

Homer Dailey, Hobbs, New Mexico, Continental Oil Co.

N. R. Lamb, Artesia, N. M., Wilson Oil Company

Fred B. Willson, Ponca City, Oklahoma, Continental Oil Company

M. C. Brunner, Midland, Texas, Shell Oil Company, Inc.,

Paxton Howard, Midland, Texas, for Shell Oil Company, Inc.

Frank Lovering, Hobbs, New Mexico, for Shell Oil Company, Inc.

MR. SHEPARD: Case No. 168, In The Matter of Hearing Called by the Oil Conservation Commission of the State of New Mexico, for the Purpose of Considering the application of Clary and Ruther for an Order Granting Permission for an unorthodox location designated as Clary & Ruther State No. 1, described as 106.3 Feet from the North Line and 43.9 feet from the West line of Sec. 36, T. 23 S, R. 2 East, N.M.P.M. in the NW $\frac{1}{4}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$ thereof in Dona Ana County, N. M., was advertised for hearing for December 7, 1948, but due to applicant not being able to appear the case was continued to this date.

Mr. Graham will you read the advertisement?

(Reads the notice of publication in case No. 168)

(Witness W. L. Clary is sworn)

MR. SHEPARD: Will you state your case.

Mr. Clary: We employed a geologist down there and after geologizing our 74,000 -- the structure is an elongated structure and we had State Section 32, land 36, which part of it shows to be on the structure and the biggest portion is off, so upon the recommendation of our geologist he made a location on Sec. 36. We built a road out there and it is a very rugged terrain and we got over into it and went just as far as we possibly could into the quarter section without going into the canyon. Now, there is a canyon -- some type of plug that is pused up there and this canyon runs from the edge of the lava around the north west quarter of 37, so we are right on a land, and in order to move our rig in any direction we would have had to spend something like \$5000 or

or \$6000. Therefore, we ask the Commission in view of the penalties and expenses we would be put to in drilling and in moving the rig across the canyon further into the northwestern quarter of the northwest quarter -- the expense would be so great as to be prohibitive.

MR. SHEPARD: How about your drilling bond?

A. I sent one up here by employees group -- about \$5,000. I will say further that all the sections surrounding 36 are government leases and I have requested -- we have filed an application for those and have for about 7 or 9 months and we have urged the Federal Land Office to give us these sections as quickly as possible before we even moved on 36, but they won't grant them because they said they were short of help and therefore we only had one section on that corner. We are on the edge of the structure -- the eastern edge.

MR. SPURRIER: You feel that eventually you will have all of the surrounding acreage under lease?

A. Yes.

MR. SPURRIER: Had you acquainted yourselves with the Rules and Regulations of the Oil Commission?

A. Frankly, no. I plead guilty there. Mr. Newman came over and gave me a pamphlet and I commenced reading it immediately, and had I noticed that I would have gotten the permit prior to moving on. We went to a great lot of expense. We are only 602 feet deep and it has cost \$3,200. There is quicksand and the formation is terrible, but we are through that and we can accomplish something. We are drilling today. We pulled our derrick in and pipe and we had to go clear across the country to Wisconsin to get another mast for this 36. It is a pretty hard proposition.

MR. SHEPARD: Does anybody else care to question the witness?

MR. MORRELL: In view of the fact that the well apparently offsets federal lands, according to your testimony, under the circumstances we would have no objection to this particular location since it is now in existence. As I understand it you have drilled 602 feet?

A. Yes.

Mr. MORRELL: However, if production is obtained we would request that the subsequent wells be in conformance with the Rules and Regulations of the Commission.

A. That we would comply with, or else after going over the terrain there would be a lot of unorthodox applications. These canyons are 20 to 30 to 50 feet deep. We should like to reserve the right to locate a well equa-distant as an offset in case production is obtained.

Witness excused and next case is called.

MR. SHEPARD: The next case is No. 169. Mr. Graham will you read the advertisement?

(Reads notice of publication in Case No. 169)

JUDGE E. R. WRIGHT: (for Continental Carbon Company) Will you have your witness sworn?

