

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

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TRANSCRIPT OF PROCEEDINGS

CASE NO. 692

Regular Hearing

BEFORE THE
OIL CONSERVATION COMMISSION
STATE OF NEW MEXICO
Santa Fe, New Mexico
April 15, 1954

IN THE MATTER OF:

Application of the Commission upon its
own motion for an order revising Rule
404, NATURAL GAS UTILIZATION, pertaining
to the utilization of natural gas from a
gas well in the manufacture of carbon
black.

Case No. 692

TRANSCRIPT OF PROCEEDINGS

MR. IDEN: I am E. C. Iden, Albuquerque, New Mexico, appearing here representing Continental Carbon Company and ^{Whitco} ~~Whitco~~ Chemical Company, both of which companies are manufacturers of carbon black in the State of New Mexico. We have discussed this matter with the Commission. We are not an applicant here but we are prepared to give any facts and information which we can to the Commission and I am not too sure I understand your procedure but I assume that what I should do is enter an appearance and intervene in the Case so that we may present such matters as our interest may seem to require.

MR. SPURRIER: You may proceed.

MR. IDEN: I have no prepared statement of any kind, and no very well conceived statement to make. Our position is that the use of natural gas for the manufacture of carbon black should not be construed as waste by Rule of this Commission. The companies that I represent here have substantial interest in the State of

New Mexico. They are employers of quite a lot of labor and they pay substantial taxes. It is a home industry and I feel that it is discriminatory by Rule of this Commission to provide that the manufacturer of carbon black, no matter what source it may be manufactured, whether from natural gas or otherwise, all we are concerned about here is natural gas should be absolutely regarded as waste. It seems to me that the safety and the only test is whether or not there is such a demand and such a market for the product which they produce that they are enabled to compete in the open market for that raw product in the State of New Mexico.

I appreciate that the producers of natural gas must have and should have the best market available. I don't care whether it is, so far as my idea about it is, I know there is a difference in view about that but my thought is; that it doesn't make any difference whether that market is in New Mexico or whether it is in some other State, the producers of natural gas will have to have a market or you will have no gas produced, but it seems to me that there should not be discrimination as to that use so long as there is a demand for the product and as I say the matter should be left to a competitive field. To illustrate what runs through my mind about it, I don't pretend to be an expert on these things, but here under this Rule 404, carbon black company is absolutely precluded, at least/^{as}we regard those two companies that I represent and that I have mentioned, although I understand that some other carbon black companies that are not so restricted in their use. We regard that under our authority, we are absolutely precluded from using; I may get confused about the terms-but natural gas from wells for the

manufacture of carbon black. I take it that there can be no question but that practically all of your natural gas goes out of the State of New Mexico. Presumably if one company pays the price for that New Mexico gas and starts a carbon black industry in the State of California, you could use our New Mexico gas for the manufacture of carbon black in California or put your plant over into the Arizona line or outside the State of New Mexico and there would be no prohibition, as I understand it, against the use of that gas; but under this Rule our home people and our home industry can't use that gas in the State of New Mexico for the manufacture of carbon black. It seems to me that is wrong.

Mr. Shaffer is here, who can, I think, give any information, if anybody wants any further information, as to the status of his company and their use. My understanding is that those companies are in this position; their whole situation at the present time, must be regarded as indefinite and uncertain and temporary. They have in mind, I think, substantial expenditures in the State of New Mexico to enlarge their facilities. But they don't feel that they are protected in doing that so long as this discriminatory Rule, as we believe it is, is in existence. Therefore it seems to me, I don't know whether this is the only thing involved in this case or not but as I remember the Rule it seems to me that Sub-, Section 4, that so provides and it seems to us that that provision should be eliminated from the Rules of this Commission. Unless someone has some questions of Mr. Shaffer who, I will be glad to have sworn and give testimony if there are any other questions, that is about all I have to say on the subject. It seems to me a matter of just ordinary common sense that from a selfish economic viewpoint of a citizen of the

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State of New Mexico and I suppose we can't look at it from any other viewpoint, that if the use of that natural resource of New Mexico can be used in industry in the State of New Mexico, that certainly no stumbling blocks should be put in their way. As I understand it, and we are not complaining or critical of other companies which might be interested, whether it is pipeline or oil producing companies or otherwise, but as I understand it the thought is, at least one school of thought, that they should be limited to flare gas or some other kind of gas for this purpose. Well, I assume if that is a lower grade of gas probably it can be purchased cheaper for the purpose. If it is just as suitable then the economics of the situation become effective and they will purchase that kind of gas. It seems to me that there ought not to be any discrimination against purchasing any kind of gas that they produce, demand and market for their product in New Mexico will justify.

