration of the war and six months thereafter - the question is when that date really arrives, under the wording of the permit we are applying to have that extended for the use of an estimated 30 million cubic feet of gas per day. It is purchased from the Phillips Company and is only a portion of the gas which is produced. After it has been through their plant what I believe is waste is not all taken out yet - the theory upon which this was granted originally Channel Carbon Black was essential to the war effort in the manufacture of automobile tire casings. We are prepared to show the product is still an essential industry, the market for Channel Carbon Black cannot now be fully supplied from the available channel carbon black, it is still an essential product in the industry, and I was just wondering if anyone here desires to oppose this application. If not we will outline the situation through a witness.

MR. FRAZIER:

The Presidential Proclamation merely declared a cessation of hostilities.

JUDGE WRIGHT:

Some of the Bureaus say it has ended and others say it has not.

MR. FRAZIER:

Your present commission runs until the termination of the war?

JUDGE WRIGHT:

And six months thereafter. We are asking the time be extended 10 years from the date.

COMMISSIONER MILES:

Anybody who has any objections?

(No Response)

(After being duly sworn, Mr. C. E. McKinney testified as follows)

JUDGE WRIGHT:

Please state your name.

MR. McKINNEY:

C. E. McKinney.

Q. Where do you live?

A. Amarillo, Texas.

Q. You are connected with the Panhandle Carbon Company?

A. Yes, sir.

Q. In what capacity?

A. Vice-President in charge of operations.

Q. Headquarters in Amarillo?

A. Yes, sir.

- Q. You were connected with this Company in 1944 when it obtained the original permit?
- A. Yes, sir.
- Q. You appeared before this Commission then?
- A. Yes, sir.
- Q. In the operation of the plant for manufacture of Channel Carbon Black, will you briefly state to the Commission the method and what the ultimate product is used for?
- A. The residue gas taken out of the Channel Black plant - a group of channels with flames and scrapped in the operation and processing. In the various types it requires 90% for casings for trucks, busses, etc., and the rubber processing companies use it.
- Q. Is there any other kind of carbon black?
- A. Yes, sir. Furnace type.
- Q. Which is preferable for manufacture of tires - casings?
- A. Channel Black.
- Q. Why?
- A. The particles are much smaller and more easily used.
- Q. The Channel Black when worked into tire casings - the resistance against road abrasions is greater?
- A. Yes, sir.
- Q. It is better than furnace blacks?
- A. Better than the ones produced to date. We are trying to produce suitable furnace black.
- Q. Through what source do you obtain your gas supply?
- A. Phillips Petroleum Company.
- Q. Where?
- A. Eunice, New Mexico.
- Q. Do you contract with them?
- A. Yes, sir. We do.
- Q. Through their plant do they have more gas available than the 30 million Cu. Ft.?
- A. Yes, sir.
- Q. Some of that gas used for what other purposes?
- A. El Paso Natural Gas Company takes a portion and what we do not consume is blown into the earth.
- Q. Any of it being used for re-pressuring?
- A. I don't believe so.
- Q. You know what the capacity of the Phillips plant is - - -
- A. I would say 80 million cubic feet.

- Q. Just dealing with the economic demand or requirements for channel carbon black, briefly what is the present market condition as to the need for channel carbon black.
- A. At the present time, I believe they are purchasing about 500,000 tons per year and I believe if they secure the rubber the industry could use 800,000 tons per year.
- Q. That is used - for instance a tire casing of percentage - what percentage of that casing is made of carbon black.
- A. Today I would say the amount would be about 45 parts by weight of the actual rubber, 45 carbon black and 55 rubber.
- Q. That gives the bulk to the tire and makes it more abrasive proof?
- A. More resisting and preserves the rubber.
- Q. You have a contract with the Phillips people for how long?
- A. December 31, 1949 when the contract expires.
- Q. Are you familiar with the available supplies in that field as to whether or not it will be available after that date?
- A. The Company says as long as there will be available gas after the contract expires they will be willing to give it to us.
- Q. You are only asking for an extension of permit to use available gas?
- A. That is correct.
- Q. Is the plant you are now operating a government plant?
- A. Correct. The R. F. C. or War Production Board built it and the Panhandle Carbon Company is the Lessee for the duration plus 6 months. I believe the plant comes up for sale September 16th and we propose to bid on that plant and continue to operate it.
- Q. Is it essential to your business, as a potential bidder, that you have the assurance of the Commission this permit will be extended?
- A. Yes, sir.
- Q. If it could not be extended you would not purchase it?
- A. No, sir.
- Q. You will individually operate it as soon as the permit is granted?
- A. Yes, sir.
- Q. At the present time your plant is handling how much?
- A. 30 to 32 million cubic feet.
- Q. We have prepared a provisional order which copies have been submitted to Mr. Graham to look over and if it is satisfactory other copies are here for the consideration of the Commission.

MR. FRAZIER:

In the event you do not purchase this plant from the R.F.C., you propose to erect another plant and continue your operations?

A. Yes, there is a possibility we would if the gas supply is available.

JUDGE WRIGHT:

In years gone by prior to the war, in the State of Texas you looked upon the making of carbon black as possibly a waste. The State of Texas now considers it a legitimate industry.

JUDGE WRIGHT (CONT'D.)

We consider this is a legitimate use of the gas and will result in much more on the tax rolls of Lea County. It will be a very substantial addition to the tax valuations in Lea County.

That is all we desire to present.

COMMISSIONER MILES:

We would be glad to look over the order form and take it under consideration.

JUDGE WRIGHT:

We hope the Commission can give us a decision very promptly.

CASE NO. 106

MR. SPURRIER:

This case is based on the recommendations of the New Mexico Nomenclature Committee. I am sure every one here interested is familiar with the case - it is being brought before the Commission because the Commission cannot delete any part of any pool except in an open hearing.

If there are any objections to deleting the pool as described in the Nomenclature recommendations, please come forward.

