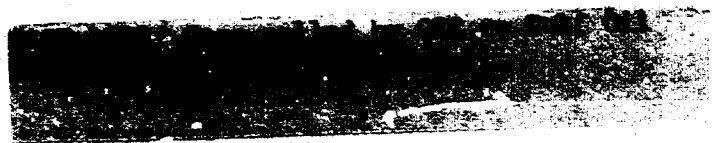


Case No.

1403

Application, Transcript,
Small Exhibits, Etc.



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FILED IN
OIL CONSERVATION DIVISION
Santa Fe, New Mexico
March 12, 1942

IN THE MATTER OF: Case No. 1423

TRANSCRIPT OF PROCEEDINGS

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

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
March 13, 1958

-----)
IN THE MATTER OF:)

The hearing called by the Oil Conservation
Commission of New Mexico, on its own motion,
to permit Gulf Oil Corporation to 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 oil in
the State of New Mexico.)

) Case 1403
-----)

BEFORE:

Mr. A. L. Porter, Jr.
Mr. Murray Morgan
Governor Edwin L. Mechem

TRANSCRIPT OF PROCEEDINGS

MR. PORTER: We will take up next Case 1403.

MR. COOLEY: Case 1403: In the matter of the hearing
called by the Oil Conservation Commission of New Mexico, on its
own motion, to permit Gulf Oil Corporation to 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 oil in the State
of New Mexico.

MR. KASTLER: Bill Kastler of Roswell, representing Gulf
Oil Corporation. We have this morning Mr. J. G. Coates, who is
the Manager of Crude Oil Supply for the Southern Division, who is
here to present a statement in detail on the conditions which have

necessitated our reducing our purchases commencing March 1st.

While the matter of imports is a matter in which Gulf's policy is a matter of public record, Mr. Coates will also present a detailed statement concerning the foreign imports.

We understand that the Commission is well aware of our position in regard to being required to purchase oil; so Mr. Coates, will you please take the stand?

(Witness sworn.)

J. G. COATES

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

DIRECT EXAMINATION

By MR. KASTLER:

Q Mr. Coates, will you please state your name and position, and then read your statement?

A J. G. Coates, Manager of Crude Oil Supply, Southern Division,, Houston, Texas.

Our nomination for purchases in Southeast New Mexico for the month of March was made on a realistic basis. For January we had nominated 24,500 B/D, expecting to take full allowable for the first time since August 1, 1957. Our actual runs during January ran beyond our expectations, and we really took 26,050 B/D. Our nomination for February had to be made before the January results were known and, thinking that our estimates for January were close,

we nominated 24,500 B/D for February. We now know that our runs amounted to approximately 26,900 B/D.

The unanticipated excess purchases during January as known at the time we made our March nomination, the axiomatic certainty that our runs during February would be in excess of our nominations, and a look ahead into the future dictated that for March we must cut our nominations to a figure that would mean realistically what we could handle. The result was that our nomination for March was reduced to 21,000 B/D.

Because demand for products has failed to live up to predictions, our own stocks of products and industry's stocks of products have failed to follow generally considered desirable trends. Industry stocks of Major products are about ten percent higher than a year ago when they were already too high. Crude stocks are almost fifteen percent higher than they were a year ago, when industry was quite comfortable, with willing sellers looking around for buyers with the latter showing signs of reluctance, which reluctance within a matter of weeks turned to complete disinterest. Gulf's situation followed the pattern of industry as a whole.

When we made the nomination for March in New Mexico, we faced the fact that during January and February, we were going to add something better than two million barrels to our stocks of crude. For March and April because of the lack of outlet for products we were faced with reductions in our refinery thru-put.

On top of this for May, one of our units at Port Arthur, which processes 120,000 B/D of crude, part of this being crude of New Mexico origin, will be shut down for practically the entire month for repairs. Necessarily, this meant that we had to get ready, and this is why we reduced our nomination for New Mexico to a figure which represents the amount of oil we will purchase and can handle. Corresponding reductions were made in our nominations in other States where Gulf is a well-head purchaser.

Q Mr. Coates, do you have a further statement to present at this time in connection with imports?

A Yes, I do.

Q Would you please read that statement?

A Our policy with respect to imports of foreign crude has been well publicized and should be well known. Without exception, Gulf has complied with all suggestions of the Federal Government. We have so testified before this Commission several times.