MR. SHAFFER: I would be glad to answer any questions.

M. F. S H A F F E R

the witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

By: MR. IDEN:

Q Will you state your name, please?

A My name is M. F. Shaffer.

Q What is your connection with the two companies which I mentioned?

A I am manager of the gas division for both companies.

Q How long have you been such manager?

A A little over three years.

Q Will you tell the Commission, Mr. Shaffer, in more or less

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just general terms, if anyone wants detail, we can give it later, what the plant and facilities of these two companies are in the State of New Mexico.

A Our two plants, I am speaking of now, Continental Carbon and Whitco Chemical Company, are at a common site located in Lea County. We have permits issued by this Commission in volumes of gas for Continental Carbon, 38,000,000 cubic feet a day. In Whitco Chemical Company the volume, I believe is 28,000,000 cubic feet per day, making a total of 66,000,000 on the two plants. We are restricted to the utilization of casinghead gas, casinghead residue at the present time. The gas for the Continental plant is presently being purchased, residue gas from the Skelly Oil Company. The gas we are purchasing for the Whitco Chemical plant has until the first of the year been purchased from Phillips Petroleum Company, the contract was terminated at that time. At the present time, I might say, that we are operating on a temporary basis, temporary gas purchase contract with El Paso Natural Gas Company. We have found it extremely difficult to go out in the open market in the field and find gas that is available. There is surprisingly little flare gas, I believe, in the field. Where you do find it, it is in isolated spots but where the economics would not justify the installation of gas gathering system. Recently we have negotiated a contract, Whitco Chemical Company for the purchase of approximately 20,000,000 cubic feet per day of casinghead gas direct from the producers.

We find that mixed with this casinghead gas there is a small quantity of gas, lift gas. As you well know the gas, the source of the gas for the gas lift, I do not know but I presume it is from gas wells. The gas loses its identity when you put it down

in the oil well and lift it. It loses the pressure and it is produced with casinghead gas and there is no way of separating it. I believe under Subchapter Section 3, the gas lift gas has to be processed in a gasoline plant prior to its utilization. We do not have a gasoline plant. We would like to be given the right to utilize this volume of the gas lift gas along with the casinghead gas directly into our plant.

Q Mr. Shaffer, for the record, will you tell the Commission approximately how many employees you have at your plant?

A The two plants employ 77 men and assuming that there is four people in each family, that means approximately 300 families are dependent on these two plants, or ³⁰⁰people, I mean.

Q What are the major uses of carbon black that you make?

A The major use of carbon black is for compound rubber in your automobile tires. Were it not for carbon black, I am told, that the life of your automobile tire would be considerably shortened. There may be a substitute at some future date but I don't believe that the record will reveal that they have found one at this time.

MR. IDEN: I believe that is all I have. Unless you have something further?

A I have nothing further.

MR. SPURRIER: Does anyone have a question of Mr. Shaffer?

MR. FOSTER: Would you mind stating for the record why the contract between your company and Phillips was terminated?

A No, Mr. Foster. Our contract with Phillips Petroleum Company for the purchase of casinghead residue gas was subservient to El Paso Natural contract. The first of this year El Paso saw fit to call for that gas.

By: MR. FOSTER:

Q We got considerably higher price for it.

A That is right.

Q Did your company meet competitive gas prices in the field?

A I believe we fairly well met them, Mr. Foster, if you would care to know what our prices are, I am here to give them to you.

Q Would you mind?