(Witness C. E. McKinney, sworn)

DIRECT EXAMINATION BY JUDGE WRIGHT:

Q. State your name.

A. C. E. McKinney

Q. Are you connected with the Continental Carbon Company?

A. Yes, I am manager.

Q. Were you connected with the Panhandle Carbon Company at one time?

A. Yes.

Q. The Panhandle Carbon Company and Continental Company had plants in west Texas near Amarillo?

A. Yes.

Q. Has the Panhandle Carbon Company changed its corporate name?

A. Yes, Whitco Carbon Company.

Q. As a preliminary to this application, has the Panhandle Company, now the Whitco Company, an operating plant in New Mexico?

A. Yes.

Q. Where is it located?

A. Near Eunice.

Q. Is the plant of the Panhandle Company located on Sec. 3, in T. 21, S. of Range 37 E., Lot 15?

A. That is correct.

Q. When was that built and how long in operation?

A. It was built in 1945.

Q. Did it obtain a permit from the Commission in 1944?

A. Yes.

Q. For the records, the original order of the Commission granting permit to use processed or residue gas from the Phillips processing plant was granted on November 27, 1944, and is it that permit under which this existing plant has been operating?

A. Yes.

Q. And it now has a permit from this Commission to operate for some ten years?

A. From 1947 I believe.

Q. From 1947 -- the date of the order being July 15, 1947?

A. That is correct.

Q. Why is that application now being made by the Continental Carbon Company with which you are connected?

A. Well, there still exists a need for channel carbon black and we have a plant now at Sunray, Texas. This will not increase the amount of carbon black. It is a move of decentralization. Continental Carbon Company purchased from the War Assets six units that we operated during the war. We have a temporary gas contract there now and we propose to move a part of it to New Mexico.

Q. Where would it be located with reference to the existing plant owned by the Witco Company ?

A. On the present plant site of the Witco Carbon Company.

Q. All in Lot 15 of Sec. 3?

A. That is correct.

Q. Is it planned to operate the Witco plant and the Continental plant as one operating unit -- for the purpose of supervision, etc?

A. That is correct.

Q. The present Witco plant obtains its residue or processed gas where?

A. Phillips Petroleum Company.

Q. The new plant, the Continental plant, if, when and as it is moved to the new location, will obtain its residue and processed gas from what source?

A. From Skelly Oil Company.

Q. What is the capacity of the Witco Company plant?

A. 30 million cubic feet per day of gas -- of residue or processed gas.

Q. What will be the capacity of the additional plant which you are planning to move?

A. 18 million cubic feet.

Q. And where do you plan to get that? From what company?

A. From the Skelly Oil Company.

Q. How far from the new location of the Continental plant is the Skelly plant?

A. Approximately five miles.

Q. Will it require a new pipe line?

A. That is correct.

Q. The application -- the petition -- requests authority to use residue and processed gas obtained from the Skelly Company under contract instead of 18 million cubic feet a day, in addition it asks as a standby source of supply the right to use gas well gas. Will you explain to the Commission the term "gas well gas"?

A. Gas well gas is gas direct from the sands and we propose to use it on a standby basis only. All operators of oil know that at the end of the month there is a lapse of time when there is not sufficient gas to operate the plant in full and this is very unsatisfactory from an operating standpoint due to the fact that there is liable to be an explosion within the plant. The gas goes off and then it instantly comes back on and is liable to cause an explosion within the buildings and cause damage and probably injury to employees. Also, it makes an inferior grade of carbon black and you have trouble with your customers. It doesn't process properly in rubber plants. That is the chief reason for this standby gas.

Q. Are there available any gas wells either operating or shut in at the present time in the neighborhood of the Whitco plant and the new Continental plant?

A. There is one at the northeast corner of our present plant site. I believe it is a Shell Oil Company plant.

Q. What type of well is that?

A. Well, it is a dry gas well.

Q. Will you state a little bit more in detail the analysis -- the reasons why you desire this standby gas supply. What would it mean in terms of quantity of gas which you might be called upon to use in gas wells?

A. Well, that would depend on how the producers produced the oil at the end of the month. If Skelly could produce the oil constantly and over a 30-day period at an even supply to us, then we wouldn't require any standby well gas, and if we could get a constant flow of residue gas then there would be no requirement for this standby gas well gas.