Specifically, for the 12 months period, July 1, 1957 to June 30, 1958, Gulf's "allocation" under the "voluntary plan" is 111,600 B/D. If the tankers arrive exactly as scheduled our imports for the nine months ending March 31, 1958 will be 111,300 B/D. On paper, this can be calculated that for nine months we shall have exceeded our allocation by 155,000 barrels. On the other hand, it is no more than fair to look at the fact that this schedule includes the arrival of a 275,000 barrel tanker at the very end

of March. If she fails to make her schedule, then for nine months we shall be under-imported. Suffice it to say, for the entire twelve month period our plans are to live within our allocation.

Additionally, and really of most interest to this Commission, we repeat what we said in the past, New Mexico crude is used at Gulf refineries that do not use foreign crude; namely, Toledo, Cincinnati, and Port Arthur.

MR. KASTLER: Mr. Porter, we have no further questions at this time.

MR. PORTER: Anyone have a question of the witness?

MR. COOLEY: Yes.

MR. PORTER: Mr. Cooley.

CROSS EXAMINATION

By MR. COOLEY:

Q Mr. Coates, can you tell me what States Gulf Oil Corporation is now practicing purchaser proration in?

A Yes, sir. Alabama, Mississippi, Louisiana and New Mexico. I might additionally say that we initiated reduction in our purchases in Alabama and Mississippi on August 1st last year, and have continued on that basis up until this time.

Q You are not purchaser prorationing in the State of Texas at the present time?

A Sir?

Q You are not purchaser prorationing in the State of Texas

at the present time?

A No, we are not.

Q Can you tell me what your nominations for the purchase of oil were in the State of Mississippi?

A We do not nominate in the State of Mississippi; they do not request nominations.

Q Is there any way of determining what the purchasers' demand might be in that State?

A Purchasers' demand? I suppose the only way that can be determined is considered equal to what they buy. There are allowances within the State.

Q They are established on the basis of market demand, are they not?

A No, sir. The allowable is fixed for separate fields and more or less remains static without any monthly meetings. I would say they're based on engineering data.

Q How about the State of Louisiana?

A What about Louisiana?

Q Does a similar thing apply there?

A No, they receive nominations each month and have a Commission hearing alternate months.

Q Can you give me your nominations in the State of Louisiana for the month of March?

A I don't mind giving you that figure. I don't particularly

care to discuss the situation in other States, but 133,000 barrels daily for the month of March.

Q What allowable did they assign you for the month of March which necessitated purchaser prorationing? How much oil would you have purchased had you purchased the oil in Louisiana, rather than prorated?

A The difference between 133 and what we would have purchased if we purchased full allowables?

Q Yes.

A They had such a revision in their allowables schedules, taking wells off on-shore and placing them on-shore and changing depth brackets, it's a little hard to calculate that.

Q Can you just give me the percentage of prorationing in effect in Louisiana at the time?

A That would be the easiest way. We are taking eighty-five percent of March allowable.

Q Which would decrease your nomination by approximately fifteen percent?

A Yes.

MR. PORTER: In other words, in New Mexico it is based on January runs, whereas in Louisiana it is based on the March allowable?

A Yes, there's a very good reason for that.

Q Explain it.

A There's a particularly large field that has been on off-shore allowable for sometime. They placed it on shore allowables which was a reduction for the allowable in that field of approximately, or thirty-five, forty percent. If we had prorated Louisiana on a percentage basis of January runs, which would be more or less normal, our percentage for that field would have been higher than the allowables, and of course would have been impossible for us to purchase more oil than the allowable set for the State, so we had to go on an allowable basis because we purchase a large volume of oil from that particular field.

Q Is Gulf Oil Corporation prorating in every State that has set their nomination higher than the allowables?

A Yes, sir.

Q Do you understand that to be a policy of Gulf Oil Corporation?

A Yes, sir. I might enlarge on that. We nominate on the basis of what we can handle, considering refinery runs and possible sales, and also our tankage situation; and if the allowables are set in excess of what we can handle, there is not much choice left.

Q One of the factors you say you consider is possible sales, spot sales to other purchasers?

A Yes. Of which there is a sad lack.

Q We understand that.

A Yes.

Q You are aware that it is inevitable in any pool or any State where there is more than one purchaser, that their demands per well are bound to vary?

A Yes, sir.

Q And that it is also inevitable that one purchaser will be assigned allowables greater than his demand, while another will be assigned allowables less than his demand?

