

BEFORE THE
NEW MEXICO OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
June 13, 1957.

CASE NO. 1268

T R A N S C R I P T O F P R O C E E D I N G S

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INCORPORATED
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ALBUQUERQUE - SANTA FE
3-6691 2-2211

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
June 13, 1957.

IN THE MATTER OF:)
:

Application of the Oil Conservation Com-)
mission of New Mexico upon its own)
motion for an order concerning purchaser)
prorationing by Malco Refineries, Inc.,)
commencing June 1, 1957. Applicant, in)
the above-styled cause, seeks an order)
prescribing the manner in which Malco)
Refineries, Inc. shall prorate its pur-)
chases of oil in the State of New Mexico)
during the period of purchaser proration)
commencing June 1, 1957. The applicant)
proposes to require Malco Refineries, Inc.,)
to effect its reduction of oil purchases)
in substantially the same manner as set)
forth in Emergency Order No. A-91-(A) dated)
May 31, 1957.)

CASE NO. 1268

BEFORE:

- Honorable Edwin L. Mechem
- Mr. A. L. Porter
- Mr. Murray Morgan

TRANSCRIPT OF HEARING

MR. PORTER: We will take up next, Case 1268.

MR. COOLEY: Case 1268. Application of the Oil Conser-
vation Commission of New Mexico upon its own motion for an order
concerning purchaser prorationing by Malco Refineries, Inc., com-

mencing June 1, 1957. Applicant, in the above-styled cause, seeks an order prescribing the manner in which Malco Refineries, Inc. shall prorate its purchases of oil in the State of New Mexico during the period of purchaser proration commencing June 1, 1957. The applicant proposes to require Malco Refineries, Inc., to effect its reduction of oil purchases in substantially the same manner as set forth in Emergency Order No. A-91-(A) dated May 31, 1957.

MR. PORTER: Mr. McCombe, would you come forward, please.

(Witness sworn.)

MR. BUSSIAN: My name is Robert Bussian, attorney for Malco Refineries.

B I L L M c C O M B E

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

DIRECT EXAMINATION

BY: MR. BUSSIAN:

Q Mr. McCombe, what is your position with Malco Refineries?

A Manager, Crude Oil Department, including purchases.

Q In that capacity, you handle all the crude oil purchasing for the Company?

A I do.

Q Why was it necessary for Malco to institute purchasers

pipeline prorationing on June first, 1957, in accordance with Rule 802 of the New Mexico Oil Conservation Commission Rules and Regulations in pursuant to Emergency Order Number A-91-A?

A Several months before, the last few months we have been buying more oil than we could run through the refinery, and then the refinery shut down in May for fourteen days. Our storage filled completely up, which we had to prorate to get our inventory down.

Q What percentage have the Malco reduced purchases?

A Twenty percent of April's production on marginal wells, and twenty percent of the June Allowable on allowable wells, and no reduction on any wells making ten barrels or less.

Q How long will it be necessary for Malco to prorate?

A Two months, June and July.

Q Will Malco be able to make up any back allowable on any wells provided by Rule 503F?

A Not as far as we can see at the present time.

Q Mr. McCombe, has Malco attempted to sell the excess oil to any other purchasers?

A Yes, for several months.

MR. BUSSIAN: Mr. Chairman, that's all the questions I have.

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

McCombe?

MR. CAMPBELL: I would like to ask a few questions.

CROSS EXAMINATION

BY: MR. CAMPBELL:

Q Mr. McCombe, you stated that you would find it necessary to prorate your purchases only during the months of June and July, is that correct?

A That's our present plan, yes.

Q Do you anticipate that you will subsequently find yourself in the same position after a few more months of runs into your refinery and storage?

A Not at our present estimate, or at the present allowances too. At the present time our purchases would be approximately the same as our refinery runs, and the idea is that our tanks are so full, we can hardly operate. When we get our inventory down to where we can operate safely, we feel it will be about an even break between purchases and crude oil runs.

Q You cannot assume the allowable will remain the same after the summer months have gone by, can you?