If there are no objections the Commission assumes that the recommendations can be accepted as submitted and that it will be done.

CASE NO. 107

MR. NEIL WATSON:

I am Neil Watson of Artesia, New Mexico, appearing for the petitioner. At the time the two applications were originally filed the lease was owned by Barney Cockburn; since that time the lease has been assigned to a Corporation - Barney Cockburn, Inc.

I would like to ask leave to amend the application for a unit and for one other well location to make Barney Cockburn, Inc. Mr. Cockburn was unable to be here and the evidence he would present are all matters of record in the State Land Office. That the lease is under single fund and the ownership of the 160 acres is the same and the royalty interests are the same.

I have a report to present in duplicate from Mr. Moreland T. Hartwell, Consulting Geologist, Midland, Texas - if no one has any objection I would like to file the report with the Commission. I believe the Commission understood this is an application before the State Land office for unit operations under Chapter 88 Session Laws of 1943, State Lease B-2516, SE/4 Section 29, Township 17S, Range 33#. There are 4 wells on the 160 acres, one well in the approximate center of each 40 acre tract. The Petitioner desires to operate the 160 acres as a unit - an additional well in the NE/4 SE/4 of Section 29 as near the center of the 160 acres as possible.

As I stated in the beginning, I believe most of the matters in the petition with reference to ownership and the lease are matters of record in the Land Office.

Are there any questions the Commission may have?

(No Response)

There is no application for an additional allowable for the well to be drilled, but the application asks that the 160 acres be considered as a unit so that the allowable be equal to four times the unit allowable for that 160 acres.

MR. GEORGE GRAHAM:

Cockburn, Inc., will be the unit operator and the Land Office Records will show that the assignment has been approved.

MR. SPURRIER:

This lease is all federal land?

MR. WATSON:

No, it is all a state lease.

MR. SPURRIER:

Mr. Cockburn does not intend to ask for an allowable that will exceed that given to any 4-40 acre units?

MR. WATSON:

That is correct.

COMMISSIONER MILES:

It will be taken under consideration.

CASE NO. 108

MR. WILLIS LEA:

This is a unit agreement, a matter involving about 17,000 acres in Eddy County, New Mexico known as the Hope Unit Agreement. The form of the agreement has been worked out over a period of time with representatives of the State Government and Federal Government, and is believed to contain the provisions necessary to the protection of all interests including conservation provisions and provisions assuring the proposed allocation of production from the participating area, or areas to those producers having acreage in their area.

I called Mr. Graham this morning and discussed with him the final form of the agreement and he authorized me to say that this was satisfactory, subject of course to whatever might develop at this hearing.

If the Commission please, I would like to call Mr. Frank Shultz.

(After being duly sworn Mr. Shultz testified as follows:)

MR. LEA:

State your full name.

MR. SHULTZ:

Frank August Shultz.

Q. Your profession?

A. Geologist.

Q. What are your educational qualifications?

A. Graduate of the University of Oklahoma, school of Geology, B.S. degree in geology.

Q. How long have you practiced the profession?

A. Seven years.

Q. Have you made a study of the geology of the State of New Mexico, particularly the geology of Eddy County?

A. I have.

Q. Are you familiar with the report of the Garrett Exploration Company covering Gravity Meter Survey of the Southwest Artesia Prospect in Eddy County, New Mexico?

- A. Yes, I have examined it in detail.
- Q. Please identify this as being a true copy of that report.
- A. (After examining) It is.
- Q. If the Commission please, we would like to offer this in evidence.
- (No Comment)
- Q. I hand you photostatic map entitled "Magnetic Survey of ARTESIA AREA Eddy County, New Mexico", prepared by R. H. Andrews Geophysical Service, Dallas, Texas, and ask you if it is a true report - true copy of report by Andrews Company?
- A. It is a true copy completed by Mr. Andrews.
- Q. Mr. Skults does Exhibit 2 show in red the boundary of the proposed unit area?
- A. Yes, it does. It is an outline of the proposed area.
- Q. That is 17,000 odd acre block as constituting the unit area?
- A. That is correct.
- Q. Please state in your own words the type of anomaly which appears to exist on the basis of these two reports introduced in evidence.
- A. The gravity anomaly is very pronounced positive areas in Townships 18S, Range 23E, 19S, 23E, 18S, 24E and Township 19S, 24E. This anomaly is the type that generally indicates structure in New Mexico. We have also completed the magnetic survey and found a similar type anomaly that exists in the same relationship to the gravity, again from the evidence we have of working known fields it indicates positive structure. I have worked the survey in the areas and found only one outcrop of that survey. The work is not conclusive to showing the evidence of the structure, we are depending on geophysical work entirely.
- Q. Would it be fair to say in your opinion these two types of survey generally correspond in the indicated evidence of the structure favorable to the accumulation of oil-gas?
- A. I would say we can depend on the geophysical history of other other fields - all the fields we have worked in New Mexico have shown gravity anomaly of the result of structure.
- Q. Is the indicated structure within the boundaries of the proposed unit area?
- A. Yes, the anomaly as outlined by Mr. Andrews of the Andrews Geophysical Service and Mr. Garrett of the Garrett Exploration Company is embraced in this proposed unit area.
- Q. Do you know of the plans which the Company has with respect to the drilling of a test well in this unit - with an order from this Commission?
- A. Yes, a well is contemplated when all the State and Federal requirements have been satisfied.
- Q. Do you know the depth it is proposed to drill that well?
- A. 7500 feet unless metamorphic or ingenous rock is encountered at a lesser depth.
- Q. Would that, in your opinion, be an adequate test of the known beds in this area?
- A. Yes.

Q. Are you familiar with the unit agreement?

A. Yes, sir.

Q. Would you state whether it would tend to result in the conservation of oil and gas?

A. It does.

Q. Does it contain a provision for protection for royalty owners and other owners?

A. It does.

Q. Would you identify this as being a true copy of the unit agreement as now proposed?

A. (After examination) It is.

MR. LEA; I would like to introduce this as evidence.

