

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

October 17, 1957

TRANSCRIPT OF HEARING

Case 1299

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

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

October 17, 1957

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

The hearing ordered by Paragraph (2) of
Order R-1037-A to permit Gulf Oil Corpora-
tion to appear and 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 in the State of
New Mexico. :

Case No.
1299

-----:
BEFORE: Honorable Edwin L. Mechem
Mr. Murray Morgan
Mr. A. L. Porter

TRANSCRIPT OF HEARING

MR. PORTER: We will take up next Case 1299.

MR. COOLEY: In the matter of the hearing ordered by Paragraph (2) of Order R-1037-A to permit Gulf Oil Corporation to appear and 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 in the State of New Mexico.

MR. KASTLER: Bill Kastler, Gulf Oil Corporation from Roswell, New Mexico. I have a preliminary statement to make in that Gulf's position as to its or any other purchasers being required to maintain its purchases at any particular percentage of the allowable is the same as was stated by me before the Commission

last month, but I can say that our situation does show some improvement this month and we have Mr. C. H. Osborne who will testify as Gulf's witness.

(Witness sworn.)

C. H. OSBORNE

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

DIRECT EXAMINATION

By MR. KASTLER:

Q Will you please state your name and where you are from and your position, please?

A C. H. Osborne, Manager, Crude Oil Supply, Gulf Oil Corporation, Pittsburgh, Pennsylvania.

Q Have you previously appeared and testified as Manager of Crude Oil Supply from Pittsburgh in Case No. 1299?

A Yes, sir.

Q Would you please, in your own form, outline for the New Mexico Oil Conservation Commission, the present status of Gulf's storage and other matters which may affect its reduction of purchases of New Mexico crude?

A On August 1 when we started purchaser prorationing, we had available useable storage for 1,250,000 barrels that was scattered all over our system. During August and September we drew down stocks approximately 1,050,000 barrels. In October we are going

to be able to pull down a bit better than one million barrels, so that as of November 1st, we will have available storage of just about 3,000,000 to ~~3,250,000~~ barrels of room. We're getting around to where we have room to move. We are no longer going to be so uncomfortably cramped so that it was almost impossible to operate.

So our situation has improved. We are not yet ready to make any prediction because we do not know yet what the month of November offers up in the way of spot sales, particularly, and of course, we do not know what the allowables are going to be.

Q Mr. Osborne, have you prepared, or have you had prepared at your direction and under your supervision, certain exhibits which were requested by the Conservation Commission in its Order, September 24, 1957?

A Yes, sir. They were prepared under my supervision.

(Marked Gulf's Exhibit A,
for identification.)

Q I hand you a paper marked Exhibit A, and I wish to ask you is that the exhibit showing Nominations and Actual Receipts of Gulf Oil Corporation as made from the State of New Mexico?

A That it is, yes, sir.

Q And this was prepared by you or under your supervision?

A Under my supervision, yes, sir.

Q Would you please state what is shown on this exhibit?

A Well, using one month for an example, our nomination for the month of September was 15,000 barrels a day. Our actual runs were 21,242 barrels a day, this compared with July when our nominations was 15,000 barrels, our actual receipts were 24,829. I pick out July for comparison there because in July we had not yet been forced to go to purchaser prorationing. You'll note the change from July to September is on the order of say 3600 barrels, which is to say 15%.

Q Mr. Osborne, is the actual receipts of 21,242 barrels, 80% or 20% than the actual number of barrels received in July?

A No, sir, the difference there is 3600 barrels a day, and that would be only 15%.

Q It is actually less than 80%?

A Actually less than a 20% proration. We are running 85%, this comes about because of the ten barrel ruling primarily.

(Marked Gulf's Exhibit B,
for identification.)

Q I hand you a paper labeled Exhibit B. Was this exhibit prepared on request of the order made September 24?

A Yes, sir.

Q And will you please explain what is shown on Exhibit B?

A This shows stocks of New Mexico Origin as we have reported them to the Bureau of Mines since the first of the year. The figures represent stocks of New Mexico Crude in New Mexico, and for all

practical purposes stocks of New Mexico crude down to the ~~Wink~~ Tank Farm in Winkler County, Texas, where the New Mexico oil moves out of ~~Wink~~ stations, immediately it becomes commingled with West Texas crude, and for years with the complete knowledge of the Bureau of Mines, and in fact, I believe at its own suggestion, I cannot guarantee that because it goes back so far, as soon as this oil leaves ~~Wink~~ it is physically, you cannot determine which is West Texas and which is New Mexico. They are not different colors.

