

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE NO. 1603

TRANSCRIPT OF HEARING

DEARNLEY - MEIER & ASSOCIATES
GENERAL LAW REPORTERS
ALBUQUERQUE NEW MEXICO
Phone CHapel 3-6691

February 18, 1959

is here to present evidence which will enable the Commission to make appropriate findings of fact to enter an order respecting the production of sour and certain semi-sweet crudes from those leases connected to Gulf's Refining Company's sour crude system.

At this point I would like to make reference to Case No. 1299 in which Gulf stated its position in regard to purchaser prorating in New Mexico. My opening statement in that case is equally applicable to this case. We believe that the facts which will be brought out there fully warrant remedial action by the Commission in order to prevent waste.

In this testimony, whenever I refer to Gulf, I mean to refer to Gulf Oil Corporation. Gulf Refining Company is the owner and operator of the pipeline through which Gulf makes all its southeastern New Mexico purchases. If I should refer to the pipeline, I mean to make reference to the Gulf Refining Company's pipeline.

My witness is Mr. J. G. Coates, manager of crude oil supply for Gulf Oil Corporation.

(Witness sworn.)

J. G. COATES

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

DIRECT EXAMINATION

BY: MR. KASTLER:

Q Will you please state your name and address.

A J. G. Coates, Houston, Texas.

Q What is your position with Gulf Oil Corporation?

A Manager of crude oil supply.

Q Will you please explain how Gulf purchases its New Mexico crude oil and how it is transported and what the normal outlets are?

A Well, we purchase at the lease either by pipeline company or by truck. It is transported via Gulf Refining Company's pipeline to our refineries and points of sale. There are two grades of crude. The sour and the semi-sweet stream normally goes to Toledo, Cincinnati and Corpus Christi, and the sour to Port Arthur, the plant that is shut down.

Q Is Gulf the owner and operator at Port Arthur, Texas, which is presently closed down due to a strike?

A Yes, it is.

Q When did this strike become effective?

A January 29th, this year.

Q Is Gulf presently negotiating or willing to negotiate in good faith to settle this strike?

A Yes.

Q Can the duration of this strike be predicted in any way?

A No, I don't believe it can.

Q Until the strike occurred, was all of Gulf's New Mexico sour crude taken into this Port Arthur Refinery?

A Yes, it was.

Q Since the strike occurred, has it now become necessary or advisable for Gulf to reduce its purchases of sour crude in New Mexico and Texas?

A Yes, sir, definitely.

Q To what extent have these purchases been reduced in New Mexico?

A Thirty-three per cent of normal allowables.

Q What is being done presently with the sour crude that is being purchased?

A Placed in storage at various points.

Q Does the pipeline run semi-sweet oil in addition to the sour crude?

A Yes. In addition, the pipeline runs two streams, sour and semi-sweet.

Q Has it become necessary to reduce Gulf's purchases of crude oil in the semi-sweet string due to the strike or any other reason?

A No, it has not. We have normal demand for the semi-sweet crude and those purchases have not been curtailed.

Q Can Gulf continue its normal purchases of crude oil of semi-sweet during the Port Arthur strike?

A Yes.

Q Is it not true that some semi-sweet oil from New Mexico is taken in the pipeline's sour stream system?

A Yes, semi-sweet stream comes from the north end of the system. There are a few, small semi-sweet fields down to the south. It's impractical and uneconomical to segregate them into a semi-sweet stream, therefore they go into the sour stream.

Q Can you identify these pools?

A Yes, I believe I can.

Q Will you do so, please.

A Blinebry; Blineby Gas, Lea County; Brunson, Lea County; Hare, Lea County; Monument-Ellenburger; Teague, Lea County; Teague-Devonian; Teague-Ellenburger, Lea.

Q Roughly, what is the total daily output of all those pools?

A In the range of seven or eight hundred barrels a day.

Q Is it necessary for Gulf to reduce its purchases from these pools as a result of the strike?

A Yes. Since they are gathered into the sour stream, it is necessary to prorate those along with the sour leases.

Q What percentage of the semi-sweet oil which is not being prorated is from Gulf owned wells?

A Approximately twenty-two per cent.

Q What percentage of semi-sweet and sour oils which is being prorated is from Gulf owned wells?

A Approximately fifty-four per cent.