A Under our purchase contract with Skelly, it is divided into three sections. The first section calls for the purchase of 18,000,000 feet a day. That price at the present time is five cents per thousand. The price increases, I believe, the 17th of next month to six cents per thousand, that is delivered at our plant. The next contract that we entered into with Skelly provided for the delivery of 20,000,000, the price of that gas is seven point two cents per thousand. These are on a 14 - 65 pressure basis. The third contract for 8,000,000 feet a day which gas was going to be turned by Continental Carbon over to Whitco was for seven and one half cents per thousand. Our weighted average price paid during 1953 to the two plants was five point eight eight cents per thousand. I believe that is the correct figure. I have it here.

Q How does that compare with the general pipeline price of gas?

A At one time you recall that the price we were paying Phillips was identical with the price that El Paso was paying you which was five cents. I believe at the present time that you are receiving seven for your casinghead residue.

Q Generally the pipelines pays a little better, don't they?

A Yes, sir.

Q Why is that?

A Well, their economics are a little different. It goes in their rate structure. We have no rate structure.

Q You recognize any relationship between price and waste?

A Well, I think that the higher the price the less waste you are going to have.

Q Of course, you do recognize the fact that when a commodity is being sold at a low price that that is conducive to waste, is it not?

A Well, I would say so, but it may not be so in this case because the commodity that is being produced is such that the economics cannot justify too great a price. In other words, I don't feel like that we could go out to the well head of a gas well in this State even if I knew of one that is not connected or under contract. I don't believe we could go out and meet Permian Basin's price. I don't believe we could go out and meet El Paso's price at the well.

Q Don't you think that when some segment of the economy can't meet competitive prices that is evidence of waste?

A No, I don't believe so. I believe that the product that is manufactured here is the justification for our existence.

Q Well, I am not trying to justify your existence, I am just trying to find out whether your practice in paying less for gas, in other words, you are telling the Commission you are engaged in the business, the economics of which won't permit you to compete with other purchasers of gas as far as their price of the gas is concerned. Isn't that evidence to you that your business is wasteful?

A Mr. Foster, to me the evidence is that if we can pay as good as we can and try to exist, it doesn't necessarily mean that waste is occurring. I would like to draw a little picture here. If you are operating on a low salary when you go down to the meat market and you buy a pound of bacon, you have a choice of paying the top price and getting the top quality or you have the choice of paying the lower price and staying within your budget. We are no different from that. The gas that we are buying here is low pressure gas. It is gas that has been flared from these gasoline plants from time to time as you well know. It certainly has no value. If it is being vented from flare and we are paying a price for that gas, that keeps us from flaring and keeps several plants from flaring.

Q But your position is, you want cheap gas to run your plant with and you don't feel that you are in a position to go into a free open competitive market and obtain that gas, do you?

A Well, I will say this, that in the last two years, we have entered into these other two contracts, the last three years for the purchase of the gas at 7.2 and 7.5. There is certainly going to be a limit to where we can go and operate, but we are still in business. When we can't meet the going price and when we can't negotiate for our gas and our contracts terminate then we will have to retire.

Q Of course, your asking to have this Rule changed is so that you won't have to meet the price?

A No, not at all. As a matter of fact, we have contracted for the gas well within the price range of what is being paid. If we couldn't, Mr. Foster, we couldn't have bought it, trying to buy gas. Have you been out lately to try and buy gas in Lea County or

any place? It is a tough proposition.

Q It is getting higher all the time?

A It sure does.

Q Why is it that you want the Commission to use ^{gas} well gas for the manufacture of carbon black?

A I think the Rule as it presently stands, is discriminatory and it permits, I mean it precludes competition in the open field of purchase here, not that we could meet it, I don't believe we could. It is kind of locking the stables after the horse is gone. I don't know whether we could buy any gas well gas.

Q You are wanting to knock out Section, provision 4 of Rule 404?

A I want relief under Sub-, Section 3 of gas well gas. I think it would be proper and fitting if they take Sub- Section 4 out. I don't think we have a wasteful industry.

Q You want to take the gas at the well head?

A Yes, sir.

Q And not take residue after it has gone through a gasoline plant?

A No, we prefer to gather it. We are getting ready to make an expenditure now to lay a gathering system.