Q Because it is commingled, is that correct?

A That's correct. That oil then becomes known as West Texas for Bureau of Mines purposes. Sometimes we loosely refer to it as West Texas and New Mexico.

Q How have you ~~accounted~~ for the proper relations between the West Texas and New Mexico crude for the purpose of this record?

A For the purpose of this report, ~~down~~ to and including ~~Wink~~, yes, sir, that is true. After that it is not physically possible to determine except mathematically, how much would be a spread along the line. The Bureau of Mines doesn't want that information, or at least has not asked for that information.

Q In other words, if the New Mexico crude is one-fourth of the New Mexico and Texas crude as commingled, your report here shows that this end figure here is one-fourth of the New Mexico-Texas commingled crude rather than having any actual relation to what each particular drop of New Mexico oil might have?

A As a generality, I will say that is a proper statement, yes, sir.

Q Is there anything else you want to state in regard to Exhibit B?

A I think not, no, sir.

(Marked Gulf's Exhibit C,
for identification.)

Q I hand you a paper labeled Exhibit C. Mr. Osborne, will you please state what Exhibit C consists of?

A This statement was prepared to show where we get New Mexico crude, what we produce and what we buy, what we sell and what we take to our own refineries, and what the change in our inventory may be. This is prepared by experienced oil accountants, and of course, we're faced here with the same commingling problem that is mentioned in connection with the preceding exhibit. However, one starts in here and first you see what we do get. Well, we know eventually that gas comes out. Our accountants do that on a proportionate basis. So using August for the total, I think it's very clear that Gulf net production being shown as 18,227 a day, that is just exactly what it says.

Q May I ask just one or two questions here, Mr. Osborne? In Gulf's net production, does that mean the oil that is produced from Gulf Oil Corporation oil well?

A It means oil produced from any well in which Gulf owns a working interest.

Q Yes. If Gulf owned a half interest with another company and produced 200 barrels, all of which was taken into Gulf's pipeline, how many barrels would show in Gulf's net production figure as you have it here?

A It would be $87\frac{1}{2}$ barrels, because assuming one-eighth royalty, one-half of the gross would be a hundred barrels, one-eighth royalty would be $12\frac{1}{2}$ barrels, $87\frac{1}{2}$ would be our net.

Q Now then, if we owned a half working interest jointly with another company, would it be $87\frac{1}{2}$ barrels or half of $87\frac{1}{2}$ barrels? Our working interest, in other words, we jointly own an oil well.

A Yes.

Q It produces 200 barrels? A Right.

Q After the royalty interest is taken off of that, does your net barrel show, the figure here show 200 barrels or half of that, namely 100 barrels as Gulf's net production?

A One hundred barrels less the royalty.

Q The other 100 barrels, if taken into Gulf's pipeline, is a purchase of 100 barrels? A That is correct.

Q This also includes other matters and data as to your receipts such as plus receipts from gasoline plants and Less Used-or Lost or Plus Gained. Are those significant figures, either of those?

A Not particularly, except they just show the exactness of the accounting the receipts from gasoline plants. Of course, just

as to the extreme, and the volume is involved is negligible, the losses or gains for practical purposes, they represent evaporation losses or there may be gains resulting from an error in measurement, and you can have losses in measurements too. In effect, it's a balancing item.

Q Now, you have then total amount available for the month of August, 35,500 barrels either produced or purchased?

A That's correct, that is the total over which we would say grace.

Q Then you would have less sales, sales being 18,983, the balance being 16,517 as net available? A Yes, sir.

Q What is that available for?

A That available remains in our custody and we have to find a home for that, and it is to be assumed that that oil will be delivered to our own refineries. If it's not delivered this month, it possibly might be sold next month, but it is the stuff that we have to dispose of.

Q If it's not delivered this month it goes into storage?

A That's right.

Q You have in the next figure Billed to Gulf Refineries, of the 16,517 barrels available, 12,690, leaving increase in inventory of 3,827. Is that the correct figure?

A That is correct.

Q Do you have anything else that you would like to add

as to the material shown on Exhibit C?