Q. I think that everyone here understands what is meant by residue gas or flare gas. Where it is not processed what becomes of that type of gas?

A. It is flared into the air.

Q. Entirely wasted?

A. Yes.

Q. What is the average cost per thousand cubic feet of that type of gas which you use through your plant?

A. It is a little in excess of 4 cents per thousand cubic feet.

Q. How does that compare with the market for gas well gas -- dry gas which goes directly into the pipe lines?

A. I think it is comparable to the gas well gas now being conveyed into the pipe lines in that area.

Q. Now, Mr. McKinney, will you give the Commission very briefly a picture as to the channel carbon black which you plan to make in this new plant as you are now making in the existing plant. What is the picture as to the use of this channel black?

A. Well, it is used in the manufacture of tires and mechanical rubber goods. Approximately 90 percent of the total production of channel black is used in the production of tires, I would say.

Q. What is the difference between channel black and carbon black?

A. They are the same thing -- just a different type of carbon black.

Q. What is the difference between furnace carbon black and channel black.

A. Furnace black is used chiefly for a filler in the carcass of the tire, whereas channel black is used in the tread. It gives longer life to the tire.

Q. What is the market condition of channel carbon black at the present time?

A. Well, on channel black there isn't sufficient amount on hand for a working inventory. I think there is around 18 million pounds in the entire industry.

Q. Have you checked the inventory figure so you can give the Commission some rough estimate?

A. At the end of November the industry had exactly 19 hundred million, 44 thousand pounds, including color black and all types of channel black, rubber and color blacks. That is the total inventory on hand as of November 30, 1948.

Q. How long would that last the industry?

A. Well, for the month of November the sales were 54 million, 659 thousand pounds, so that is roughly a ten days' supply for the industry. ✓

Q. Now, this moving of your plant from Sunray, Texas to New Mexico -- that would not increase the output of channel black at the present time?

A. No, sir, it would not.

Q. And the reason for moving the plant is primarily to disperse the production -- to decentralize the production?

A. Yes.

Q. How long is it going to take to move this plant and get in operation?

A. Approximately five months if and when the permission is granted.

Q. Is it a fact that the Skelly people are constructing an additional processing plant?

A. Yes, that is correct.

Q. And is it ~~true~~ that the new Skelly plant plans to be in operation about the same time?

A. Yes, sir.

JUDGE WRIGHT: I think that ~~is~~ generally the situation.

MR. MCCORMICK: I would like to inquire about the price. What would they pay Skelly for it?

A. They will pay five cents on 14.05 pressure.

Q. And how much for the gas well gas. Do you have any contract?

A. No, sir.

Q. How about flare gas. I notice that in the petition. Is that used in distinction to residue gas?

A. It will be one and the same thing -- flare gas and residue gas will be one and the same thing.

Q. You intend to take 18 million feet per day from Skelly?

A. Yes, that is all we will need. That is the capacity of the proposed plant.

Q. Is there just one gas well available there for standby?

A. Well, there is some that could be used -- about three miles away so that could be used in an emergency for this standby gas.

Q. How much do you anticipate you might have to take from the gas well?

A. I just can't say. It all depends on how the producers operate their oil wells through the month. At the end of the month when they begin to catch up the gas tapers up and lowers, but to what extent I can't say.

Q. What is the size of this gas well that is near the plant?

A. I believe it is around 16 million feet -- potential. Of course, that wasn't the only one in mind because that is purely standby service.

Q. Have you made any contracts for standby purposes?

A. No sir. It is a matter of protection if we had to have it in an emergency.

MR. SETH: What will be the capacity of the New Skelly plant?

A. About 20 millions.

Q. What field are you taking from?

A. The Lea County field.

Q. What pools?

A. From Skelly.

Q. What are the names of the pools from which the new Skelly plant will get its gas?

MR. J. R. GREEN of Skelly Oil Company was sworn.

Mr. Seth again put his question and Mr. Green testified as follows:

A. The north Eunice pool -- north of Eunice.

Q. What we want to know is what pools your new plant will take its gas from.

A. From the entire pool because of our gathering lines from south of Eunice. That's the whole Eunice pool.

Q. You have made contracts for gas for the new plant?

A. The new plant is tied on to our complete system of gathering lines.

Q. What pools do you gather from now?

A. I believe it is what we call the Eunice pool. It is all around Eunice. There is the Penrose-Skelly pool, the Paddock, the Harding, the Drinkard and the Brunson.