A That can easily happen and often does.

Q In order for prorationing to operate, this differential must be sold from the company that has the excess to the company that has the deficiency?

A That is true. If we could sell enough oil, we could purchase full allowable.

Q Your company has made diligent efforts to seek out these spot sales?

A Yes, sir.

Q You state that Gulf Oil Corporation has complied substantially with Captain Carson's suggestions and with the quota established by him?

A I wouldn't say substantially. I would say we are abiding by it.

Q You are abiding by it, all right. How much reduction in imports has this amounted to with regard to Gulf Oil Corporation?

A Comparing what periods?

Q Comparing the nine-month period to which you referred in your statement; how much would Gulf have bought had there been no curtailment by the Federal Government?

A In other words, how much would we have imported?

Q Yes.

A I don't know.

Q Didn't you have projects at the time that Captain Carson's organization went into effect?

A No, the only projects I am familiar with are the six-months projects which we furnished the New Mexico Commission, and of course Captain Carson's program was instituted, I guess, in July of last year. Projects with which I'm familiar did not extend into 1958. I can say that we were importing approximately 153,000 barrels per day in July of that year, and now we are averaging 116.

Q Do you have the information as to what Gulf's level of products imports was at the time Captain Carson imposed this restriction on imports, when the voluntary program went into effect?

A No, I don't have it in mind. I think our products -- no, I don't have it in mind.

Q Do you have that information here?

A Yes, I think perhaps so.

Q Would you please get it?

A I think I have. I'm not sure. I have the letters addressed to the Commission back that far. I may have. Just a minute, I

want to check one other source. I have the letter here of last August, it looks about 10,000 barrels a day.

Q What is the present level of products imports?

A Well, referring to the letter, with which the New Mexico Conservation Commission has been furnished, it looks like the average for the six months on this sheet would be about, approximately 20,000 barrels per day.

Q Products imports have not been curtailed as of yet, under the voluntary program, have they?

A No, they have not. There is no restriction or requested restriction.

Q How much of the reduction in crude imports would you estimate has been compensated for by the increase in products imports? Are they about equal to each other?

A I believe the figures I gave you a moment ago, at the time the voluntary plan was instituted we were then importing 153,000 barrels a day of crude, call it 112 now in round figures. 12 from 53 would be 42,000 barrels a day reduction. I guess the products figures I gave you would be about 10,000 barrels per day, so I would say they are not compensated.

Q How many barrels of crude does it take to make one barrel of those products of the type you are importing?

A I'm not qualified to answer that.

Q That would not be one for one?

A No, you don't make a barrel of gasoline out of a barrel of

crude. On the other hand, you get other products also.

Q This is total products imports?

A Yes.

Q Wouldn't that be in the range of three to four barrels of crude?

A I am not qualified to answer.

Q Does Gulf Oil have a witness qualified to answer that question?

A No, sir. You mean at this hearing?

Q At this hearing.

A I had no way of knowing you wanted that figure. I am not a refinery expert by any means.

Q I don't expect you to answer any questions that you are not capable of answering.

MR. COOLEY: That's all the questions I have.

By MR. PORTER:

Q Mr. Coates, this import quota that you talk about, 111,600 barrels daily. When was that established?

A Well, as I remember -- I can't say the day it was established but I would say it was to be effective commencing July 1st, 1957. In other words, the last six months of '57 were affected by it.

Q Would you think that August was about the approximate month this announcement was made?

A As I recall, it was around the last of July or early August. I recall it as that.

Q Have market conditions become worse or better since that time, to your knowledge?

A I would say they have deteriorated a great deal since that time. I suppose it is a perfect illustration by low allowables in relation to low demand.

Q Has Gulf asked for a decrease in the quota?

A No, sir.

Q That quota is in effect an allowable, isn't it?

A I think you could say that, yes, sir.

Q During this period I believe the record will show that Gulf has asked for decreases in coming before the State regulatory bodies?

A Yes, but you might say that we took our import reduction first and now we are trying to get our domestic reduction, not because of not wanting the crude, but just for lack of demand.

Q Do you have the total number of barrels that your curtailment amounts to in the several prorated states?

A Yes, sir. In other words, in the four states, Mississippi, Alabama, Louisiana, New Mexico?

Q Yes.

A May I confer with my associates?

Q Yes, sir.

A About 29,000 barrels per day. I apologize, but there are so many figures in this business that I can't keep them all.