A I think not, unless there would be questions about it. I would be glad to try to answer them.

(Marked Gulf's Exhibit No. D-1,
for identification.)

Q I show you a fourth exhibit labeled Exhibit D-1. Mr. Osborne, will you state what is shown on Exhibit D-1? Perhaps I had better pass out Exhibit D-2 at this time. You may go ahead, if you please.

A Exhibit D-1, the Commission had requested that we furnish a table showing our charges to stills at all our plants where we utilize New Mexico crude. It was requested that this information be that which we report to the American Petroleum Institute. The request was for the total amount charged at the plants, and the New Mexico ~~original~~ included therein. Unfortunately, there is no figure in this whole world, we just don't have a figure to show week by week how much New Mexico original crude is charged to our stills, but on this D-1, well, we have shown exactly what we have reported to the API for the three plants where New Mexico crude is utilized.

Now, on D-2, we do, of course, for our exact accounting, in effect measure the different types of crude that we utilize at our various plants, and herein we have shown the charges to stills month by month divided as between New Mexico and all other grades at the three plants where we utilize New Mexico crude.

(Marked Gulf's Exhibit D-2,
for identification.)

Q Mr. Osborne, on Exhibits B, C, D-1 and D-2 now, just to make the record straight, you have had somewhat to approximate the exact figure of New Mexico crude by arithmetic rather than by actual measurement and separation of New Mexico oil from that of West Texas?

A That is correct. It is hardly proper to say it is approximate. It is done very accurately mathematically, but it is physically impossible to distinguish that barrel of it from another barrel of West Texas crude, you just can't do it.

Q Do you have anything to offer in connection with these exhibits?

A I think not.

MR. KASTLER: At this time I move to admit Exhibits A, B, C, D-1 and D-2 into evidence as requested by the Commission.

MR. PORTER: Are there any objections to the admission of these exhibits? They will be admitted into the record.

MR. KASTLER: I have one other question.

Q Mr. Osborne, I would like to ask you for a moment or two if the sweet or semi-sweet crude oil which is produced in New Mexico is taken into the refinery of Gulf at Port Arthur, Texas?

A No, sir.

Q Is it taken into the refineries at Toledo and Cincinnati?

A Yes.

Q Now, in connection with the New Mexico sour crude, is it taken into the refineries at Toledo and Cincinnati?

A No, sir.

Q Is the New Mexico sour crude commingled with the Texas crude taken into the refinery at Port Arthur, Texas?

A Yes, sir.

Q I wonder if you would outline briefly the routes of the pipelines for New Mexico sour or sweet crude and exemplify or state where there are storage facilities?

A Very good. I'm sorry I have no map, it would make it much more clear. The Gulf refinery company pipeline system, of course, starts in New Mexico and leads south to Wink Station, at Wink Station there are storage facilities for approximately a million four hundred thousand barrels. That is gross. Of course it cannot all be used.

Q Now, at the Wink Station, you say, or is that merely a juncture?

A That is a junction point, that is all.

Q There is no storage at Wink?

A Oh, yes, there is storage at Wink, yes, sir, but it's just a resting spot. It's a gathering station really. Now, your New Mexico crude comes down there and it comes down in two separate streams, kept wholly separate and apart, one is the sweet and the other is the sour.

Q Is it in two separate pipelines or do they merely have separate runs on the same gathering system?

A Same line in the main line system, same line, but we bring it down in batches and maintain a very close segregation. Any

slippage, the slippage goes into the sour stream. At Wink the gathering systems come in and put in some Texas oil from Wink on to the East to Midland, the oil goes again, we have really about four lines, but the oil is separated as between three grades at that point because our division crude comes into the Texas picture.

We go on to Midland, Midland is the end of the Gulf refining system as of West Texas for the time being. At Midland the oil is delivered to the Gulf Pipeline Company which in turn it picks up additional oil as it goes along, some oil picked up from the south out of Crane, whatnot.

Q Before it is delivered into Mesa does it have storage?

