

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

TRANSCRIPT OF HEARING

Case 1273

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

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

REGISTER

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

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

BEFORE:

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

TRANSCRIPT OF HEARING

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

The case to be considered this morning is Case 1273.

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

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

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

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

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

4

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

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

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

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

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

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

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

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

to swear the witness?

(Witness sworn.)

D. R. WALL, JR.

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

DIRECT EXAMINATION

By MR. VICKREY:

Q Will you state your name, please?

A D. R. Wall, Jr.

Q By whom are you employed?

A Magnolia Petroleum Company.

Q What is your present occupation?

A Manager of Crude Oil Purchases and Sales.

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

A Fifteen years.

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

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

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

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

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

MR. VICKREY: I have no further questions.

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

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

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

CROSS EXAMINATION

By MR. CAMPBELL:

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

A New Mexico, Texas, Oklahoma, and Illinois.

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

A No, we purchase crude in Louisiana.

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

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

Q What do you purchase in Louisiana approximately each month?

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

Q Why have you not reduced your runs in Louisiana?

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

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

A You mean barrels a day?

Q Barrels a day.

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

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

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

Q Who owns the East St. Louis Refinery?

A Socony Mobil.

Q Who owns the Beaumont?

A Magnolia Petroleum Company.

Q Are any imported products or any imported crude being used in either of the refineries? A No, sir.

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

A No.

Q Is Magnolia an affiliate or subsidiary of Socony Mobil?

A Yes, sir.

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

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

Q You are acquainted with that, are you?

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

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

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

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

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

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

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

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

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

A No, sir.

Q Where are they situated?

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

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

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

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

A No, sir.

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

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

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

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

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

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

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

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

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

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

Q Then the figure is your production?

A That is total production.

Q Your purchases as purchaser amount to 7,000?

A That's correct, 7,200.

Q The balance of it you sell to other purchasers?

A Yes.

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

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

Q Do you do that by wells or by fields?

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

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

A No, all it would be necessary for you to do would be to explain your problem to the Pipeline Superintendent in that area if your pumps were down high water. We're trying to be just as fair in this thing as we can. If, say, your lease was down 50 per cent, instead of using the May figure, we would back up to an April or get a normal month that you did have normal runs and then take 85 per cent of those normal runs.

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

A No, sir, we do not.

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

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

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

A State that again.

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

A (Interrupting) You mean for July?

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

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

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

A Yes, sir.

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

A You are just talking about the one refinery?

Q That is the most sizeable.

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

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

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

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

A Yes, sir.

Q You nominated below what was granted in New Mexico?

A Yes, sir.

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

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

of those factors.

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

A Yes.

Q At your Beaumont Refinery?

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

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

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

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

A Yes, that's correct.

Q Including the Louisiana one?

A We don't supply any refineries in Louisiana.

Q You supply the Chicago refinery?

A Yes.

Q East Chicago?

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

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

A They do not.

Q None of them do?

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

Q Where does the Socony Mobil imported crude go?

A I said I don't know.

MR. CAMPBELL: That is all.

MR. PORTER: Anyone else have a question?

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

MR. PORTER: Go ahead, Mr. Vickrey.

RE-DIRECT EXAMINATION

By MR. VICKREY:

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

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

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

A Yes.

Q Rather than pipeline proration?

A Yes.

MR. VICKREY: That is all.

MR. PORTER: Mr. Cooley.

RE-CROSS EXAMINATION

By MR. COOLEY:

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

A I believe it is twenty-two.

Q How many of these connections do you have in the

twenty-two pools?

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

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

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

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

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

A We are, yes, sir.

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

A That's correct.

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

A June 12.

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

A No, sir, we do not.

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

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

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

MR. COOLEY: That's all.

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

By MR. RICHARDSON:

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

Q For use on East Coast refineries?

A Yes.

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

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

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

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

or four years?

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

Q How long have you supplied 32,000?

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

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

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

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

A No, it has not.

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

A Yes, sir.

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

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

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

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

MR. PORTER: Mr. Mankin.

By MR. MANKIN:

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

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

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

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

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

A That's correct.

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

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

MR. PORTER: Mr. Cooley.

By MR. COOLEY:

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

A No, sir.

MR. COOLEY: That is all.

MR. PORTER: Mr. Nutter.

By MR. NUTTER:

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

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

Q Have those purchases been reduced?

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

Q So you have reduced them by the same percentage?

A Yes, sir, that's correct.

MR. PORTER: Mr. Campbell.

By MR. CAMPBELL:

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

A No, sir.

Q Capacities and so forth? A No.

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

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

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

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

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

MR. CAMPBELL: Yes, sir.

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

The witness may be excused.

(Witness excused.)

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

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

