BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

Case No. 1522

APPLICATION OF GENERAL PETROLEUM,
INCORPORATED FOR REVISION OF RULE
311 OF THE STATEWIDE RULES AND
REGULATIONS OF THE OIL CONSERVATION
COMMISSION OF NEW MEXICO.

STATEMENT OF APPLICANT
IN SUPPORT OF PROPOSED AMENDMENT

The applicant, General Petroleum, Incorporated, of Hobbs, New Mexico, originated the changes in the present Rules 311 and 312 in what was, and still is believed to be an honest conservation measure. We proposed, among other changes in the Rule 311 that oil recovered from tank bottoms and pits would not be charged to well allowables. The Commission in its Order provided for charging oil that was recovered from tank bottoms and pits to the allowable of the wells connected to the tanks or drained to the pits. Thus, the oil in sediment oil was placed in a category where if it was recovered and marketed, it was charged to the allowable of the wells which produced it, but if this same oil was destroyed by burning or used on the lease, it was not to be charged to the allowable. We propose to amend the present Rule 311 (c) in the second sentence to read "any merchantable oil recovered from sediment oil shall not be charged against the allowable for the wells on the originating lease."

We feel that the present Order actually encourages waste by destruction by charging against the allowable of the wells on the originating lease any oil salvaged and recovered. The Order also requires the associated accounting for the salvaged oil in exactly the same manner as the allowable oil produced. The present Order is inconsistent in itself and with the rules of the Commission. It provides that oil burned or used on the lease is not charged against the allowable, and in the same Order it provides that oil recovered and marketed is allowable oil and subject to the same regulations, taxes and accounting as other allowable production. We believe that oil recovered from sediment oil is not allowable oil whether it is burned, destroyed or put to beneficial use on the lease, and we further believe that it is illogical to assume that an operator will include in his allowable production any such oil when it is possible under the present rule to destroy this oil without the attendant allowable problems.

It is our position that the charging to the allowable of any oil recovered from sediment oil, including tank bottoms and pit oil, is improper and contrary to the definition and understanding of allowable oil. An allowable is granted to a proration unit; that is to say "per well" while sediment oil can be accounted for only on a lease tank battery basis. Sediment oil accumulates over a period of time during which any and all allowable requirements are met. Not only by definition, but historically, such hydrocarbon accumulation has been considered as a waste by-product of production and in no way a part of the

allowable production. This is borne out by the definition of tank bottoms in the Rules and Regulations as well as the other definitions and general knowledge and understanding of the industry.

We believe that there is from 4,000 to 10,000 barrels of sediment oil wasted each month. We further believe that this oil will not and can not be salvaged so long as the oil recovered therefrom is charged against the allowables. If we are mistaken in these assumptions and the allowable clause is removed, only we and the others with treating plants will be injured by having no oil to treat. If the allowable charge is retained and our assumptions and conclusions are correct, an inexcusable amount of oil will be destroyed which could be recovered in the interests of conservation. We have arrived at the above figures of waste through an analysis of the oil destruction permits for Lea County on file with the Commission. These figures are derived from the reported volumes of 3.35% of the wells in pools representing approximately 50% to 55% of the wells in Lea County. We feel the extensions to be fair as the reports from which they are taken are from producers who represent a cross-section of the New Mexico producers so far as efficiency and conservation practices are concerned. We feel there is no reason to believe that other producers are more or less efficient or more or less conservation minded than the ones who have filed their applications to destroy sediment oil from January 1, 1959 to June 1, 1959, the period covered by the accompanying chart.

At and after the previous hearings on this rule, the question of the possibility of theft in connection with the handling of sediment oil was raised. We do not believe in theft of oil in any manner, and we feel that the concern exhibited represents an honest and thoughtful attempt on the part of those expressing concern to guide the industry. However, we vehemently object to the levelling of such an insinuation against New Mexico treating plants investigated and licensed by this Commission, supervised by this Commission and bonded to operate under its regulations and rules and the laws of the State of New Mexico. We find it difficult to believe that a mature industry and informed Commission would allow the mere possibility of theft in connection with the salvage of a natural resource to be used as the excuse for the continued known destruction and waste of oil. We grant that the possibility of theft and dishonesty exists in all walks of life, but we deny that such a possibility justifies waste of a natural resource. If the possibility of theft is an adequate reason for waste, why not shut down the whole industry?

We grant to others the legal presumption that citizens act in a lawful manner, and we believe that treating plants, investigated, licensed, supervised and bonded, are entitled to the benefit of the presumption. We believe that the rules with the supervision provided render the possibility of theft in this instance much more remote than in other industries. No sediment oil can be removed from the originating lease without the knowledge and written consent of the operator. Merchantable oil recovered from sediment oil can not be marketed without the

knowledge of the Commission of the volume, source and disposition.

We are a legitimate business enterprise proposing an amendment to the present rules which will prevent the waste of 4,000 to 10,000 barrels of oil per month. For the reasons set out, we urge the adoption by the Commission of the proposed amendment to Rule 311 (c).

Respectfully submitted,

Charles M. Rieder, President
General Petroleum, Incorporated