A I said West Texas Gulf, I was wrong. The Mesa Pipeline System has storage. Mesa runs on to Colorado City. Mesa is an undivided interest line. It is not a stock ownership, but everybody that is in there owns a share, there are five companies in it. At Colorado City, Mesa hooks into West Texas Gulf and West Texas Gulf carries the oil on, and the next delivery sour crude will go south to Sour Lake, at which point it is picked up by the Gulf Refining Company again and taken to Port Arthur. The sweet crude or I should say the division crude follows that same stuff too. The sweet crude goes over to Longview and to Big Sandy at Longview the sweet crude is turned over to the Midvalley Pipeline Company which takes it on up to Toledo and Cincinnati, At Big Sandy this sweet crude is

turned into the Gulf Refining Company main line that was built fifty years ago, and that oil was pumped north in Oklahoma and then east out of Oklahoma to Cincinnati through the Gulf Refining Company system the whole way and to Toledo by way of Spencerville. At Spencerville is the point at which Buckeye Pipeline takes it over and makes the physical delivery to Toledo, so that Toledo and Cincinnati receive oil by way of Midvalley and by way of Buckeye and Gulf.

Q The sales that you have reported in Exhibit C, are they made at any point where oil might be taken out of any of these pipelines, or are they made from the refinery?

A Not from the refineries, no, sir. The sales we have shown here are the sales that are made, some of these sales are made at the wellhead, other people are connected to our wells and we sell that oil. That's part of the sales figure. Other sales are made, let's say we might pump the oil down south to Texas, down around Midland and sell it there as a bulk line delivery.

Q Is Gulf in a position now to purchase any more New Mexico oil than it is presently purchasing?

A No, sir. No, not now.

MR. KASTLER: I believe that winds up our case this morning on direct examination.

MR. PORTER: Does anyone have a question of Mr. Osborne?
Mr. Nutter, did you have a question?

MR. NUTTER: Yes, I have one or two.

CROSS EXAMINATION

By MR. NUTTER:

Q Mr. Osborne, I notice on your Exhibit No. D-2, that from a quick examination of this report, I realize you said that this is an exact approximation of the amount of New Mexico crude oil that is run into each one of these refineries?

A Yes, sir.

Q I notice there seems to be a considerable decrease from the period, say generally February to July, August in each case in runs of New Mexico crude oil to these three refineries.

A There's no particular significance to that. I think you'll find on another exhibit where we showed our sales and analysis of --

Q (Interrupting) There is no significance?

A Not particularly, sir. I think if you'll look at C you will notice that our sales were fairly high in February, that, of course, was Suez, but in April, May and in June we were up about 23,000 barrels. So I would say it is really just coincidence.

Q Well, in the case of Port Arthur there, Mr. Osborne, the average runs of New Mexico crude to Port Arthur for the months of January and February would be approximately 14,000 barrels, is that correct?

A That's right, yes, sir.

Q And the average runs for the months of July and August would be approximately 7,000 barrels, is that correct?

A That's right.

Q Which represents a decrease or just 50% from the January and February runs?

A That's right. That's true.

Q Whereas on the other hand the average runs from all other sources to Port Arthur were approximately 260,000 barrels for the months of January and February?

A That's right. I believe you are citing July and June, our draft on stocks were 4,000 barrels a day, 4,064 in June and 4,018 barrels in July. I believe in May, in fact I will state this, it was in May, no, in March, late March or early May what we commonly call big Bertha that is our 120,000 barrels still at Port Arthur, I believe it was on February 8, first we had an explosion, then we had a fire, and she wobbled along there for some forty-five days, so we finally brought her down in very late March and early April, and that's oh, something on the order of a twenty-five day deal and that unit was completely off at 120,000 barrels a day.

Q Nevertheless, the fact remains, Mr. Osborne, that from January, February, New Mexico runs to Port Arthur averaged 14,000, during July and August they averaged 7,000. All other sources during January and February averaged 260,000, yet during July and August they averaged approximately 293,000, an increase of 33,000 whereas New Mexico crude runs to Port Arthur were cut in half.

A I would hesitate to try to explain it. I would be glad to get more detail as to the arithmetic.

Q For instance, in Toledo the average New Mexico runs for January, February ^{were} be approximately 13,000 barrels per day?

A That's correct.

Q How about July and August, would the figure of 6,000 barrels per day be an average for those two months?

A It would appear so, yes, sir.

Q For all other sources would a figure of 27,000 barrels per day be approximately correct for January and February?

A Right.

Q How about July and August, would 33,000 be approximately correct?

A That's right.