(No Comment)

Q. State whether or not the geological or geophysical information represented by Exhibits 1 and 2, ~~have been~~ submitted to the U. S. Geological representatives.

A. They have.

Q. Was that in connection with the Company's application for this area as a unit area?

A. That is right.

Q. These two reports and the evidence here have been submitted to the United States Geological Survey?

A. That is correct.

MR. LEA:

I believe that is all unless the Commissioners have a question.

COMMISSIONER MILES:

Any questions?

(No response)

If not the matter will be taken under consideration.

RECOMMENDATIONS FOR CHANGE OF ALLOWABLE IN THE STATE OF NEW MEXICO

MR. SPURRIER:

Some of you are waiting to make your recommendations for the change of allowable in New Mexico, as you were requested to do last Wednesday, July 9, 1947.

At this time if you will please come forward and make the recommendations we can take care of this thing. To date, we have received about three recommendations for advancing the allowable. Unless we can hear from someone here we will have to assume that is all we are going to get except what may be mailed in.

(No recommendations made at this time but some of those present requested the discussion be re-opened and the recommendations that were sent in to the Commission be read.)

Telegram from Mr. E. J. Henry, Jr., of the ATLANTIC REFINING COMPANY:

"REFERENCE STATEWIDE HEARING TODAY, WE HAVE DEMAND AND OUTLET FOR ADDITIONAL TWO THOUSAND BARRELS DAILY NEW MEXICO CRUDE OIL. REGRET DELAY GIVING YOU DEMAND FIGURE BUT WE DID NOT RECEIVE NOTICE YOUR HEARING EITHER LAST WEEK OR TODAY."

Telegram from Mr. J. C. Edwards of the TEXAS COMPANY:

"COMPLYING WITH YOUR REQUEST MADE DURING MEETING IN SANTA FE ON JULY TENTH, WE HEREWITH ADVISE THAT AN ANALYSIS OF OUR SUPPLY AND DEMAND OF NEW MEXICO CRUDE INDICATES A SHORTAGE OF 2,000 BARRELS DAILY WHICH ADDITIONAL QUANTITY WE DESIRE TO PURCHASE AND FOR WHICH WE CAN ARRANGE TRANSPORTATION THROUGH FACILITIES THE TEXAS-NEW MEXICO PIPE LINE COMPANY."

Written note from Mr. C. D. Thomas of the SINCLAIR PRAIRIE OIL COMPANY:

Mr. R. R. Spurrier:

"Sinclair Prairie Oil Company requests and recommends an increase in the now marginal top well allowables in Eddy and Lea Counties of a minimum of 5 barrels per well. This Company has adequate pipe line space to handle any such increase as is given and an urgent need for this additional oil."

VERBAL RECOMMENDATIONS

~~XXXXXXXXXXXX~~ ATLANTIC REFINING COMPANY

Additional 2,000 barrels daily.

MR. STALEY - Lea County Operators

The 5 barrels per well applicable to all wells or to allowable wells capable of production?

MR. SPURRIER:

I imagine they mean the wells that can make it.

Mr. Staley:

How much would that be.

MR. KELLEY: 9,285 barrels.

SHELL OIL COMPANY:

Our position is this - at the time being we are building a pipe line into the State. We have all the oil we can handle with West Texas and New Mexico. We do not protest this increase in allowable, any additional made we would be agreeable to selling to the people providing they could take it.

MR. WATSON:

This is an outgrowth of the meeting held July 10, and further is it one of the purposes of this increased allowable to permit additional oil to go to the New Mexico refineries which now have a shortage - The New Mexico Asphalt and Refining Company at Artesia has a shortage of approximately 35,000 barrels per month, nearly 1,000 barrels a day and they have pipe line facilities to handle that additional oil - we would think in the event an order would be entered increasing the allowable we would like for the New Mexico refineries benefit to the extent they are capable of handling the oil.

MR. SPURRIER:

Mr. Watson, to answer your question this was an outgrowth of the informal meeting held July 10. That meeting was called because the Commission understood there was a possibility that gasoline shortage might become evident in New Mexico, and it is my general understanding that at that meeting when an increase in the allowable was mentioned - if the allowable was increased a substantial amount - the 10 or 13 thousand barrels recommended here today, the 1 or 2 or 3 thousand barrels which the refineries in New Mexico are apparently short would be supplied from that increased allowable. That is my understanding and I think the recommendation as a whole wants to be assured if the allowable is raised it will have an effect to the supply on the refineries in New Mexico.

MR. WATSON:

That answers my question, thank you.

MR. SPURRIER:

Any other questions or recommendations?

(No response)

COMMISSIONER MILES:

If there are no more questions or any other matter to be brought up before the Commission, the meeting is adjourned.

BY JUDGE SETH:

If the Commission please, the purpose of this is to get authority to purchase crude that is really being wasted - oil that is run into the pits at the time of the completion or acidation of the well and the catchings from the gasoline lines that has some purities in it. Mr. Famariss desires to show that he can purchase that oil at a price which he will discuss. The recleaning the oil and selling it needs the action of this Commission to make it legal oil. Petroleum in the pit is burned to get rid of it. The tank bottoms are just wasted. We believe a considerable amount of crude can be saved and sold - it is a matter of establishing a safeguard and has to be done pretty carefully, the regulations should be worked out with care and in the case of Mr. Famariss he is willing to post a bond of considerable amount.

(Examination of Mr. Famariss, Jr. - after being duly sworn)

JUDGE SETH:

State your name please.

MR. FAMARISS:

Walter Famariss, Jr.

Q. Where do you live?

A. Hobbs, New Mexico

Q. What is your business?

A. I am an oil field contractor.

Q. You filed the petition here to be permitted to purchase and purify and sell certain wasted crudes - is it feasible, take, for instance, first the oil run into the pit, will you describe to the Commission what that amounts to.