(Mr. McKinney here resumes the stand) Q. Do you know that in these other pools other gas plant arrangements have been made with producers so as to even off the flow of gas to the gasoline plants. Do you not know that?

A. No, I didn't know that.

Q. If that were done with these pools it would do away with any necessity for a standby provision, would it not?

A. Yes, if we could get our full 18 millions a day.

Q. The gas available at the new Skelly pool will exceed what you want?

A. Yes.

Q. If what has been done with other pools and arrangements have been made to even off their production, you wouldn't need a standby, would you?

A. No, but that is a difficult problem.

Q. What becomes of that gas which you don't take?

A. It is now shut in.

Q. And there is no outlet for it?

A. That is correct.

Q. And the other gas plants all are operating without standbys?

A. All of them are on residue gas. I think that is correct.

Q. No other gas plant has had any use of gas well gas in its operation, isn't that true?

A. Well, now that I couldn't say. I don't know about the Charles Eneau Johnson plant.

Q. As far as you know no other carbon black company has any standby proposition such as you suggest?

A. You mean in New Mexico?

Q. Yes, in New Mexico.

A. No, sir, I do not.

JUDGE WRIGHT: I want to ask Mr. Green a question. What has been your experience in connection with the Skelly operations as to the fluctuation of the gas supply say, for instance, at the end of the month or the first day or two at the beginning of the month.

A. Starting in about the 26th of the month our gas volume begins to drop off. For the past three months we have dropped off as much as 18 million feet -- during the last four or five days of the month and two or three days of the first of the month.

Q. Has there been any improvement noted?

A. There has been a little improvement in December over last December. We were not as short as we were this December over last December and we were not as short in this December as we were in November of this year. I do know that we have been working on that problem and trying to work it out but I doubt if it will ever be 100 percent.

MR. McCORMICK: What is the capacity of your present plant?

A. 63 Million.

Q. And you fell down as much as 18 million, so that would bring it down to 45 million?

A. No, the reason why we are putting in a new plant is to take care of the gas that is now popping in the field. When we drop down to 18 million we don't have any gas popping in the field at all. We are utilizing all the gas that is available and when we start the new plant we will have our 18 million until the gas drops off at the end of the month.

JUDGE WRIGHT: Then the solution is for the operators to work out a uniform production over the month -- over each day of the month.

Mr. McKinney is again questioned.

JUDGE WRIGHT: Mr. McKinney, you have been in this carbon black business for some time?

A. Yes.

Q. What experience did you have with this problem in the operation of the plant in West Texas?

A. Just as Mr. Green says. At the end of the month the volume falls and we do not have enough to operate sufficiently.

Q. Is that due primarily to the fact that the oil operators have gotten all the production they are entitled to under the pro-ration set up?

A. That is correct.

Q. And they shut down to catch up?

A. Yes, that is correct.

MR. GRAHAM: I want to ask a question relative to the record. I don't have the Panhandle Carbon file here. I wonder if the changes in the name of the --

A. It is merely a change of the name. That is all and it has been approved by the Corporation Commission, and the Continental is qualified to do business in New Mexico.

MR. SETH: On behalf of the Executive Committee of Lea County Operators I would like to make a statement. They request me to state that they are opposed to the use of gas well gas in the manufacture of carbon black. As we understand it, every other plant

is operated on residue or similar gas and we do not believe that precedent should be established of using gas well gas for the manufacture of carbon black. We have gotten along so far without any such use and we believe it should not be established at this time.

JUDGE WRIGHT: In view of the position stated by Mr. Seth of the Executive Committee of Lea County Operators, we would like to ask the Commission that as to the use of gas well gas -- dry gas -- that the Commission in any order which they may grant us give us the right, in case of emergency, to apply to the Commission for temporary permit to use the gas well dry gas as a standby to meet an emergency with the understanding that if it is more than a temporary permit or right to use it that we will then apply through a formal hearing. In other words, we want to protect ourselves within reason if we can and we do not wish to come in conflict with the Lea County operators because we feel that they are going to try to work out this problem as a conservation measure and we feel that our application is within the purview of conservation and we simply want to protect a large investment against emergency contingency. We don't contemplate or plan to go generally into the field to buy and if we use any of that we will pay the current price for that type of gas.