Q That is a decrease of 7,000 for New Mexico and an increase of 6,000 for the other sources?

A That is correct. I can explain January and February, at least one reason would have been that in January, February, you recall we were right in the middle of the Suez mess.

Q Yes.

A At that time we had opportunity to sell some Oklahoma crude delivered south for foreign consumption, and we took advantage of that opportunity, so the Oklahoma crude increased our utilization of our New Mexico crude. It was a stop-gap measure.

Q In the case of Cincinnati, would 6500 barrels per day be an

average for January, February for New Mexico crude?

A That would be right, yes, sir.

Q Would just a little more than 2,000 barrels per day be an average for August on New Mexico crude?

A That's right.

Q How about all other sources, would a figure of approximately 28,000 be correct for January and February?

A Right.

Q And 33,000 for July and August?

A Yes, sir.

Q Representing a decrease of New Mexico crude from 6500 to 2,000, but an increase of all other sources from 28,000 to 33,000?

A If you will take the total though you will find that they both, all grades including New Mexico, were averaged, I believe 33,000 barrels for January, February and also for July, August.

Q That's the reason I was taking two months rather than one month in any of these cases.

A Well, you say the total charge, I believe you will find was 33,000 roughly in January, February and just about the same thing in July, August, and the same explanation that I mentioned about Toledo would apply to Cincinnati.

MR. NUTTER: Thank you, Mr. Osborne.

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

Mr. Cooley.

By MR. COOLEY:

Q Mr. Osborne, I believe you stated that by November 1st Gulf would have available some 3,250,000 barrels of storage along it's lines of storage throughout the United States?

A That's correct, yes, sir.

Q And your figure that you started with at the outset of prorationing was 1,250,000 barrels?

A 1,250,000.

Q 1,250,000 barrels?

A That is correct, yes, sir.

Q Now, you have made available some two million barrels additional storage since the time that you initiated purchaser prorationing?

A By the end of October, that's correct.

Q I would like to know, you stated that this gave you some additional latitude of action?

A Yes.

Q And freedom in conducting your affairs. Just how much storage will be desired to allow the desired amount of freedom or action?

A I would hesitate to put an exact figure on that, Mr. Cooley. There are so many grades of oil that we handle that certainly I will state this, at three and a quarter million barrels, or three and a half million barrels even, you just barely have enough to get by if you figure that we utilize something on the order of four hundred and, four hundred twenty thousand barrels a day of domestic

crude oils three and a quarter million barrels of available room is not a whole lot, that means if your plants went down all over, praise God, they never have done that, but one week would put you out of business, I mean it would.

Q There must be a desired level of available storage somewhere, it would be four million, five million, seven million.

A Let's put it this way, we would be perfectly content, and I'm talking from the opposite standpoint, to get along with the oil in storage. We could get along very, very nicely indeed if we only had ten, eleven million barrels of domestic crude, well, Mr. Coates testified here last month, I believe he said that we would be glad to pull stocks down ten million barrels, well, we would. We certainly don't expect to do that though. So I would rather beg off your question there and not give you an exact figure, but I will state that if we had something like six million barrels of available, useable working room, then we would be willing to say we are quite comfortable.

Q Could you give me an average of what your available storage was in 1956?

A I wouldn't want to try to do that from memory.

MR. COOLEY: That's all. Thank you.

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

Mr. Nutter.

By MR. NUTTER:

Q Mr. Osborne, rather than put it in terms of desired storage that you would like to have, how about working days' supply, what are your desireable stocks in terms of working days' supply?

A Well, I would say if we have a total of say a million barrels, we'd be doing all right, that's all grades including lines.

Q Does that include working stocks or does it except oil below the outlets in tanks and pipeline fills?

A No, that's a total figure, it includes line fill, includes everything. It includes everything that we have on the balance sheet.

Q How would that figure compare with working days' supply? How many working days' supply do you need?

A Well, that would be, I never like that term working days' supply. It's a meaningless figure. I know it is published, but it doesn't mean a thing. But arithmetically that would mean thirty days.

Q How many days' supply do you have now, Mr. Osborne?

A About fifty-five, fifty, fifty-five.

MR. NUTTER: Thank you.

MR. PORTER: Anybody else have a question of the witness?
The witness may be excused.

(Witness excused.)