A. Briefly, the oil which is termed pit oil in the producing field results from the completion or work over of wells in the treatment of wells with hydrochloric acid out of the lime formation through oil which is used or comes from production or is used to acidise in the well, the whole mass or commonly used in emulsification which is not merchantable products. The quantity of this oil varies, no exact amount you could set would come from wells. As an average we believe there is sufficient oil to justify going out there and picking up this oil and transporting it to a reclamation plant, cleaning it up and selling the merchantable crude derived therefrom. This single item probably represents the greatest destruction of hydro-carbons in the oil fields.

Q. How is it handled?

A. Burned principally, another method it is used for oiling roads

Q. The cleaning of the tank bottoms - will you explain what is involved there?

A. In tank bottoms, which might vary from 13 to 64 barrels in production, they are taken below the pipe line connection where there is mass fluid. Normally pipe line companies will stop withdrawing oil from that tank when the pipe line oil is 4" from the connection. That would mean there is 4" of oil in there below that is emulsion of some type, some that is free water. The procedure at the present time - my idea is this is drawn off by tank cleaning outfits. It is disposed of in like manner as I described pits - that is, by burning or disposal under the lease oil fire wall tank grade or road. It is a waste of hydro-carbon.

Q. What about the gasoline plant catchings?

A. Scrubber oil, the greatest volume of that probably results from sticking of float valve and separator when the well is flowed into the separator instead of the oil going into the stock tank as it should, there by

virtue of a float valve stick, the oil will go down the gasoline plants gathering oil. They cannot and don't want this oil, they destroy it or dispose of it in some manner. It is probably a higher quality of fluid than the tank bottoms or pit oil.

- Q. Mr. Famariss, in your judgment can these various waste products be transported to a reeleaning or reclamation plant and the pipe line crude extracted from it?
- A. I believe the various methods now available to the industry will permit the reclaiming of the oil which in years gone by was not possible.
- Q. Have you had experience with this reclamation?
- A. I have, yes.
- Q. Have you the equipment or can you get it?
- A. The equipment has not been purchased, however, it is available and the plant could be in partial operation within 30 days.
- Q. Have you any idea of the amount of pipe line crude that might be reclaimed from these wastes?
- A. Due to the fact that there is not what is called a tank cleaning plant -cleaning permit in the State of New Mexico, my estimate would be (and it is probably wrong) there is available in Lea County somewhere around 7 to 8 thousand barrels of emulsified fluid per month.
- Q. How much of that would pipe line crude?
- A. The amount would be recovered - pipe line oil - would be varied from the source from which it was obtained. In the tank bottom the best I have been able to recover is roughly 50% of the volume of the tank oil. In pit oil that is variable cases; if it rained your percentage would be lower than in hot weather. I would give an estimate of 60% - 40% of it would probably be salt water disposal. Scrubber oil - the gasoline plants - it would improve above those two. A fair estimate would be 75% of the scrubber oil and 25% roughly would be disposal.
- Q. In your view then, 4, 5 or 6 thousand barrels of pipe line crude might be recovered.
- A. It is entirely possible.
- Q. The process of reclamation, the crude involves the heating of the mass.
- A. It depends upon the type of emulsification you are installing, some require heat, some chemicals, some acidation and some two or three of them.
- Q. The application of heat particularly, would lower the gravity of the crude?
- A. It certainly would.
- Q. The crude you would reclaim would probably be considerably lower gravity than what was produced through the well into the tank?
- A. Absolutely.
- Q. Are you in a position, financially, to begin this procedure if the Commission so desires?
- A. I can furnish the Commission with substantial resources, proof of them.
- Q. Are you willing to give bond?
- A. I am not only willing to give bond, but ask that the Commission include that when they give permission for any reclamation plant - that they be required to post a bond in the amount of \$50,000 for the handling of this emulsification.

There is another purpose in that there are people who cannot get bonds, those are the people who you don't want in this business.

- Q. If the Federal Government would require a separate bond you are willing to comply?
- A. Yes, sir. I would do that also.
- Q. Have you any idea of what system should be followed when you purchase pit oil - did you say this purchase should be shown something in the nature of a Bill of Sale on the Commission's form and a copy filed with the Commission?
- A. My suggestion in regard to that would be that I, as a reclamation plant owner, would be required to furnish the producing company with a carbon copy to the Oil Conservation Commission and a copy for myself, what would in my judgment normally termed a pick-up ticket. It would show the gross barrels of fluid picked up, the exact tank number or the well number in which the pit exists or the gasoline plant name if it is scrubber oil - I would urge a complete identification of the oil.
- Q. Then when you completed it, what procedure should be followed with respect to your selling the oil?
- A. I should then be required to send a supporting report to the Commission indicating the gross barrels of fluid taken into my plant within a calendar month, the number of gross barrels would be supported by these pick-up tickets, which would eliminate the suspicion of having obtained oil which did not have identity or exactly as given. I would propose it give the amount of sales to the pipe line company, the number, date and barrels of oil run. This report should also reflect the amount of water or other disposal. I would have gross receipts, net sales and net disposal. In that way it appears to me complete control over the fluid taken into the plant would be accounted for.
- Q. In other words, you would account at least in your sales of pipe line crude and disposal of refuse, a volume equal to what you have taken in on these run tickets?
- A. It would be a great percentage less than taken into the plant.
- Q. What you took from the pipe line and what you dispose of should amount to the run tickets?
- A. Yes, sir.
- Q. Is this waste oil, in your opinion, of some economical value at this time?
- A. At this time it is of no economical value.
- Q. If you had permission to work on it?
- A. Yes, sir, it would be.
- Q. In your opinion should the producing companies be paid for this product?
- A. It is my opinion that is the only practical method by which a reclamation plant can operate.
- Q. It is your opinion they should be paid so that the royalty owner could get the benefit as well as the producing company?
- A. That is right. In the missionary work I have done over the past two months with major companies in regard to this, they have expressed their opinion it is a royalty owner's liability when any hydrocarbons are removed from their lease. The royalty owner would be entitled to his percentage of whatever would be paid for the removal of the waste.