Q We realize you don't know what to expect. 29,000 approx-

imately. Could Gulf, by reducing its imports by 29,000 barrels per day go back on 100 percent takes, domestically?

A Well, these barrels that we're failing to purchase don't go to the same refineries; again you get into comparing what refineries can do with different types of crude. From an economic standpoint, I would say it can't be done; physically, I would say it could be done, if you don't look at the profits.

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

By MR. COOLEY:

Q What do you mean by your answer to Mr. Porter's question, Mr. Coates, not considering the economics? What are the economics factors that would prohibit reducing imports, taking 100 percent allowable oil in prorated states in the United States?

A For instance, foreign crude is used at the Philadelphia refinery. If we took the Mississippi crude and Alabama crude and New Mexico or Louisiana crude and took that to Philadelphia and put it through the refinery that was designed for foreign crude, I say the economics would cause you to lose money.

Q Because the refinery at Philadelphia is not built to handle domestic?

A It handles some domestic. It cannot handle the four states. Again you are getting into technical refinery questions that I am not able to answer.

Q You stated economically it was not feasible to reduce the imports and take one hundred percent. Please explain that answer.

A I repeat what I just said, the refineries are designed for particular crudes and you can't take that crude out and put another in and expect to come out the same.

Q Are you running the Philadelphia refinery at capacity?

A I'm not sure that it's complete capacity right now. It's awful close to it. Let me think a minute. Yes, I guess it is.

Q That is with imported oil?

A No, it runs quite a bit of domestic, too.

Q Are Toledo, Port Arthur and Cincinnati running at full capacity?

A No.

Q At what percent of capacity?

A Let me put it this way. Toledo, Cincinnati, normally average, they can run as much as 80,000, I suppose it averages 75, and they are currently running about 70. Port Arthur can run a higher figure, but it averages in normal times 275,000 barrels per day, and right now it's running 245,000 barrels per day.

Q Could you run 29,000 barrels a day more oil through the Toledo and Cincinnati refineries than is presently being put through those?

A No, I just stated that the maximum was 80.

Q You said the average daily.

A I said the maximum is 80 and we are running 70.

Q Ten more thousand is all you can run through it?

A I am not saying that we could right now, because you have

shut-down days on certain equipment. I don't know what is shut down at that refinery. It can run as much as 80, but due to shut-down and repairs and clean-out, it only averages about 75. I don't know whether it could run 80 this particular month or not. I am sure at --

Q (Interrupting) With regard to those two refineries, are they running all the oil they can run through it under present conditions?

A Yes, under present conditions, because if you don't have demand for the products --

Q I am not referring to that. I am referring to the physical ability to run the oil through the refineries as they now stand.

A Toledo and Cincinnati?

Q Toledo and Cincinnati combined.

A They could run more.

Q How much more, would you estimate?

A Using the average of 75, I would say 5,000 more.

Q Would you say that the Toledo and Cincinnati refineries furnish the, substantially the same marketing area that the Philadelphia refinery supplies?

A No.

Q Why?

A They are separated geographically. Although I am not familiar with the products distribution, I would say they are separated geographically. They serve different areas.

Q Wouldn't it be all right for them to, without a substantial increase in cost?

A I suppose you have transportation cost, of course. I would like to make another remark. You talk about reducing our imports to make room for this domestic crude that we are failing to purchase under our reduced purchases. I don't think anybody has any idea that imports of crude oil or products either one should be cut off entirely. I think everybody admits there's a proper level and the Cabinet Council has, after much study of experts and qualified men, have set the qualified level. I suppose you are asking us to say that we should reduce it, despite their deductions and decisions and so forth?

Q I believe you agreed, in answer to Mr. Porter's question, that 111,600 barrel level of imports for Gulf was established on the basis of the market at the time that quota was established?

A No, I don't believe I said that.

Q I believe that the record will show that you did. How can it be based on anything else than the existing market at that time?

A I don't know what all the Cabinet Council considered. I imagine they considered the reserves in the United States, the decline of reserves, I'm sure they must have considered market demand and many other factors. As I understand it, they reinvestigate and recheck their figures periodically and I assume when they think it is justifiable they will increase those figures or

perhaps reduce them. The fact that we have always abided by their suggestions and programs, I would only assume that we would continue to do so.

Q Mr. Coates, do you have any knowledge concerning the drilling activities of Gulf Oil Corporation?

A No, sir.