MR. SPURRIER: Mr. McKinney, do I understand that by building the contemplated plant at Eunice that you will actually gather about 18 million cubic feet of gas per day from the Skelly Gasoline plant not yet built, which would otherwise be flared?

A. That is correct.

MR. SPURRIER: How many cubic feet a day do you anticipate -- not necessarily a correct figure now, but how much do you anticipate you might have to use from this gas well?

A. That is hard to say. It all depends on the flow from the oil wells to the Skelly which processes and extracts the gasoline. I won't say that it would be an exorbitant amount at

the end of the month. I would say it shouldn't exceed over -- and this is a guess -- 3 millions a day at the latter part of the month. That is hardly a fair question and I am just guessing.

Q. I realize that but I am trying to get something into this case a little more definite than we have had, my point being this: I don't know whether it is possible that we should use as much as 3 million feet a day from a gas well to save 19 million feet a day which might otherwise be flared. And that brings up a question. I probably put that wrong. But the question is, could you operate this plant to use 18 million cubic feet a day if you don't have the standby?

A. Do you mean could we operate this plant at the end of the month minus the three million that I guessed we might use?

Q. Yes.

A. In that case we would have to, wouldn't we?

MR. MORRELL: I might enter a statement for the Commission.

So far as production of gas on federal acreage is concerned at the present time I would say that we would not approve the use of gas well gas for burning in carbon black plants. That is the position that substantiates that presented by the Executive Committee of the Lea County Operators. Use of gas for carbon black plants in Lea County to date has been essentially from residue gas from the conservation standpoint to prevent waste and I follow the thought expressed by Mr. Spurrier that the plant -- any new carbon black plant -- should be constructed on the basis of the supply or available surplus residue gas rather than setting a fixed plant capacity and meeting emergency gas as you are requesting. Most carbon black plants are so constructed that the separate buildings can be turned on or off depending on your supply.

MR. McKINNEY: That also decreases the efficiency.

MR. MORRELL: The question there is a matter of preventing waste as against efficiency of the operation of the carbon black plant.

JUDGE WRIGHT: What would be your attitude if the Commission in their order granted us the permit on the residue or flare gas from the Skelly plant and held this matter in abeyance? If it is more than an emergency there will be a formal application. We do not wish by this order to establish any precedent at this time because we feel that there will be additional available supplies of oil wells and flare gas down there as the field continues to develop.

MR. MORRELL: That is the thought that I had in my mind -- instead of 18 millions it might be started at 15 million capacity and could be expanded as the additional oil wells are completed.

JUDGE WRIGHT: We do not ask for any specific period of time on this. The prior applications and the existing permit to our existing plant is based to July, 1948, and we ask that we be given a ten year period and we would appreciate it if the Commission could act on it as soon as possible so that we can get started on the Skelly people.

MR. MORRELL: In case of real emergency there would be no objection.

JUDGE WRIGHT: If we could be granted along those lines we would appreciate it very much.

MR. SPURRIER: I would like to ask one further question. We have no witness from the company which would be concerned and that is just something that someone may care to volunteer as a matter of information for the Commission. Since Mr. Morrell has brought up the question of superior use of gas well gas, what is the price that El Paso Natural Gas Company, which is the only market in the vicinity excepting the carbon black plants -- what is the price that they want for dry gas well gas?

A. You will have to go a little farther. I believe Phillips has a representative here and they will probably tell you.

MR. SPURRIER: Mr. Green, would you care to hazard an estimate?

MR. GREEN: I don't know what it is.

JUDGE WRIGHT: The old contracts ran as low as $2\frac{1}{2}$ cents, but now it is some seven cents.

MR. MINNIG IS SWORN IN.

MR. MINNIG: I know the prices run around 3 up to 7 on two pounds pressure, the price depending upon the price at which they deliver at, but you have your depreciation, costs and everything which you have to pay. That is on a 2 pound base.

JUDGE W: If there is no market there is no price except when we agree that we will offer a comparable price and we agree that will be the price paid by the gas companies.