- Q. Have you some idea on how these payments should be computed?
- A. I have a suggestion which can only prove to be correct or incorrect by experience. It seems an amount of 25¢ per barrel could be paid for tank bottom, 40¢ per barrel for pit oil, Scrubber oil would have to be treated as an individual case because of the wide variation of contamination. However, it would be higher than 40¢.
- Q. But your idea is to enter contracts that the price you pay, that it fluctuate with the price of crude?
- A. I believe it is necessary the price fluctuate with the price of crude oil, in that regard I am suggesting the prices I have quoted be tied to 20 gravity crude as now in my area.
- Q. You would have to make individual contracts with the producers?
- A. Yes, sir.
- Q. Would you be in a position to work over the pit oil for a producer?
- A. It is not much difference - whether I work it over for the producer or for the reclamation. I can set up a satisfactory price for treating oil for the producing company, which price would include a price comparable to the price I would receive from the reclamation. I would say 15¢ per barrel.
- Q. You believe this 7 or 8 thousand barrels per month of this waste stuff could result in a large saving of crude that might be disposed of as pipeline crude?
- A. I believe it is good conservation.
- Q. As I understand it, the pit oil would be available at a well only once or twice in two years?
- A. It would be available first on the drilling of the well and might be in case of working over that well it later would—
- Q. In other words, no definite schedule in which the oil might be run into the pit?
- A. No, sir.
- Q. Then you think it should not be included in the allowable?
- A. It should be excess to the allowable.
- Q. Not charged to the allowable?
- A. That is right.
- Q. The tanks fluctuate a lot?
- A. An average tank cleaning is probably once a year.
- Q. The value in the tank would vary greatly?
- A. Yes, sir - it would.
- Q. Any trouble with paraffin?
- A. Considerable trouble in certain areas. Instead of emulsification you will find a thick paraffin fluid which will not move off from the tank.
- Q. As I understand it, you are willing under any reasonable regulation the Commission would make, and secured by bond to force your complying with the law to undertake this project and try to reclaim this fluid?

A. In summarizing, I do not believe mentioned in the past, any of these waste products should be charged against the allowable of the unit. I believe anyone in my type of business should be required to pay for the crude or waste products so there would be protection for the royalty owner. I have word from two major companies if they were not purchased they would not participate because of royalty liability. I have contacted and discussed with some 15 or more major companies and have not had reverse reaction. Beyond those two items which I have cited, there - it is my desire that the Commission make their ruling as hard and tough as it can be made. We all realize the danger involved in an industry of this kind - a practical regulation I believe is the thing we need in the regulation, including the making of bond.

Q. That is all.

COMMISSIONER MILES:

Any of these products being produced now?

A. Not that I know of, I cannot specifically state.

MR SPURRIER:

Aren't they being produced in Texas?

A. Yes, sir. A plant in Odessa. At the present time many of the companies are now producing their own oil. It is costing a small percentage of the price they can get from the oil. They consider it good conservation.

MR. W. D. GIRAND:

I would like to ask Mr. Famariss some questions.

You say you are in the oil field construction business at Hobbs?

A. Maintenance and construction.

Q. Do you operate a tank cleaning outfit at this time?

A. I do not.

Q. Is it your proposal you will operate it?

A. I do not propose to operate a tank separating outfit, if I can work I will operate with the tank cleaning companies.

Q. You propose to pay for this oil?

A. I do.

Q. How will you arrive at the recoverable oil in a lease?

A. I do not propose to arrive at it - I am purchasing waste products.

Q. You propose to pay for that waste?

A. I do.

Q. You will pay for it on the quantity received from a particular lease?

A. Free water excepted.

Q. You are going to buy that from a transporter?

A. I will not buy oil from a transporter, I will only deal with the producing company; securing what I need.

Q. You are not going to set yourself up as a common purchaser?

A. You will have to clarify that.

Q. You will buy waste oil?

A. From any producing company.

Q. Or individual?

A. No, sir. I will not buy from a transporter.

Q. Individual lease owner?

A. If an individual lease owner is a producer, yes.

Q. Where do you propose to build your plant?

A. At the most advantageous spot where the fluid is now available.

Q. Do you know where that is now?

A. I do.

Q. Where is it?

A. I don't think that is relevant.

COMMISSIONER MILES:

Let me hear the question again.

Q. I asked where he proposed to build this plant.

COMMISSIONER MILES:

You do propose to build it in New Mexico?

A. Yes, sir, in New Mexico and Lea County.

MR. SPURRIER:

Have you ever treated any oil?

A. Yes, in Andrews County, Texas.

Q. Are you operating a treating plant there?

A. What is known as a portable steamer.

Q. You use a portable steamer?

A. The Fullerton Oil Company of California, where considerable acidizing work is done in Andrews, Texas, I proposed to the men they no longer burn their pit oil, but permit me to go out and pick that oil up, scrub it, clean it and transfer it to their stock tanks. They have seen it as a good conservation practice and in such an operation they are charging that against allowable.

Q. That is a rule in Texas it is charged against the allowable of the well?

A. Yes, but most companies burn it.

Q. If I understand you correctly, all you ask of this Commission is for them to set down certain general rules and regulations governing the processing of waste oil.