A No, but of course we feel that there would be - should be a drop in some of the fields about that time. I mean, we should hold about our own. We are buying right at 11,500 barrels a day, and that's our refinery capacity.

Q Are you obtaining, or seeking to obtain, any new connections?

A Not any new fields. We are maintaining the connections in the old fields which we are purchasing.

Q Are those mostly fields that have marginal wells?

A Yes, at the present.

Q Do you anticipate continuing your trucking of crude oil after this crisis is over?

A We are still receiving truck oil, and --

Q You intend to continue to receive it?

A Yes, sir, at the present, our present fields we are buying. We don't plan to take on any more new fields of the trucking area.

Q You are not reducing your takes from the water flood project to which you are connected, are you?

A No, we are not.

Q Is it agreeable with you to continue that practice?

A It is.

MR. PORTER: Is that all the questions you have, Mr. Campbell?

MR. CAMPBELL: Yes, that's all.

BY: MR. COOLEY:

Q Can Malco make it's desired reductions without making

any runs on wells producing less than ten barrels a day?

A Yes, we can.

Q Likewise, will you not produce any wells below ten barrels a day?

A No, sir.

Q What percent of the wells from which you are presently purchasing, are marginal, Mr. McCombe?

A We are purchasing from approximately eleven hundred and seventy-five wells, and about a hundred and two of those we figure are top allowable wells.

Q In the area which you purchase, is it the producing or completion characteristic of the wells to come in as top allowable, and quickly fall off to marginal?

A In the most of the fields we purchase, that's true. There's, I would say, the biggest percent of them are that way. After a few months they drop to marginal wells.

Q Then if the reduction in takes were restricted to top allowable wells in this case, is there a good possibility that by the time any back allowable, even if it could be run, could be taken, that these wells would then be marginal?

A It's very possible that that would be true.

Q And your cut is being taken straight across the board, with the exception of the water flood and the ten barrel or less

wells, at what percent?

A Twenty percent, and that's of April's production figures, except on the top allowable wells which are cut twenty percent of the June allowable.

MR. COOLEY: That's all, Mr. McCombe.

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

MR. NUTTER: One question.

BY: MR. NUTTER:

Q You say the marginal wells are being cut twenty percent of the April production?

A Yes, sir.

Q The top allowable wells would be cut twenty percent of the June allowable?

A That is right.

Q Is the June allowable lower or higher than the April allowable?

A It would be lower.

Q In other words, the cut that's being taken on the top allowable wells is not as great as the cut being taken on the marginal wells, in proportion to each other?

A No, that should be the same, the marginal well usually is not affected by the allowable.

Q It's being cut twenty percent of it's production --

A Twenty percent of it's production.

Q -- of it's April production?

A Yes.

Q But the top allowable wells, cut being twenty percent of the June allowables, it is not as much as the twenty percent cut to the April allowables would have been?

A That is right, although the allowable is less for June than it was in April. It was, eight barrels is our cut on top allowable wells.

MR. NUTTER: That's all, Mr. Porter.

MR. COOLEY: One more question, please.

BY: MR. COOLEY:

Q You say eight barrels is the cut on top allowable wells?

A Yes, sir.

Q Then twenty percent --

A Yes.

Q -- of thirty-eight, of forty barrels?

A Of thirty-eight would be 7.6.

MR. COOLEY: That was my question. No further questions.

MR. PORTER: Mr. Macey?

MR. MACEY: My name is W. B. Macey, Western Development Company.

BY: MR. MACEY:

Q Mr. McCombe, how many barrels per day will your twenty percent cut result in then?

A It should be about seventeen hundred barrels.

Q And as I understood you to say, that you had a hundred two top allowable wells, and approximately half of it is going to come from top allowable wells?

A That is right.

Q Then, Mr. McCombe, we realize you are in a very -- your company is in a bad position and we certainly don't want to quarrel with you about the necessity for a cut. We want to be sure what we are subjected to is the same thing everybody else in the business down there is subjected to, and I want to know how you think a continuation of the Commission's present orders will protect everyone from whom you are purchasing?

A You mean, do I think it will protect them?

Q Yes.