Anyone else want to present testimony or offer a comment or statement in the case? We'll take the case under advisement. We will take a short recess.

(Recess.)

C E R T I F I C A T E

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 24th day of October, 1957.

Ada Dearnley
Notary Public-Court Reporter

My commission expires:

June 19, 1959.

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BEFORE:

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Honorable Edwin L. Mechem

TRANSCRIPT OF HEARING

MR. COOLEY: In the matter of the hearing ordered by
Paragraph (2) of Order R-1037 to permit Gulf Oil Corporation to
appear and 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 in the State of New Mexico.

MR. KASTLER: My name is Bill Kastler and I am a lawyer
in Roswell, New Mexico representing Gulf Oil Corporation. We're
here this morning to present a continuation of our testimony in
Case No. 1299, and to present what I would like to term a progress
report. With all due respect to the Commission, but with an
intention on our part of keeping the record straight, we want to say

that we don't think that Gulf or any other purchaser can be required by law to maintain its purchases of crude oil in the State of New Mexico at any particular percentage of the allowable. Historically, my company has been a major purchaser of crude oil in this state, and it would seem that this happy situation will continue, but in view of circumstances outlined previously, my company has found it necessary to reduce these purchases for the present time.

Mr. Jack Coates is here on behalf of our Crude Oil and Products Supply Department in Houston. He testified in the last hearing, and we would like for him to make the statement for this morning. I assume that his qualifications can be admitted. I would like to have him sworn at this time.

MR. COOLEY: Are you the only witness, Mr. Coates?

MR. COATES: I think so.

MR. COOLEY: Would you also stand and be sworn, Mr. Osborne?

(Witnesses sworn.)

J. G. COATES

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

DIRECT EXAMINATION

By MR. KASTLER:

Q Mr. Coates, would you just proceed, please?

A As a beginning I would like to give or present a few figures

which I think illustrate very clearly the importance of New Mexico to Gulf Oil Corporation. I think that's a very pertinent point. During the year 1954, Gulf purchased outside production New Mexico crude, 8,640 barrels per day. During the year 1954 our billings to Gulf Refineries were some 14,932 barrels per day. Approximately the first part of 1954, Gulf Refining Pipelines were extended northward into the Anderson Ranch in Denton areas, and since that time have connected quite a number of new fields, in other words, extended further into additional new development.

As a result of that, referring back to the 8,640 barrels that we purchased of outside production in 1954, that is now increased to the first seven months of 1957 to an excess of 20,000 barrels a day, or 136.8 % increase over our outside purchases of New Mexico crude in 1954.

Referring again to the billings to Gulf Refineries in the 1954 figure, 14,932, that has increased to an excess of 21,000 barrels a day in seven months of 1957, the first seven months, or an increase of 41.3% in excess of what we were billing our refineries in 1954.

I think that underlines very clearly how important New Mexico is to our operations. As for our purchaser proration currently in effect, I believe you gentlemen are all acquainted with the fact that we are purchaser prorating in six states, all six of those states being approximately on the same basis. In other words,

on the same basis, as is insofar possible, with the different methods of proration in those six states. As a result of proration in those six states during August we broke just about even. In other words, we did not add any crude oil to the small amount of tankage space that we had remaining, nor did we draw any crude from our very excessive stocks.

During the month of September we will draw on stocks. At the present I would estimate that we will empty tankage in the range of five to six hundred thousand barrels during the month of September. However, when you consider our total stocks of twenty-seven million barrels, approximately twenty-seven million, and the small amount of tankage space that we had when we entered this proration period, to quote the figure again, which I stated last month, a million two hundred thousand. This five hundred, six hundred thousand is really a small amount to draw on stocks.

Now, as to the future, speaking of October primarily, we are able to sell some crude in September. However, our refinery runs were reduced. In October, of course, we do not know at this point what we will be able to sell, if any. We have a forecast off of our refinery runs, but we don't know what they will actually be. Later in the month we will have better information as to what we can sell and what the refineries will run.

I would like to say that we don't like the purchaser prorationing either, as I am sure you don't. We are trying to end it

as quick as we can, and we are keeping the picture under constant study when we are able to reduce the excessive stocks some, of course, we will end the purchaser prorationing.

Q Mr. Coates, percentagewise, what has your reduction of Texas purchases amounted to?