Q On the basis of this, would you state that Gulf itself is a party most adversely affected by the reduced purchases of

sour oil?

A Obviously, with fifty-four per cent net ownership, Gulf is suffering a heavy loss.

Q Does Gulf purchase any oil from New Mexico from water flooded pools?

A No, we do not.

Q Does Gulf's reduction of purchases at present affect any well that produces ten barrels or less per day?

A No.

Q Did Gulf give notice of its situation to the New Mexico Oil Conservation Commission?

A Yes, we did.

Q Prior to instituting its reduction of purchases?

A Yes, we did.

Q In giving such notice, did Gulf supply information listing average daily runs and the names of all New Mexico pools from which Gulf purchases?

A Yes, we did that.

Q Is that information that was furnished true and accurate to the best of your knowledge?

A Yes, it is.

MR. KASTLER: If the Commission please, I would like to request that our formal notice and our tabulation of pools and average daily purchases be incorporated in the record of this case.

MR. PORTER: It will be incorporated.

MR. KASTLER: That finishes my direct testimony.

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

Mr. Nutter.

CROSS EXAMINATION

BY: MR. NUTTER:

Q Mr. Coates, are those refineries in the mid western part of the United States, I believe you stated they were in Toledo and Cincinnati, geared to handle other than sweet oil?

A No, sir.

Q Does Port Arthur normally handle anything other than sour oil?

A Yes, sir.

Q It handles sweet and sour when it is in operation?

A Well, we are talking of just sweet and sour, and it handles both, although there are other grades too.

Q Is any import oil normally sent to Port Arthur?

A No.

Q That is all domestic oil?

A Yes, sir.

Q Are the refineries that are operated by Gulf Oil Corporation on the east coast geared only to handle sweet oil?

A No, sir.

Q They handle sour too?

A Yes, sir.

Q Is there any possibility of this sour over-production that you have on hand be sent to the east coast and processed there?

A Refinery engineers advised me that the plant we are talking about, which is, of course, the Philadelphia plant, was not designed or constructed to run West Texas-New Mexico sour crude. The sulphur content is different from the sulphur of other sour crudes run at that plant.

Q They do handle sour crudes, but they don't handle West Texas-New Mexico sour crude?

A That is true.

Q What is your proposed rate of prorating for the month of March for the State of New Mexico?

A One-third. In other words, we would purchase one-third.

Q Would that be --

A To state it another way, thirty-three and a third per cent of allowables.

Q Is that the same that you are prorating at the present time, is that the same rate of production?

A Actually, I believe this month it is thirty-three per cent, so I guess there is a difference of one-third of one per cent. That's merely in trying to remain equitably between states insofar as possible.

Q New Mexico is in line for an increase this month, however, isn't it, due to the fact that your rate of prorating was

based on twenty-nine days of prorating rather than thirty-one as other months?

A Day by day, I can't say that. Each day for twenty-nine days we took thirty-three per cent, and each day for thirty-one days in March we would purchase thirty-three and a third per cent.

Q I was under the impression you were reducing purchases in New Mexico a little bit later than other states, because you started late here?

A No, that isn't quite true. Actually, New Mexico should have been, oh, about thirty-three starting the first, to be equitable with the other states.

Q Your calculations do not agree with mine.

A That is not exactly true, without going into arithmetic. If you wish, I could explain it to you.

Q Well, I rather, Mr. Coates, that you just assure us that the rate of prorating will be equitable with other states.

A It is being done equitably insofar as possible.

Q It will be equitable with what states, Mr. Coates?

A Well --

Q How about Louisiana?

A No, sir.

Q Prorated more or less?

A We are not prorating Louisiana.

Q You don't have any sour crude in that state?

A No.

Q How about Alabama?

A Alabama is being prorated on an equitable basis.

Q Are you prorating in Mississippi at the present time?

A No. The Mississippi crude does not go to Gulf's refineries. I might add one thing about Louisiana. The reason we are not prorating Louisiana is because we are unable to sell a large volume. Insofar as we can sell sour, we would improve our purchasing program.

Q Speaking of that seven to eight hundred barrels of semi-sweet oil, Mr. Coates, which goes into your crude stream, would you purchase one hundred per cent of that semi-sweet oil if the producers of the oil made arrangements to have it delivered to your nearest sweet oil connection?