Q You don't know whether the drilling activities have been curtailed during this period of declining demand?

A No, I don't.

MR. COOLEY: That's all the questions I have.

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

MR. CAMPBELL: Jack M. Campbell, Campbell and Russell, Roswell, New Mexico. I would like to enter an appearance on behalf of the Independent Producers and Royalty Owners Association of New Mexico.

By MR. CAMPBELL:

Q Mr. Coates, you testified, I believe, that Gulf was complying and had complied fully with the voluntary import program, is that correct?

A Yes.

Q Doesn't that assume that Gulf will substantially reduce its present rate of imports during the last three or four months of this year's program?

A You mean the year July 1st last year to June 30th this year?

Q Are you not assuming that in order to come within the 111,000 per day quota for Gulf that you will be required to materially reduce your present rate of imports during the remaining four or five months of the year's program?

A No, sir. Referring back to the statement that I read, if the last tanker arrives within the month of March, we would be in excess 200 barrels a day for those nine months. We have three months left to adjust that. I think that is about as close as you can get, in fact, a little closer than I would expect.

Q Haven't you made estimates to Carson with reference to your anticipated imports for the last months of this year's program?

A We make estimates to the New Mexico Commission, to the Texas Railroad Commission, and to Captain Carson.

Q Don't those estimates to Captain Carson, which refer only to crude, indicate that your import rate during the last month will have to be 103,000 per day for the whole year period to bring you within the import allocation?

A At one particular time it was 103, but at that particular time we were expecting to get 126,000 barrels a day, which would have caused a reduction in the next three months, but March has been reduced to 111,000 and February had been estimated 103, and it actually was only 92,000, so actually, using the last letter that was submitted to the New Mexico Commission here, shows February 92,100, March 111,000, and 111,000 on across which will keep us within 111,000. As I say, for the first nine months we have only

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exceeded 200 barrels per day. If it goes on. If it slides over to next month, we will actually be under.

Q Do you make the reports that are made to the Texas Railroad Commission for Gulf?

A You mean this import letter?

Q Yes, the ones that estimate your future import program and your past import history.

A No, sir, this letter is addressed to the Texas Railroad Commission, and a duplicate of it is addressed to the New Mexico Oil Conservation Commission, and they are both signed by Mr. A. P. Huggins, vice-president, Pittsburgh.

Q Do you have with you the actual imported crude and products for Gulf for the months of January through June of 1957?

A January through June of 1957?

Q Six months immediately preceding the import control program.

A No, sir, I don't. My letters don't go back that far. As I remember, they were down because of Suez.

Q Is it correct, to your knowledge, that Gulf in July of 1957, the first month of the voluntary program, imported no products?

A July, '57?

Q Yes. Until July, 1957, imported no products?

A You say we imported none during these six months?

Q Yes.

A I don't have the letters back that far. In other words, you are saying we did not import any products the first six months

of '57.

Q Yes, sir, I'm saying that's what you reported to the Texas Railroad Commission.

A I am sure it's accurate if you have the report. My letters don't go back that far, but I can say that we imported products each and every year 1946 through 1956. I don't know what happened the first six months of '57. I don't happen to have that.

Q Commencing in July, 1957, you reported imported products to the Texas Railroad Commission?

A I think I have the letter in the mid-year, it's the earlier part of the year that I don't have. I show 4,000 barrels a day in July.

Q In July?

A Yes.

Q Do you have the figure for June?

A Yes, I go back that far.

Q Does it show any imports of products in June?

A No.

Q So you did commence importing products the first month of the voluntary import control program in June?

A Yes, but we also imported products for the ten years before, too.

Q I thought you agreed with me that you didn't import, as far as you know, in the first six months of '57?

A I said I didn't know about the first six months of '57, I

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assume you are correct. We did bring in products the ten years preceding that.

Q Are you acquainted with the forecast of imports made by Gulf Oil Corporation for the next five months, made to the Texas Railroad Commission?

A I happen to have the New Mexico letter in front of me.

Q Is it the same letter?

A Yes.

Q Did you testify before the Railroad Commission last month in Texas?

A Yes.

Q That letter indicates, does it not, that commencing in March you are going to begin importing what you classify as unfinished gasoline?

A Yes, that letter shows that.

Q Where is that going to go, to the Philadelphia refinery?

