

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
Santa Fe, New Mexico

October 17, 1957

TRANSCRIPT OF HEARING

Case 1273

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
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ALBUQUERQUE, NEW MEXICO
3-6691 5-9546

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
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IN THE MATTER OF: :

The hearing called by the Oil Conservation Com- :
mission to permit Magnolia Petroleum Company to : Case No.
appear and show cause why it should not be required : 1273
to purchase 100% of the oil authorized to be pro- :
duced from the wells from which it purchases in :
the State of New Mexico. :
-----:

BEFORE: Honorable Edwin L. Mechem
Mr. Murray Morgan
Mr. A. L. Porter

TRANSCRIPT OF HEARING

MR. PORTER: We will take up next Case 1273.

MR. COOLEY: In the matter of the hearing called by the
Oil Conservation Commission to permit Magnolia Petroleum Company
to appear and show cause why it should not be required to purchase
100% of the oil authorized to be produced from the wells from
which it purchases in the State of New Mexico.

MR. VICKREY: I would like to make a statement before we
swear the witness. My name is Jack Vickrey. I am an attorney for
Magnolia, address is Post Office Box 900, Dallas, Texas. Magnolia
has filed a written reply with the Commission stating its position
in the case. Please consider this reply as part of the record in
this proceeding. The Commission has requested that Magnolia

present evidence as to the actual market conditions which have resulted in the need for the continuance of purchaser prorationing in this State. Mr. D. R. Wall, Manager of Magnolia's Crude Oil Purchasing Sales Department is here to present such evidence and answer any questions the Commission might have. I would like to have Mr. Wall sworn. (Witness sworn.)

D. R. WALL

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.

Q By whom are you employed? A Magnolia Petroleum Corp.

Q What is your present position?

A Manager of the Crude Oil Purchasing Sales Department.

Q How long have you been employed by Magnolia?

A Sixteen years.

Q Have you prepared a statement relating the current market conditions which have resulted in the need for the continuance of purchaser prorationing in the State of New Mexico?

A I have.

Q Please read this statement to the Commission.

A 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 1½ 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.

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.

Q Mr. Wall, have you prepared exhibits containing the statistical information requested by the Commission?

A Yes, I have.

Q Are such exhibits attached to the statement which you just read?

A They are.

MR. VICKREY: Mr. Chairman, I offer this statement in evidence.

MR. PORTER: Do you want to identify it?

MR. VICKREY: Yes, Magnolia has no further testimony to offer.

(Marked Magnolia's Exhibit
No 1 for identification.)

MR. PORTER: Any objection to the admission of Exhibit No 1 and the attached exhibits into the record? They will be so admitted. Anyone have a question of Mr. Wall? Mr. Nutter.

CROSS EXAMINATION

By MR. NUTTER:

Q Mr. Wall, right there toward the end of your statement I missed a couple of figures. What did you say your actual purchases during the month of November are estimated to be?

A 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%.

Q This increase is despite the reduction of some nine or ten percent below the normal level? A That's correct. Yes, sir.

Q Are you aware of what the normal unit allowable for the State of New Mexico was for the month of May?

A No, I'm not, Mr. Nutter.

Q Mr. Wall, the normal unit allowable was 40 barrels at that time. A That's right.

Q Of course, the normal unit allowable is 37 barrels now.

A Thirty-seven now.

Q What do you feel is the ultimate answer to this? The normal unit allowable is way down and your purchases are way up and yet you are prorating. How can we reconcile these differences?

A That is due to the fact we have been buying new oil in the state and have been taking it on our prorated basis. We haven't stopped taking new leases that are available to us for our supply,

and New Mexico production has just increased to the point that this has occurred.

Q I know that you don't like to purchaser prorate any more than any other purchasers like to prorate.

A That's right.

Q What is the answer, how can purchaser prorating be eliminated under a deal like that?

A I didn't say it can be eliminated, Mr. Nutter. When we have from 4,075 or 80,000 barrels a day decrease in our demands each month for five months, the only way that I can see that we can take care of that decrease in demand is to continue to take new oil that is available to you if it's in your area and just reduce the overall purchases across the board to take care of any cutback that is necessary. We don't feel like that much because we are ^{we} in trouble at this time that should discontinue buying any new oil at all. We are still continuing to take new oil, but we are taking it under our prorated basis which we feel is fair to the new operator the same as the ones that we have had for some time.

Q Well, now, what was the basis for being able to restore your purchases in the States of Louisiana and Texas?

A Yes, sir, we started prorating in June, and since May, Texas and Louisiana have reduced their allowables to the point that when we restored the ten percent cutback for October that we had made in September, that enabled us to lift proration in those two

states and it has affected only a nine percent proration in New Mexico.

Now, had New Mexico allowable been reduced from May, percentage-wise, I'll say as much as Texas and Louisiana, then our restoration of the ten percent would have automatically eliminated proration in New Mexico.

Q Have you taken proportionally as many new connections in those states?

A Our percentage of new oil has been greater in New Mexico than in any state.

MR. NUTTER: Thank you.

MR. PORTER: Would you say that percentage is largely due to connection in the North Gladiola Pool?

A I would say North Gladiola, Denton and Crossroads.

MR. PORTER: Is Magnolia the only purchaser in the North Gladiola?

A I don't know about in Gladiola. I don't think so. I think there are other purchasers in North Gladiola, Denton and Crossroads where our big increase has been.

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

MR. CAMPBELL: If the Commission please, I would like to ask a question or two. Jack M. Campbell, Roswell, New Mexico, representing the Independent Producers and Royalty Owners Association of New Mexico.

By MR. CAMPBELL:

Q Mr. Wall, do you have any figures with you, or do the figures attached to your statement to the Commission reflect the imports of Socony Vacuum for the comparable period to which you referred, of May of 1957 through September of 1957?

A No, sir.

Q Are you acquainted with the report made to the Director of the Voluntary Imports Program by Socony Vacuum Company covering the ~~July, August, and September~~ **estimated imports for that company?**

A They filed a report to this Commission. I saw the report.

Q You have no reason to question the figures that are published by the Director of the Voluntary Imports Program?

A No, sir.

Q If that report shows that in July the allocation for Socony Vacuum was 67,110 barrels per day, the July actual imports were 73,700 barrels, the August actual was 76,900 barrels, and the September estimate was 79,000 barrels, wouldn't it appear to you that during the same period that Magnolia has been required, according to your testimony, to reduce their domestic purchases as Socony Vacuum has been increasing its imports of crude, isn't that correct?

A Well, now, you are getting to the, since you're on this Directors' voluntary request for reduction of imports, as far as I know Socony has stated that they will follow their directive and reduce their imports to June 1958 to average that sixty-seven one

that you mentioned.

Q I hope they do. What I am talking about is what they have actually done up to now.

A I can't question that, but our reduction had nothing to do with any plant receiving foreign oil. It is due to East St. Louis and Trenton, Michigan refinery strikes and one other, the reduced runs at Beaumont, Texas.

Q You testified before this Commission in connection with the particular problem of yours, it is my recollection that your testimony, that Magnolia did supply some crude for some of your East Coast refineries from its source of supply in the Midwest and Southwest.

A We supply about 160,000 to 170,000 barrels a day.

Q Then can you deny as a matter of mathematics, if nothing else, that this situation with regard to imported crude into any of your refineries does have some impact on your domestic picture?

A I don't think it does.

MR. CAMPBELL: That's all.

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

The witness may be excused.

(Witness excused.)

Anyone else have any testimony in the case? Any statements?

We will take the case under advisement.