A. With the provisions which I have thoroughly stated, and I believe necessary to good operations.

Q. Those provisions being payment of a certain amount - - -

- A. charges against allowable, the necessary protection for the oil owners, the posting of a very substantial bond by me with the state and federal government, and to make every other provision that will result in clean operations of a suspicious business.
- Q. If you get your order here authorizing you to purchase the waste, you will expect the Commission to give you the dope on pipe line oil?
- A. Yes, sir.
- Q. You have the right to go out and buy this waste oil now.
- A. I know of no right by which I can go out and buy hydro-carbons.
- Q. What kind of plant do you propose to construct?
- A. Heat, chemical and mechanical.
- Q. All those plants uniform in construction?
- A. Similar, not uniform.
- Q. You have such a plant in operation in Andrews?
- A. I did not say I had one in Andrews, I said I had a portable steamer which is serving a producer in cleaning up his own oil.
- Q. So far you have never operated a reclamation plant, is that right?
- A. No one has ever operated a reclamation plant in New Mexico.
- Q. Have you ever operated one anywhere else?
- A. I have never operated one in Texas or any other place, but I am completely familiar with emulsification of oil.
- Q. In order to clarify this payment - as I understand it you are going to pay on the volume of emulsification you have picked up.
- A. Free water excepted.
- Q. How do you propose to gauge that?
- A. In the same manner the pipe line companies gauge their run tank, the initial procedure will more than likely be to pull off, by method already determined, the free water from the bottom of the tank when the emulsification starts coming it will be put into a pit or my transport.
- Q. Do you transport at this time?
- A. They are available on the market. I will not get one until I get an order from the Commission to process oil.
- Q. It is your opinion about 75% of the emulsification you will take to your plant will be pipe line oil?
- A. I did not ever make that statement.
- Q. What is your opinion?
- A. In my test experiments I find no more than 50% of an emulsified tank bottom recovery, I have found no more of pit oil that is beyond 60% recovery. I will qualify that by stating every one is an individual case. The first pit might be 80% or 20%, your scrubber oil might be as low as 20%.
- Q. How do you propose to keep the Commission informed as to the amount of recoverable oil from place to place?

A. There is no manner by which the recoverable oil from place to place can be determined. The thing is to see that I do not have more pipe line oil than I have gross receipts.

Q. It gives you a lee-way to run 100% of your pick-ups.

A. No.

Q. Your tank can be 80% and - - - - -

JUDGE SETH:

Mr. Girand would you state who you are representing?

MR. GIRAND: Hardin-Houston Tank Cleaning Company.

MR. GEORGE GRAHAM:

I understood you expected to charge for this waste oil - if another tank cleaner wanted his oil cleaned could you do it?

A. If a producing company, in lieu of selling me the waste, would engage me to clean his oil.

Q. You wouldn't process for some tank cleaning company?

A. No, sir. Only a producer - producing companies and pipe line companies.

Q. You stated you wouldn't purchase from a tank cleaning company.

A. No, sir. Only a producer.

Q. You stated you would serve producing companies only.

A. Yes, sir. I think in your question you were citing the liability involved in me as a processor and someone else as a tank cleaner.

Q. I got the idea another tank cleaner might have some waste products, and he could bring them to you for service charges.

A. I frankly will stay completely out of any tank company.

MR. GIRAND:

What will be the capacity of the plant you propose to build?

A. It will be designed to equal the volume of fluid handled.

Q. How much is going to be the capacity of the initial plant?

A. If you had 5 cows you would buy a small separator.

Q. How much have you bought at the time?

A. I have bought none because I have no permission of the Commission.

Q. What will be the capacity of the plant?

A. Equal to the gross fluid.

Q. What will be the gross fluid you will take out of the territory?

A. Your guess is as good as mine.

MR. GRAHAM:

We have no objection so far as the particular application is concerned.

MR. NEIL WATSON (Representing the Artesia Pipe Line Company)

Mr. Famariss, in purchasing this oil from the operator or producer, what evidence what title or ownership will you require?

- A. I will have a form, which is satisfactory to the Commission, for tank cleaning with an affidavit attached to the bottom of it. That, in my opinion, should constitute title.
- Q. Is it your idea Mr. Famariss to pay the operator on a 100% basis for the emulsion you purchase.
- A. There will be no grade of the emulsion purchased - except the provision I cannot pay or transport free water.
- Q. Do you intend to pay the producer or operator for all the oil or emulsion purchased and expect him to pay the division of that payment or do you intend to pay individually to each one?
- A. That question has come up in my contacts with the oil companies, I am prepared to set up whatever is necessary to satisfy the royalty owners. Most of the companies propose to handle their own royalty payment.
- Q. What do you propose to do with this oil after you have treated it?
- A. It is my intention to sell the oil to pipe line companies - I do not intend to refine or top or crack.
- Q. In selling to a pipe line company will you expect them to make payment to you on 100% basis?
- A. If I sell the 100% pipe line oil, yes.
- Q. In that case are you in a position to make some identity bond to protect them on the division of the purchase price?
- A. I am.

COMMISSIONER MILES:

Anybody any questions?

MR. SETH:

We have no further questions.

MR. GIRAND:

I would like to make a statement.

It is my opinion the Applicant has the authority to do exactly what he is asking to do here without the benefit of the Commission. The waste is property and property can be transferred without the benefit of the Commission.

The question that is raised by this application is the question of providing for the processing product. That is the recovery oil that the applicant expects to get from the pits that he is to take into this plant - it strikes me the Commission should enter a general order that would be applicable to all tank cleaners, transporters and all processors of this waste oil. There is no doubt but what the State of New Mexico should preserve and conserve this product at all recoverable points, but it is my opinion the Commission should set out a rule for tank cleaners requiring reports so that this Commission at all times in the State of New Mexico would be protected against the running of hot oil. If this application is granted the man is to buy emulsion - his next request of this Commission is to run the oil. Where is the Commission's check of this oil - I believe if the Commission should enter a general order to require the tank cleaners and operators to report to this Commission the volume of emulsion removed from any pit tank, particularly removed from any lease, and the disposition of that processing, so that the processor in turn may make a report to the Commission of the amount of emulsion received and by whom - how much oil is recoverable I am not in a position to state - it is certain the State of New Mexico should not run over 100% of the waste.

JUDGE SETH:

It is our opinion this should be controlled by the Commission from the time of its purchase - the time it is taken out of the tank clear to the disposition of the oil; that they should be required to balance the volume at all times under the supervision of the Commission and under a heavy bond. We don't want any hot oil run into these tanks, we want careful supervision of the Commission.