A Yes. We have plans, over two years ago we planned and started construction for the facilities both in Cuba and in Philadelphia for this unfinished gasoline, and those facilities, after the two-year period has expired, those facilities are completed, and consequently, the first shipment will be received in March. It is estimated in March, I assume it will be.

Q Are you well enough acquainted with the processing to say what is the condition of that gasoline when it arrives in this country?

A No, I'm not.

Q Does it have to be refined?

A Yes. They had to install facilities at Philadelphia to handle it after it gets here. I can't say what the facilities are or what they have to do to it. The unfinished denotes that it has to be finished.

Q You don't know the extent?

A No.

Q Whether it is a treating process?

A I don't know.

Q Do you know of a products line from your Philadelphia refinery to the Chicago area?

A Chicago area?

Q Maybe not that far. You have a line moving west from Philadelphia?

A I don't believe the line is in operation. It's under construction. I would say it comes as far as, I believe, Cleveland, I believe. The Laurel Pipeline is what you are talking about. I read about it, that's about all I know about it.

Q Mr. Coates, your letter to the Commission does indicate that commencing in March, the same month that you are contemplating purchaser prorationing again in New Mexico, you are importing 8,000 barrels a day of unfinished gasoline?

A Well, happenstance it's the same month, yes, sir.

Q And 12,000 barrels a day in April, is that right?

A No.

Q Of unfinished gasoline?

A No, I don't believe you have the last letter. Let me look at the Texas letter, they are supposed to be exact duplicates.

Q You are looking at the Texas letter?

A I am looking at some information supposed to be from the Texas report. Let me look at the Texas letter. The New Mexico letter doesn't show any in April. The Texas letter doesn't show any in April either.

Q What does it show in May?

A 15,000.

Q What's the date of that letter?

A March 7th.

Q What does it show in June?

A Wait a minute. Are you talking about unfinished gasoline from Kwait?

Q Yes.

A March, 8,000; May, 15,000; June, 15,000; July, 23,000.

Q I assume that you are not well enough acquainted with that process to know how many equivalent barrels of crude that number of barrels of unfinished gasoline represents?

A No, I am not.

Q Would you think two to one?

A I wouldn't venture a guess.

Q All you know is that it is not one to one, it is more than

that?

A Yes, sir, that's right. Of course, I also know there will be other products from the crude oil.

Q Those products are apparently being marketed elsewhere?

A I assume so.

Q Any in this country?

A Yes.

Q You are also, during the months of March, April, May and June, going to import additional products from distillates and residuals from Venezuela, are you not?

A Yes, sir.

Q So that the total anticipated imports of products for, say the month of May, will amount to what?

A Forecast products imports for the month of May?

Q Yes.

A Both Kuwait and Venezuela?

Q Yes.

A 26,000 barrels per day.

Q Those products are not subject to the import control program, are they, Mr. Coates?

A No, sir, not as I -- well, they are not, we all know that.

Q Did the reduction that you obtained in the allowable in New Mexico last month and in Texas last month and other states, permit you to reduce your stocks?

A You are speaking of the allowables in Texas and New Mexico

for what, the month of March?

Q The month of March. Will you be able to withdraw from stocks, reduce your stocks?

A In March?

Q Yes.

A First I would like to say that during January and February we went in over two million barrels; in March we will withdraw from stocks.

Q How much do you expect?

A Oh, slightly over 40,000 barrels a day. Let me go further and say that with the low refineries runs for the next few months, and looking particularly at May when Port Arthur will have the 120 barrel unit clear down, that even with proration in the States I have named, New Mexico, Mississippi, Alabama and Louisiana, and on a nine-day schedule in Texas through those months, we will go into stock overall. It does happen that we are able to go out in February. In other words, we have to draw on stocks in order to make room for the 120,000 a day in May, and also the fact that we went in two million during January and February.

Q You are also going to have to do something with the 26,000 barrels a day of products?

A I assume they have a market for it. I don't know why else they're bringing it in.

Q You are able to find a market for that?

A We find a market for everything we can possibly sell.

Q I don't believe I got clear your statement to Mr. Porter or to Mr. Cooley, is the policy of Gulf not to purchase in any prorated state in excess of their nominations, Gulf's nominations?

A I don't say that is a permanent policy. I'll say during this time of great excess supply and sad lack of demand, that we have decided that that's physically the only thing we can do. In other words, if you can't hold it you can't buy it, put it simply.

Q Do you have any estimate as to the extent of the time over which that situation will exist?