A I think it's as fair a way as could be done.

Q Well, let me give you an illustration. Suppose I have got a twenty-five barrel well, and I am cut twenty percent, which means I am cut five barrels a day, and I have got five hundred barrels storage. There is not a thing in the order, as I see it, that stops me from continuing to produce my oil?

A That is right.

Q And if I have got more storage than my neighbor, eventually he's going to have to shut his wells in, and I am going to keep mine producing because I have more storage. Therefore, I am going to produce more than my neighbor, or vice versa, do you think that's equitable?

A On the legal storage that, we have considered that, and we don't plan taking a legal storage these months on that reason - on account of we cannot control this - these marginal wells for that - during those months, so we will only buy the allowable, or our twenty percent of April's production from all wells, and we will disregard the legal storage.

MR. PORTER: Mr. McCombe, by legal storage, you mean un-run allowable from the previous months?

Q It appears to me, by not taking, just from a momentary thought on the subject, by not taking any legal storage, you in effect are penalizing that individual more than you would be by taking it, because he's the very person that's not going to be able to produce, because he's already got his storage full.

A Well, take the twenty percent of the April production, so in other words, he will be only - that's what he should produce.

Q Well, I realize that, but what I am saying is, if I ended up the month with my storage full, I am going to get shut

in quicker than my neighbor.

A I believe we were pretty well cleaned out at the end of May.

MR. BUSSIAN: I agree we were pretty well cleaned out.

A I don't think we are going to have too much of that.

MR. MACEY: I actually am not too concerned about the situation right now, I am thinking down the road. If this thing crops up again, I don't want any bad precedents set on something like this.

MR. PORTER: Just a moment, Mr. Macey, I believe Mr. Bussian --

MR. BUSSIAN: I wanted to interject a thought. Malco during the purchasers pipeline proration, is only doing it in accordance with the rules, and as far as the storage problem is concerned between producers in a field, we have no control over it, and we can only comply with the statute.

MR. PORTER: Go ahead, Mr. Macey.

MR. MACEY: All right. Do you think this order complies with the statute? By putting twenty percent across the board cut, you think your rates are ratable?

MR. BUSSIAN: Yes, I think the order was a ratable order, and I think that would comply with the rule.

MR. MACEY: I don't like to be put in the position of

questioning an attorney, but I think you will find that if you applied your principal of cutting, percentagewise, when you have a reduction in market demand, that the Commission, if that is ratable, what the Commission does every month by cutting just the top allowable wells, is not ratable. One of them is wrong. Either you are wrong, or what the Commission does is wrong, because --

MR. BUSSIAN: I feel a ratable order is in compliance with the statute.

Q (By Mr. Macey) What I am trying to say is this, that every well to which you are connected on a forty-acre unit, is entitled to produce to that allowable. The fact it can't produce that top allowable is purely an administrative function of this Commission. They cannot deny that operator the right to produce that oil, if the well can produce it. When you cut a twenty barrel well twenty percent, and you at the same time cut a thirty-eight barrel well twenty percent, which is what you plan to do, as I understand it --

A That is right.

Q -- you are cutting all the wells equally, but that man who has got that 20-barrel well, he's entitled to produce thirty-eight barrels, and until you cut all the wells back down to his twenty barrel figure, you are not taking ratably, because his

ratable portion of that oil is thirty-eight barrels. It's the same thing as if this Commission were to establish an allowable every month for all the wells, and then they - Mr. Nutter comes up here and says, "I think we ought to cut every well five percent". It's exactly the same thing. The market demand for Malco's purchases is down twenty percent, or down approximately ten percent, is it not? Twelve --

A Yes, over all.

Q -- twelve over all. Therefore, what you are saying is "cut everybody that same amount". If the Commission did that, I don't know where we would be. I might point out on it, it doesn't effect us one way or the other.

MR. BUSSIAN: I believe the rule reads "as the order has", but I think that it says, and is very clear, the statute says that it will be, "when there is pipeline purchasers prorationing, that they will take ratably from the wells on an equal basis", and then there's a special rule as to the marginal wells which I call a well which produces ten barrels or less, and I think a ratable take would be as we have set it up.