By submitting what the man processes and the check on everything that goes through the plant, that is the only way in my judgment the Commission can hold everything under control. It is a matter that has to be safeguarded by the most rigid requirements the Commission can have. Anyone goes out and buys pit oil and has to be handled like any other type of product produced from the lease -

Mr. L. J. FRAZIER:

You are not in favor of purchase of the waste fluids?

MR GIRAND:

Yes, sir. My position is that there is absolutely no way in the world where a producer can allocate or show how much recoverable product is produced from his lease. Through an ordinary tank - a 500 barrel tank will produce about 33 barrels of waste at the time the pipe line turns the tank down. From that you might be able to recover 6 or 7 barrels of fluid - all depends on the particular well and tank. It is economically impractical for a producer to take one tank or tank battery and take them into his processing plant and re-produce that amount of oil.

I believe he says here there would be approximately 7,000 barrels of waste per month - that being true you can run about 500 barrels in a 24 hour period, so you would have an idle plant for a long time during a month on a 500 barrel daily capacity. It is my opinion if this Commission changes its prior regulation and this waste is not waste anymore - when the price of oil goes down the question will come to every producer whether or not he will have to put in a recycling plant for each lease and recover the oil that is marketable from it - because we are now establishing a market for this oil - he is supposed to operate his lease and produce it to the best of his ability.

MR. FAMARISS:

There seems to be an insinuation that the processing companies will be paid concerned with the amount of reclaimed oil. If you will recall, I have made no commitment to account to the producing companies for the reclaimed oil. I am purchasing an emulsion, how I handle that emulsion will depend upon the ability I have and efficiency as a reclamation plant operator. There is no agreement between the producer and me as to how much reclaimed oil - I am offering to purchase a mass. In case to what will happen in case the price of oil drops - in prices I have proposed these prices be tied to 20 gravity oil at its present marketable price, and that my price fluctuate as does the price of 20 gravity crude.

COMMISSIONER MILES:

Anything else to say - I don't know, I am not familiar enough to know, but is it your thought it should be processed or should not be processed.

MR. GIRAND:

It should be processed, but to make it a removable product this Commission does not have the manpower to properly supervise it. I am not making any accusation against the Applicant but think we would be opening the door for fraud. Any shady operator can turn over his waste oil and it may run 100% pipe line oil - if so as you make it marketable why not turn your well into the pit. It has been waste heretofore in New Mexico and has not cost the royalty owners a great deal, if any, and it should remain waste. Because of the complications that will arise by making it a salable product.

MR. FAMARISS:

The attorney has a good question. One of the large oil producing states in this country has faced the same problem - in one field it was found they were cleaning tanks every 18 days. The ruling has been passed where they have been permitted to clean their tanks once a year. Any cleanings beyond that is either done by special permit or the bottom is charged back directly against their allowable which has resulted in very satisfactory control.

MR. H. N. SWEENEY - Permian Oil Company.

On this last comment of Mr. Famariss' - I happen to be quite familiar with that. There is a hearing this Friday (July 18, 1947) in Austin on the matter of relaxing that particular regulation, for this reason, that is applying only to East Texas District and there has been so much complaint from the operators - some fields the tanks have to be cleaned more often than once a year, in this particular case instead of having their tanks cleaned they would more or less run them surreptitiously and burn their oil, got to be a standard practice and the State had to take cognizance of it. In the Odessa District alone they have three inspectors - Midland, Wink and Crane. The cost has been so excessive over the advantages this hearing Friday is to consider the matter of releasing the regulation. It has been a handicap, encourages the disposing of waste products rather than gaining some sort of recovery from it. It is a realistic viewing of it rather than a theoretical.

COMMISSIONER MILES:

Anybody else any information regarding this matter?

MR. SPURRIER:

I think I may have missed a point, but how will you determine who gets the royalty on the gas getting by the gasoline line?

MR. FAMARISS:

The fellow - pump production man - on the lease who has allowed that float valve to stick, through his negligence or over-sight, will never admit his act but it shows up at the gasoline line and they have no manner of determining it. There is no satisfactory method by which this can be identified. Gasoline plants have no control over it whatsoever.

MR. SPURRIER:

I wonder if one of you gentlemen can give me the Texas attitude on this percentage business. How do they check on an operator and feel satisfied he is not producing more oil from the tank than it contains.

MR. SWEENEY:

On each tank cleaning permit granted to the State the inspector is required to go out and inspect that tank and ascertain the fact that it is emulsion and not crude. Most inspectors through necessity cannot cover all the tanks cleaned. Most of them sign the permit without inspecting the tank. A monthly report is required of the tank cleaning plant showing the origin of the oil and total runs of the pipe line. The percentage will vary in some areas, but I think it comes from those monthly reports - can fairly well determine what the plant is doing. When it starts over the plant isn't efficient and they know there is something funny somewhere. I agree if you make it a marketable product it will be a detriment rather than help in disposing of these products - you have a number of plants you won't get but 4 or 5 barrels of oil, and a plant set up to purchase that oil cannot afford to go out and get it, but a tank cleaner can afford to take the product in and treat it. There going to be a lot of tanks the waste won't be removed from it.

MR. FAMARISS:

It is my proposal that I treat all producing companies alike. I intend to serve the industry so far as the product is transported from the tank or pit is concerned, that is to be my problem in establishing my plant within a practical transporting distance. I do not intend to make exceptions.

MR. GIRAND:

Mr. Famariss at this time you have neither plant nor transporting equipment, is that right?

A. That is exactly right.

Q. The proposal in which you propose to operate - where did you get your information of the cost?

A. I have not spent 18 years in the oil business with my eyes closed.

Q. If you will explain where you got your information, as to how you would operate your cycling plant -

A. I could do it but that will take hours - I am capable and have the experience.

Q. You tell this Commission you will operate as a common purchaser?

A. That is right.

Q. In that regard you will be a common purchaser - you have had no experience in operating one of these plants.

A. I have had considerable experience in cleaning of emulsified oil.

COMMISSIONER MILES:

Let me see if I understand - so long as he proposes to do this or does it will we be concerned with that?