A Well, normally demand is not too good in the springtime. Of course, I don't know what sales we'll be able to make with other companies. So far we haven't been able to do very much. We have made some small sales, but when I think of 120,000 barrels a day through-put being lost through the entire month of May, I don't see how it can end before that.

Q Have you been able to make any spot sales of foreign crude?

A We sell --

Q To other companies?

A We sell a lot of foreign crude far and wide. I'm not familiar with them, but I know that our production greatly exceeds what we bring into this country.

Q You also sell it for imports?

A We sell some that is imported to the West Coast.

Q Do you know the extent of that?

A No, I don't know the figures. I don't work with foreign

oil. I do look at the figures, but I'm not familiar with our contracts on the West Coast. That's not within my area or scope.

Q Just one other question I want to get clear, that your present purchaser prorationing in New Mexico, the percentage which you say you are going to take is to get you in a position where you arrive at your actual nominations, is that right?

A Our best estimate shows that on eighty percent of January runs we will buy, insofar as our estimates are correct, 21,000 barrels a day. In other words, it will be approximately 21,000. We know we can't hit it exactly, but eighty percent will come very close to that.

Q Is the reason you are not purchaser prorationing in Texas the fact that you nominated nine days and they assigned nine days?

A Well, again I dislike to discuss other States, but the answer is yes.

Q If they had set it at ten days, you probably would have followed the same policy you are here?

A Yes.

Q So that it is your policy not to purchase any more oil in any prorated state than you nominate?

A Yes, but let me say we nominate as much as we can hold and handle.

Q Yes, but you are confining it to your own situation?

A That's right.

MR. CAMPBELL: I believe that is all.

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

Mr. Cooley.

By MR. DOOLEY:

Q Mr. Coates, are you familiar with Gulf's purchases from non-prorated states?

A Well, Mississippi and Alabama, for instance; you say non-prorated, they do have allowables.

Q I mean non-prorated, the state does not impose any limit on the amount of oil.

A What state, for example?

Q I assume that Gulf does purchase from some non-prorated states, does it not?

A Let me think. You say non-prorated, let's clear up Mississippi and Alabama first. They have allowables.

Q They have allowables?

A So you consider them prorated.

Q Yes. Colorado, Utah, Pennsylvania --

A We buy in the Four Corners area of Utah.

Q What I'm trying to establish is, has there been a similar reduction in Gulf's purchases in non-prorated States?

A We only buy from six wells in the Four Corners area of Utah. We haven't taken much because they're just going to line fill. They are hardly worth talking about. We don't buy in the Rocky Mountain area. The six in Utah are the only ones I can think of.

Q Do you have a breakdown of Gulf's purchases by states?

A I'm trying to think where I can find that. I got it in my head. We can go down the list, for that matter. I don't have it on a piece of paper. We buy oil in Alabama, Louisiana, Mississippi, Texas, New Mexico, Utah, California -- I do not have knowledge of California, as I understand it they do not have a prorating or conservation body, but we produce oil out there and sell it on contract, but I don't handle that. It's far removed, in fact it is entirely removed from our crude oil picture in this area, so I have covered the places from which we buy.

Q All of Gulf's oil is purchased from prorated states?

A Yes.

MR. COOLEY: That's all.

MR. PORTER: Anyone else have a question?

MR. CAMPBELL: I would like to request that the latest Gulf letter forecasting their imports of crude and products for the period ending June 30, 1958, to the New Mexico Commission be made a part of the record in this case.

A The latest letter doesn't end June 30th, I don't believe.

MR. CAMPBELL: When does it end?

A July 31st.

MR. CAMPBELL: Well, I would like to request that letter be made a part of the record in the case.

MR. PORTER: Any objection? It will be so entered.

Anyone else have a question of Mr. Porter? The witness may be

excused.

(Witness excused.)

MR. PORTER: Before we take this case under advisement, are there any further comments from anybody? We'll take the case under advisement, and we are going to have a recess until 1:30.

I should have made this announcement a while ago. The Commission decided the southeast normal unit allowable will be thirty-three barrels. The northwest will be thirty-five barrels, as recommended by Mr. Nutter.

The next case to be heard immediately following the lunch period will be the one concerning Malco, which I believe is 1393. Immediately following that, we will have the salt water disposal case.

The hearing is dismissed until 1:30.

(Recess.)