MR. SEURRIER: I might further comment that no one is to get the mistaken idea that I do not favor the use of residue or flare gas where it is available even more so than it is in Lea County today.

MR. SHEPARD: I would like to ask, has any effort been made to sell the gas from the well?

MR. LOVERING is sworn.

MR. LOVERING: There are several things that I have investigated in regard to the question of any attempts to dispose of that gas -- first of all we have neither a gas well or an oil well so defined. We may have a gas distillate well. With present rules and regulations adopted by the Commission there is a good chance of it becoming as an oil well, in which case the case would be regulated by the gas oil ration. We have made some investigation as to other sources at disposal and I think that you will find that the five cents being paid for residue gas will not touch what we will be able to get as a sweet dry gas. As I say, there have been some investigations made as to the sale of this gas -- there have been no commitments. We are waiting to learn more about the field, the type of reservoir and that will not be known until more wells are drilled. In addition to this question there are other plans of operation there, It may

be that this well may become a part of a federal unit. There are unitizing plans being made for the development of this property starting out as a gas or gas distillate field program. Nothing has been said here as to the ability of the well to produce. Surely if you look at the gas production _____ processed by the gasoline plants in this vicinity I think you will find that for the last three days of the month and the first two days that the minimum amount being processed by those plants normally runs around 40 percent of the total take. Therefore, in this particular case we had only one well there and it was to be used as a make up gas. It could be expected that we have to furnish up to 60 percent of that 18 million. I don't believe that we would want to produce the well that fast -- that hard.

JUDGE WRIGHT: Well, those are all operating problems.

A. Correct. I don't think they have been investigated.

JUDGE WRIGHT: They should be investigated if and when a permit is granted down there or an order entered covering this emergency.

A. I think investigation should be made first. I think I stated that carbon black had never contacted us. We did investigate the possibility some time back and at that time I don't believe we got very much in the way of response either as to a satisfactory contract or satisfactory price and I think that the matter was more or less dismissed at the time and we have looked elsewhere for markets for the gas. Another thing to remember -- we have an investment of a couple of hundred thousand dollars that we probably couldn't afford to let sit there just for emergency supply. In order to have a contract we would have to have a contract that would insure a sufficient flow of gas to make it profitable which I believe we could get or will be able to get from other sources.

JUDGE WRIGHT: I would like to ask Mr. Minnig a couple of questions.

Q. Your Name?

A. Max A. Minnig.

Q. You are connected with the Continental Company?

A. Manager of the gas company, in charge of contracts, measurement and distribution.

Q. Will you make such statement as you think should be made in connection with this standby supply as to whether or not there is just the one well or whether there are others.

A. Well, the idea and the reason we had not gone any further with negotiations is the fact that we wanted to get permission before we tied up any contracts which were subject to approval. Second, we have wells around the area that could be tied in either through processing or directly into our lines to bring the gas into the plant and we have been faced with -- not so much in this area -- with shortage at the end of the month and we hope as far as we are concerned that we won't have to use it. But we do feel that if we have a shortage we would like to be able to operate the plant at an efficient rate and keep our buildings lit so that we don't have this up and down situation as Mr. McKinney explained. It is dangerous both to investment and to life. We have had cases where we have had blown up buildings because of that very thing that has happened. We are only asking for it in the case of emergency. Now if the producers, which are all represented in Lea County, are willing to go along and see that we get a steady flow the 30 days of the month, we are willing to wait to see how we operate for the first few months before we make an attempt to get any gas well gas.* If it is necessary we are not going to _____ to get it. That is the whole object of putting in the request.

Q. Now as to price.

A. As to price -- I think that it has been shown by the fact that we have our contracts there that we are on an equal basis with any other competitive company in the field, I believe there is additional gas that is available from other areas around Eunice and are still being flared. The Shell well came into this particularly because it happened to be about 250 feet from

our plant and I believe Mr. Joe Brown of Skelly has a letter concerning that on his desk. Actually, we don't care to make a contract until we see if we are going to need it. Shell may not be willing to do it. There are other sources that we may go to.

Q. If you have to use any gas well gas how about price?

A. It would have to be a competitive price.

MR. GRAHAM: Are there other possible sources of this dry gas?