MR. GIRAND: It is my opinion the Oil Conservation Commission of New Mexico was set up for conserving natural resources of the State of New Mexico - the Commission is granted, through the Act, the authority to regulate and conserve the waste of its natural resources.

JUDGE SETH:

There is no doubt about that and no doubt the oil lawfully recovered can be lawfully sold unless this Commission authorizes this.

COMMISSIONER MILES:

You believe the oil should be processed?

MR. GIRAND:

It should be.

COMMISSIONER MILES:

How do you believe - you think it should be given to the tank cleaners then processed, you do not believe in purchasing it?

MR. GIRAND:

I don't believe it ought to be set up as a marketable product, this waste oil.

COMMISSIONER MILES:

After it is processed.

MR. GIRAND:

I don't believe the processor should have a right to run oil. The State of New Mexico oil is not equal to the emulsion that is processed.

JUDGE SETH:

It is this Commission's duty to protect the royalty on it.

MR. GIRAND:

Mr. Seth, I ask how do you propose to account to the royalty owners on the waste?

JUDGE SETH:

If he pays 50¢ per barrel on it that is all they get. Let him buy it under contract with the producer and pay for the emulsion.

MR. GIRAND:

Then your shady operator can produce his allowable from his well at the posted pipe line price and the royalty owner is paid on the 50¢ per barrel and your royalty owner is not protected.

JUDGE SETH:

The Commission can protect that, we are willing to secure a bond for that.

MR. WATSON:

Have you made any investigation to determine whether or not the State of New Mexico and the Federal Government, in case of federal leases, would accept this royalty reserved in the leases on the basis of 25¢ or 40¢ per barrel.

JUDGE SETH:

No sir, I have not.

MR. WATSON:

You do not know then whether the payment of that amount to the producer, whether the lessor would accept payment of its royalty interest on that same basis?

MR. FAMARISS:

They are now not raising any objections to getting nothing for it, if they get something it is more than they are getting.

MR. WATSON:

Have you made any investigation in that?

A. No, sir, I have not. Should the Commission grant me the permission asked I will go into that.

JUDGE SETH:

In the case of the Federal leases, all these contracts have to be submitted to the Federal supervisor and you present them to the State also?

A. Yes, sir.

COMMISSIONER MILES:

Whenever that emulsified product is cleaned would it become the property of the tank cleaners?

MR. GIRAND:

It is their obligation to get it out of the tank.

COMMISSIONER MILES:

That becomes the property of the man who has the contract for cleaning the

MR. GIRAND:

Yes, sir.

COMMISSIONER MILES:

Then he will produce it and sell it?

MR. GIRAND:

That is right.

COMMISSIONER MILES:

Then it becomes his property?

MR. GIRAND:

It is impossible to treat out any particular tank battery at one time. You will have 99 barrels of emulsion to treat out. The majority of these re-cycling plants set up tanks and clean the oil.

COMMISSIONER MILES:

He would have to take it out too - what prevents the same abuse applying to either or both of them?

MR. GIRAND:

It could unless the Commission provides a ruling preventing it. A permit to tank cleaners telling the amount of emulsion and the disposal of the emulsion.

COMMISSIONER MILES:

Isn't that what he proposes to do?

MR. GIRAND:

He proposes to deal direct with the operator. As I understand Mr. Famariss he did not intend to engage in the tank cleaning business.

COMMISSIONER MILES:

He would be paying on a certain basis?

MR. GIRAND:

He will be in the tank cleaning business unless he can get the producer to have the tanks cleaned and instruct the tank cleaners to take the emulsion to him.

MR. FAMARISS:

I will not restrict the tank cleaners to take the emulsion to my tank. My suggestion is that the tank cleaners dump that oil in a pit, then my transport picks the oil up from the pit. I intend to avoid that connection as much as possible.

MR. GIRAND:

It appears to me that the applicant here, if granted the authority, is willing to go ahead and establish what he is asking to operate. He has done a lot of investigating but he admits to this Commission a theory of what he will do, he is granted to do it the Commission is asked to go ahead and pass on something before they know whether or not he can take care of the requirements of the New Mexico fields.

MR. FAMARIS:

I state I will take care of whatever is available and anytime the Commission wishes I will show my financial resources and ability and availability I will not take care of what I can handle but what is completely available.

COMMISSIONER MILES:

Is this mandatory that the oil wells sell this product?

MR. FAMARISS:

I would say that is not advisable, the oil companies should have the option of selling to me or continuing what they are doing.

MR. GIRAND:

If it is salabel it will have to be sold or kept right on the place, the leases. You won't use anymore oil on the lease roads after there is a market established for it.

MR. FPAZIER:

You are not asking for exclusive authority from this Commission?

MR. FAMARISS:

I don't want a monopoly - the time, the money and neglecting my business for the past two months and asking for this permit if it is granted it is for everybody, not just my own ability to handle.

MR. FRAZIER:

You would be operating purely on a competitive basis?

A. No doubt they are waiting for it.

COMMISSIONER MILES:

Anybody else any question or information?

MR. SWEENEY:

May I ask Mr. Famariss, if he gets this general order permit what is necessary on the cleaning tank laws, to satisfy everybody in the fields.

MR. FAMARISS:

I like to qualify that - it is my opinion the purchase of these emulsions is the satisfaction of all involved parties.

MR. GIRAND:

I do not think it is the Commission's prerogative to establish certain conditions under which it must be sold - I think the acquisition of the subject matter which this application deals is a matter between the producer and the owner of the product and this Commission is over-representing itself when it says it must be bought.

MR. FAMARISS:

If someone wants to take it for nothing and I want to pay 25¢ - - -

(Case taken under advisement)