* * * * *

C E R T I F I C A T E

STATE OF NEW MEXICO)
)ss
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, 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 under my personal supervision, 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 *17th* day of March, 1958, in the City of Albuquerque, County of Bernalillo, State of New Mexico.


NOTARY PUBLIC

My commission expires:

June 19, 1959.

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

March 4, 1958

**Gulf Oil Corporation
Box 1390
Fort Worth, Texas**

Attention: Mr. H. M. Rayer

Re: Purchaser Prorationing

Gentlemen:

Reference is made to your telegram of February 28, 1958, wherein you notified the Commission that it would be necessary for Gulf Oil Corporation to institute purchaser prorationing in the State of New Mexico on March 1, 1958.

It is the position of the Commission that in the event of purchaser prorationing any reduction in purchases should be made proportionately among all proration units to which the purchaser is connected except that no proration unit should have its production reduced below ten barrels of oil per day, provided the unit is capable of producing the same, and that the purchaser should take 100% of the oil legally produced from wells located in an authorized water flood project.

It has been the practice of the Commission to issue an emergency order embodying the provisions set forth above. The entry of such an order is unnecessary however, if the purchaser will agree to make its reduction in purchases in accordance with the above provisions.

Please advise whether Gulf Oil Corporation intends to make the necessary reductions in purchases of oil in the manner outlined herein.

OIL CONSERVATION COMMISSION
P. O. BOX 871
SANTA FE, NEW MEXICO

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The Commission has called a show-cause hearing for March 12, 1942 to permit Gulf Oil Corporation to appear and show cause why it should not be required to purchase 100% of the oil legally produced from the wells from which it purchases in the State of New Mexico. The Commission will expect Gulf to present all available evidence as to the factors which necessitate purchaser provisioning at the present time.

Very truly yours,

WILLIAM J. COOLEY,
General Counsel

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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. 1403
Order No. R-1917

IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION COMMISSION ON ITS
OWN MOTION TO PERMIT GULF OIL CORPORATION
TO SHOW CAUSE WHY IT SHOULD NOT BE REQUIRED
TO PURCHASE 100% OF THE OIL ADVERTISED TO
BE PRODUCED FROM THE WELLS FROM WHICH IT
PURCHASES OIL IN THE STATE OF NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on
March 13, 1961, at Santa Fe, New Mexico, before the Oil Conser-
vation Commission of New Mexico, hereinafter referred to as the
"Commission."

NOW, on this 22nd day of March, 1961, the Commission,
a quorum being present, having considered the testimony presented
and the exhibits received at said hearing, and being fully advised
in the premises,

FINDS:

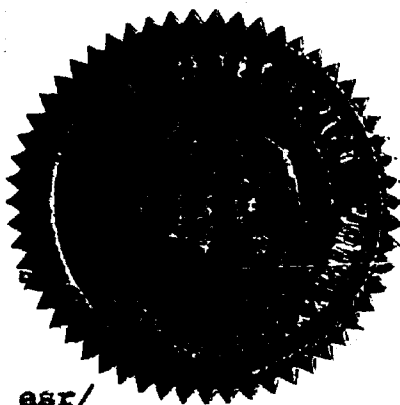
(1) That due public notice having been given as required by
law, the Commission has jurisdiction of this cause and the subject
matter thereof.

(2) That the subject case, pending for an undue period of
time, should be dismissed.

IT IS THEREFORE ORDERED:

That Case No. 1403 be and the same is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.



STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

E. L. Mechem
EDWIN L. MECHEM, Chairman

E. S. Walker
E. S. WALKER, Member

A. L. Porter, Jr.
A. L. PORTER, Jr., Member & Secretary

esr/



PETROLEUM AND ITS PRODUCTS

MAIN OFFICE OCS

GULF OIL CORPORATION

1958 JUL 3 PM 1:28

PO BOX 1290 FORT WORTH 1, TEXAS

H. M. BAYER
VICE-PRESIDENT

July 1, 1958

FORT WORTH
PRODUCTION DIVISION

AIR MAIL

Mr. A. L. Porter, Jr., Secretary-Director
New Mexico Oil Conservation Commission
Santa Fe, New Mexico

Dear Mr. Porter:

This confirms our telephone conversation today when I advised you that effective July 1, 1958, and until further notice, Gulf Oil Corporation will purchase the full allowable of wells served by Gulf Refining Company in the State of New Mexico.

Yours very truly,

GULF OIL CORPORATION

By


Vice-President