MR. MACEY: Now, the converse, as to setting allowables, and what a well would be entitled to take, I think, deals with your prorationing, which is another subject. We are not as a -- when you institute purchasers pipeline prorationing, we are not

setting allowables, because we have no authority to do that. We are merely prorating since we are unable to take the excess oil. One is a function, I believe, of the Conservation Commission to set allowables, and ours is an emergency remedy, and I think you are dealing with two different subjects. I mean, I don't think you can tie them together.

MR. BUSSIAN: Well, I don't agree with you, but I am not going to argue it any further.

MR. PORTER: You have any further questions of the witness, Mr. Macey?

MR. MACEY: No.

MR. CAMPBELL: I would like to say at this point, it was refreshing to see an engineer acting like a lawyer. The converse is true frequently, but seldom has this happened.

GOVERNOR MECHEM: I would like to comment too, this is the first difference of opinion we have seen over ratable takes.

MR. PORTER: Anyone else have a question of the witness? He may be excused.

(Witness excused.)

MR. PORTER: Are there other witnesses in this action?

MR. COOLEY: Not that I am aware of, Mr. Porter. There may be some statements.

MR. PORTER: Anyone have a comment or a statement?

Mr. Lund?

MR. LUND: My name is Lund, with Robert E. McKee, and I don't know the solution, probably there is none, but we have a condition where we have one well on a six hundred sixty foot location from another, both of them top allowable wells; one goes to the Pecos, New Mexico pipeline, and takes from the State allowable. We are six hundred sixty feet away, and we have to have comparable prorated allowable, and I imagine there are other cases like that in the field, but on these, the allowable and co-mingled like we have in that field where they are fracked almost together, in three weeks' time our pressure dropped a hundred thirty pounds. It's pretty evident they co-mingle and in effect, if this proration continues for two months, that would be around four and five hundred barrels they are going to take from the pool, that we wouldn't be able to sell. Now, I wonder if there's any solution we could find for isolated conditions like that? It seems there's nothing we can do about it.

MR. NUTTER: Your well is a top allowable well?

MR. LUND: Yes, both wells are top allowable.

MR. PORTER: Mr. Lund, you mentioned that you had about a 30-pound pressure drop --

MR. LUND: Hundred thirty pound pressure drop in three weeks. That's getting pretty close to their pressure now.

MR. PORTER: This prorationing will be in effect, I understand, now, today is the thirteenth day. What is your normal pressure drop there?

MR. LUND: Well, I don't think it would be that much. Probably with the three weeks' production, we shouldn't have anything like that pressure drop. Their pressure is down four hundred something, and ours - four hundred fifty- and ours was five-sixty.

MR. PORTER: Mr. Lund, the Commission of course recognizes that you do have a problem, a problem that comes up in practically every day of pipeline prorationing unless, if the purchaser buys extensively in the state from more than one pool, because in nearly every situation we have more than one branch for it.

MR. LUND: In this case, with this carrier, inasmuch as Magnolia and other companies have cut, now I wonder if they have this carrier as their oil purchaser, that is the State of New Mexico, and have them help us out.

MR. PORTER: Magnolia, to my knowledge, does not use the Texas-New Mexico pipeline facilities.

MR. LUND: I just brought it up. I don't think there's a solution to it because there's probably too many individual cases, but it does work a hardship on these wells, we figure

sixty-five thousand barrels, and probably gives the other man a lot more than we get.

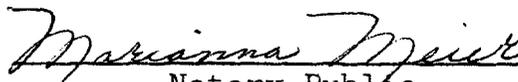
MR. PORTER: Anyone else have a statement to make? Any comments in the case? The Commission will take the case under advisement.

C E R T I F I C A T E

STATE OF NEW MEXICO)
 : ss
COUNTY OF BERNALILLO)

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

WITNESS my Hand and Seal, this, the 12th day of July, 1957, in the City of Albuquerque, County of Bernalillo, State of New Mexico.


Notary Public.

My Commission Expires:

April 8, 1960.