

NEW MEXICO HEARING

October 17, 1957

BEFORE THE  
OIL CONS. COM. OF N.M.  
SANTA FE, N.M.  
CASE 16

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EXHIBIT "A"

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

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

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EXHIBIT "B"

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

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

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

EXHIBIT "C"

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

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

EXHIBIT "D"

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

Expressed in Barrels Daily

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