A. There are some other sources in the field that are primarily gas well gas. I wouldn't say. Perhaps according to New Mexico laws they might not be classified as gas well gas.

MR. McCORMICK: What about the prices paid by Phillips?

A. I am not sure. I think it is about 4 cents and will increase in 1949 -- at the end of 1949. We get our gas from Phillips sour. We treat it, pay the treating costs on it and it is running around 4 cents and our treating costs run about a quarter of a cent. *three quarters*

MR. McCORMICK: How about the gas from Skelly. Is that treated by the time you get it?

A. The majority is from a sweet pay and will be primarily

A. *Our contract stipulates the gas to be under 50 grains, that pipe line gas of a grain and one-half or more is considered sour.* _____ which is over a grain and a *one half attached*

~~very much on a basis.~~

Q. How much is Phillips producing?

A. I believe they are delivering 80 million feet to El Paso.

Q. Is any of the Phillips gas being flared?

A. There is a small amount during peak loads.

Q. Who is purchasing the gas from the present Skelly plant?

A. Columbian plant. They have the contract. I might state one thing that came up a year ago if you will recall the cold spell that hit here. El Paso had trouble getting gas so we shut part of our plant down in order that they could have the gas available for heating fuel.

MR. MCCORMICK:

What is the explanation for these different basis of measurements. Just to confuse the public?

A. Well, I think precedent has had a lot to do with it. Pipeline companies have always used more or less a standard _____ pounds. That is, 2 pounds above atmospheric pressure.

MR. SPURRIER: What is atmospheric pressure.

A. 14.65 That is 11 percent difference.

Q. In other words you take a price on 14.65 and add 11 percent to it. How difficult would it be to establish a uniform basis of measurement which would apply to all gas?

A. I am not qualified to answer but I think it would be very difficult because of contracts that are made. However, I think all the reports are 14.65.

MR. SPURRIER: Well, the Oil Commission has their reports on tonw base and some of the land office reports are on another base.

A. Well, that again makes it difficult.

MR. SPURRIER: And it affects the royalty of the payments about _____ or _____ percent.

A. I know certain companies that have theirs at ten ounces and others I have heard have some as high as six or seven pounds.

MR. MCCORMICK: Do you think it would be a difficult matter to formulate and enforce a uniform method basis of measurement.

A. I don't think it would be hard to enforce. These other companies have their own basis and I wouldn't want to put myself in a spot. They have their reasons for using other pressure basis.

MR. MCCORMICK: What is a legitimate reason?

A. Well, when you come down to it it was the reason for using 4 ounces. It has been taken as an arbitrary figure and it has been standardized by certain commissions. That is the only reason for it but any time you are talking about price on gas you have to go back to 14 or ^{some} standard and that is a big take.

MR. SPURRIER: When did they standardize?

A. I wasn't in the business at that time.

MR. McCORMICK: It doesn't involve a matter of guages or meters at all does it?

A. No. You can set your meters and go from that setting to the others.

MR. McCORMICK: It wouldn't be necessary to buy new equipment?

A. No, sir. You would have to set your meters a little different, but it doesn't require new ones.

MR. MORRELL: It seems that from the testimony most of the arrangements for so-called gas well gas for emergency use for your palnt are in a formulative stage.

A. Yes, sir.

Q. In that stage I have wondered whether you have considered making contracts or arrangements with a purchaser of gas who has their lines already in and amount that could be delivered to you for emergency use rather than your going out to individual wells and retaining them as standbys. You have 2 such opportunities in New Mexico -- The El Paso Natural and the Lea County Water Company and in that way it would not establish a precedent with respect to taking gas well gas to carbon black companies.

A. We have considered that. The wells closest to us would be easiest.

Q. Is there any objection to your going to El Paso?

A. Well, Lea County would be gas well gas and El Paso would be residue gas. Would the Federal have any objection to using it? We want to get the opinion and if a permit could be granted with that in there it would save coming back and the expense of a hearing.

MR. MORRELL: If the Lea County Operators and the federal unit have no objection, you would save the operating expense of maintaining your own connection. With respect to Lea County Water Company, that takes gas only from non-federal leases so we would have nothing to say. As to any taken from El Paso, I would say we

likewise had no objection.