A We would certainly consider it. There would be various details to be worked out, but we would be willing to see if something could be worked out.

Q Are negotiations presently in progress as far as termination of that refinery strike is concerned, Mr. Coates?

A When I left Houston yesterday, they were; I assume they are still talking today.

Q Is there any indication to date when this dispute might be settled?

A No, sir.

Q You are going to storage with a certain amount of the sour oil which you are purchasing at the present time?

A Yes, sir, we are storing fairly large volumes of sour crude.

Q Do you have any idea as to the amount of storage space that you have available at the present time, what it amounts to?

A I don't have the latest figure, and I consider that confidential. However, if you feel that you need that information, I will give it to you later.

Q Would you furnish that to the Commission please?

A Yes, sir.

MR. NUTTER: I believe that's all, thank you.

MR. PORTER: Anyone else have a question of Mr. Coates? Mr. Coates, is it Gulf's plan to terminate prorating as soon as the refinery is back on the stream?

A That is a difficult question. I would say this, that there would be various factors to be considered. For instance, as an example, say the strike ended sometime during the last half of March, that means that during the last part of January, and all of February, and the first part of March, we would have stored a large volume of crude, quite a lot of volume. Also, in the mean time it has been necessary to acquire very large purchases of product -- Well, it will depend on your products position at that time, what our refinery runs would be. It's very difficult to time your product stocks in line with the termination of the

strike. I will say this, we will terminate purchaser prorating insofar as we could practically do so, but it depends on the crude oil stocks and the products stocks and the level of the refinery runs, what we would be able to do.

MR. PORTER: Anyone else have a question? The witness may be excused.

(Witness excused.)

MR. PORTER: Anyone have anything further to offer in Case 1603? Take the case under advisement.

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March 18, 1959

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
MARCH 18, 1959

: IN THE MATTER OF: :
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CASE 1603: In the matter of the application of Gulf :
Oil Corporation for an order authorizing :
it to prorate the purchase of sour crudes :
only from twenty-five pools in Lea and :
Eddy Counties, New Mexico, during the :
course of the Port Arthur Refinery strike.:

BEFORE:

A. L. Porter
Murray Morgan

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

MR. PORTER: We will proceed with Case 1603.

MR. PAYNE: Case 1603. In the matter of the appli-
cation of Gulf Oil Corporation for an order authorizing it to pro-
rate the purchase of sour crudes only from twenty-five pools in
Lea and Eddy Counties, New Mexico, during the course of the Port
Arthur Refinery strike.

MR. KASTLER: I am Bill Kastler, appearing for Gulf
Oil Corporation. If the Commission please, I would like to ex-
plain that our Port Arthur Refinery strike has now been settled,
and that as of this time our Gulf Refining Company pipeline is
running the full allowable of 34 barrels in the sour and semi-
sweet stream. I would also like to say that the effects, the total
effects of the strike are not yet known, but that we did anticipate

some further difficulty later on. In the event we should experience such difficulty, we would propose to appear again and give you a formal notice later on this month outlining our situation at that time, and therefore, I request that Case 1603 be closed.

MR. PORTER: Mr. Kastler, is it Gulf's intention to run as much of the March allowable production as possible?

MR. KASTLER: It is.

MR. PAYNE: Mr. Commissioner, in that connection I move that since Gulf Oil Corporation intends to take a hundred percent of March allowable, that the one hundred twenty-five percent daily tolerance requirement of Rule 502 be waived, effective immediately, for the balance of the month of March for the twenty-five pools in question so that these wells can produce their full March allowable.

MR. PORTER: Is there any comment on Mr. Kastler's motion for dismissal of Case 1603? Case 1603 will be dismissed. Is there any comment on Mr. Payne's motion concerning the waiver of the tolerance rule?

The Commission will waive the daily tolerance rule for the twenty-five pools in question.

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, J. A. Trujillo, 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 by me, 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 31st day of March, 1959, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Joseph A. Trujillo
NOTARY PUBLIC

A circular notary seal for Joseph A. Trujillo, Notary Public, State of New Mexico. The seal contains the text "JOSEPH A. TRUJILLO", "NOTARY PUBLIC", and "STATE OF NEW MEXICO" around the perimeter.

My Commission Expires:

October 5, 1960