Q Don't you recognize that that is wasteful?

A Gathering gas at the well head?

Q Taking gas at the well head and burning it to make carbon black?

A No, I don't.

Q You don't think that is wasteful? A No, sir, I don't.

Q You do know that you destroy the hydro carbon elements of the gas, don't you?

A What do you mean by destroy it?

Q You burn them in smoke and put them out through the chimney and dissipate them to the atmosphere.

A They do the same thing under boilers.

Q What?

A They do the same thing when they fire a boiler.

Q You utilize a great deal more of the heat element using it for fuel purposes than you do in using it for carbon black?

A We can't replace more of the hydro carbon in the manufacture of carbon black than you do under the boiler.

Q You are just saying it ain't replaceable?

A That is right.

By: MR. IDEN:

Q You don't have money to buy a Cadillac but do have the money to buy a Ford say, you don't think there should be any Rule of Law prohibiting you from buying a Cadillac?

A That is right. They may have to come and get it.

MR. SPURRIER: Anyone else have a question of Mr. Shaffer? If not, the witness may be excused.

MR. EVERETT: I would like to ask Mr. Shaffer a question.

MR. SPURRIER: Mr. Everett.

By: MR. EVERETT:

MR. EVERETT, Ohio Oil Company.

Q Are you familiar with the decision in the Supreme Court of Wyoming in which the use of gas for carbon black is declared by the Court decree to be wasteful use?

A No, sir.

Q I may suggest that you read that before Judge Foster asks

you any more questions.

MR. SPURRIER: Anyone else? If not the witness may be excused.

(Witness excused)

MR. SPURRIER: We will take a recess.

(RECESS)

MR. SPURRIER: Mr. Shaffer, do you have anything further or Mr. Iden?

MR. IDEN: We have nothing further unless there are some questions.

MR. SPURRIER: Mr. Foster, were you through?

MR. FOSTER: I guess so.

MR. SPURRIER: Mr. Macey would like to ask Mr. Shaffer some questions.

(Whereby Mr. Shaffer was recalled as a witness.)

By: MR. MACEY:

Q Mr. Shaffer, in connection with Rule 404, Section 3 of that Rule reads in part as follows: "I will extract the Rule to shorten the thing, "After the Completion of a natural gas well, no gas from such well shall be used to gas lift oil wells unless all gas produced is processed in a gasoline plant or beneficially used thereafter without waste". If this Commission were to declare or find that the manufacturer of carbon black from that gas that is used to lift oil in oil wells is a beneficial use and is not wasteful, would that solve a lot of your problems?

A It wouldn't solve the immediate problem I believe, however I feel that maybe the Number 4 is discriminatory but it would help

us at this time and we would be very grateful for any relief we can get from the Commission.

Q In connection with paragraph 4, which pertains strictly to the use for the manufacturer of carbon black. If the Commission were to determine that it was perfectly all right to use natural gas in the manufacture of carbon black provided there wasn't any gas being flared in the area, would that suit your purpose?

A Yes, sir.

Q You realize, of course, there would have to be certain limitations placed on what would constitute a flare or vented well or vented volume of gas?

A I realize that. I would like to say this that some of the oil wells that are being produced are on time controllers and sometimes, maybe you should know that the supply of gas to a carbon black plant must be rather constant, otherwise you might have a hazard. There might be sometime that when a well was unloading, there might be some flare of gas but I think that is prevalent even when they are connected to gasoline plants at the present time. We can't help that. We can't tell the producer how to produce his wells. I think that we should all attempt to conserve our natural resources and gather all this gas that is being flared down here. We are willing to do our part of it.

MR. MACEY: That is all I have.

MR. SPURRIER: Anyone else? If no one has a question of Mr. Shaffer, he may be excused.

(Witness excused.)

MR. SPURRIER: Does anyone have any further testimony to

present? Does anyone have any further comment? If not, we will take the case under advisement and move on to Case 673.

STATE OF NEW MEXICO)
 : ss.
COUNTY OF BERNALILLO)

I, ADA DEARNLEY, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 17th day of April, 1954.


Notary Public, Court Reporter

My Commission expires:
June 19, 1955.