MR. SPURRIER: I have a question. Judge Seth, in speaking for Lea County Operators does the Commission understand that Lea County operators object to the manufacture of carbon black from gas well gas?

MR. SETH: That is it exactly.

MR. SPURRIER: I wonder if you would care to elaborate why?

MR. SETH: It is my understanding that we feel that it is an inferior use. We feel that gas well gas, if no more markets are immediately available, -- there will be ultimately -- should not be used for the manufacture of carbon black when there is plenty of residue gas available for that purpose.

MR. SPURRIER: I am going to make a comment and ask no question in particular, but from what is in the record now we understand that there is gas well gas being transported from the state by El Paso Natural Gas Company and there is dry gas well gas in Lea County Water Company's lines which I believe supplies the City of Hobbs some 12 million feet a day.

JUDGE WRIGHT: Gas well gas.

MR. SPURRIER: That is what I understand. I also understand there is a comparable price paid by the carbon black companies and El Paso Natural Gas for gas well gas. I believe that Lea County Water Company -- I don't know what price they pay -- in fact they make their own wells. I want to be contradicted if I am not right.

MR. McCORMICK: I don't think gas well gas is being used in carbon black.

MR. SPURRIER: I should qualify that and say that they pay a comparable price for residue gas and to get dry gas there is a competitive market in Lea County.

JUDGE WRIGHT: When a pipe line is available.

MR. SPURRIER: We will now take up Cases No. 170 and 171. Since there are no witnesses I will explain.

As you all are probably familiar, any deletion of any pool as recommended by the nomenclature committee must be brought out in open hearing. Additions likewise suggested may be done in executive session and usually are. Therefore, we have advertized with the legal period of advertisement and if there are no objections to be registered by any one here, then we consider the case closed and we always delete that portion of the pool as recommended. Are there any objections to the deletion as set forth in these two cases?

MR. SHEPARD: Are there any comments? Mr. Morrell do you have any?

MR. MORRELL: No.

MR. SHEPARD: If there are no further comments we will take up the next case, No. 172, In the Matter of the Application of Floyd West.

(MR. WEST IS SWORN IN) He is accompanied by his attorney, Mr. M. M. Hoy.

MR. HOY: State your name

A. Mr. Floyd West.

Q. May it please the Commission, we are asking for a location 150 north of what would be the normal location. The reason for the request is the matter of the La Platta River and the terrain of the land which Mr. West will take up in his testimony. Mr. West, explain to the Commission the course of the La Platta River at that particular place, how far it is from the present location which you have; also the matter of your geological formation there.

A. Well, put our location where it was surveyed and it would be in the river and we have a fault condition on the north side, so that's the reason why we put this location where we did.

MR. McCORMICK: Do you own the adjoining leases?

A. Yes, we have the leases.

MR. SPURRIER: Federal or State?

A. Federal on the east, Section 5 is State.

MR. McCORMICK: All the lands surrounding it are federal?

A. No, just on the east.

MR. McCORMICK: How much of a lease do you have in Section 5?

A. I believe there are about 320 acres.

MR. McCORMICK: Do you remember the subdivisions that cover it?

A. No.

MR. HOY: In their leases they all have all of Section 5. There are these 320 acres he speaks of -- he and his associates have the lease on the Federal land to the east which joins this land.

MR. McCORMICK: How close are you to production?

A. I would say about eight or ten miles. There are some producing wells east of us there.

MR. SHEPARD: What pool is that?

A. It is the Fulcher basin, some fellows by the name of Stern and Brown.

MR. SHEPARD: Mr. Morrell do you have anything to say?

MR. MORRELL: If the location is exactly reported - 1220 feet -- it is sufficiently far from federal land and we would have no objection.

MR. SHEPARD: If there is nothing further we will call the case closed. The witness is excused and the hearings are over.

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) ss

I, Virginia Lichtmann, hereby certify that the foregoing transcript of proceedings before the Oil Conservation of the State of New Mexico, at the time and place therein set out, is a true record of such proceedings to the best of my knowledge, skill and ability.

DATED at Santa Fe this 14th day of January, 1949.

Virginia Lichtmann

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