A Actual percentage is about 17%. However, it would be about 20% if it were not for the fact that we are exempting water floods just as New Mexico requested us to do. To say it another way, the exemption of water floods reduced our take, or reduced the percentage, I should say, from approximately 20% to approximately 17%. Of course, that works somewhat the same way in the State of New Mexico, the fact that we are not prorating below ten barrels means that we are actually taking more than 80% of our July runs.

MR. KASTLE: I have no further questions.

MR. PORTER: Mr. Cooley.

CROSS EXAMINATION

By MR. COOLEY:

Q Is Gulf Oil Corporation presently complying, has it complied during the months of August and September with the provisions of Order R-1037, issued by the Commission? That order being the order which required Gulf Oil Corporation to limit its reduction to wells producing more than ten barrels of oil per day and not to reduce any water flood projects.

A I'm confused with the number, I thought it was 93-A.

Q That was the temporary order.

A I see. Yes, sir, we are abiding.

Q Will Gulf Oil Corporation continue to comply with such restrictions?

A Yes, sir.

Q You say in the month of October your rate of reduction will be something less than 20%?

A Will you restate that?

Q Your percentage of reduction.

A Will be something less than 20%.

Q 20%?

A You are speaking of New Mexico?

Q Yes.

A I would say that is true arithmetically we are following the order. We are still, but the low volume wells not prorated would change the percentage to something in excess of 80.

Q In October you anticipate drawing between five and six hundred thousand barrels?

A No, that was my estimate for the month of September.

Q In September you intend to withdraw it?

A Yes.

Q You stated when you get stocks to workable levels, then this prorationing can end. Would you please estimate for us what that level of vacant storage would be?

A That is hard to specify because of location of tankage and various grades of crude. All tankage is not available to all grades

of crude. As I stated, we have twenty-seven million barrels in stock and very little empty tankage. We would almost have to study that as the twenty-seven million barrels is reduced, that is study it with respect to tankage space as related to grades available to be stored in the tankage space. I would hesitate to give an exact figure.

Q How many different grades of crude do you purchase in the state?

A Only two in New Mexico.

Q Do they necessitate different types of storage?

A Yes, they do. And, of course, the million two I referred to is not available for New Mexico crude. That is the space in various areas, New Mexico, Oklahoma, Texas, have to be stored.

Q I believe you testified last month that all New Mexico crude purchased by Gulf Oil Corporation is taken to the Gulf Coast?

A No, sir. It all goes to Toledo, Cincinnati.

Q By what means?

A Pipeline. I did understand your question, New Mexico crude?

Q New Mexico crude.

A It all moves by pipeline to Toledo and Cincinnati refineries. I pointed out, if you recall, I think I brought out the point to show that foreign crude does not conflict with New Mexico crude because foreign crude is not used at that refinery.

Q Of the 1,200,000 barrels of available storage space at the present time, how much of that is located in such a manner and is available to New Mexico crude?

A I don't have that broken down at the present time. I did last month, but I don't have it presently. However, let me say that when we lift proration we probably would lift it more than in New Mexico.

Q I didn't understand.

A When we lift proration we would probably lift proration in areas other than New Mexico. It is not a state by state problem. It is to some extent, but it is more in the overall sense that we had to prorate.

Q You made the point as you just reiterated, that you felt that the New Mexico crude was not in competition with the imported crude since it was refined at Toledo and Cincinnati. Are these refineries at Toledo and Cincinnati refining at capacity?

A I would have to look to be positive, but I believe during September those two refineries are near capacity.

Q Could you find the figures on that, please?

A Yes. Yes, they are at capacity for all practical purposes.

Q You mean to say, Mr. Coates, that Gulf Oil Corporation under no circumstances since they refined New Mexico crude only at Toledo and Cincinnati, and these refineries are now refining at capacity, you couldn't take any more New Mexico crude ever?

A I am not sure you stated that quite as I meant. We run other crudes at Toledo and Cincinnati other than New Mexico crude. I'm saying that our stocks are so heavy and so large that even though the refineries are running at capacity, that we still have to prorate. We have no place to put our excess crude.

Q Has there any crude been refined at Toledo and Cincinnati that could be refined in other refineries?

A No, the other crudes that are being refined there, we have no way of getting them to other refineries.

Q Are they likewise limited in outlet as is New Mexico?

A Yes. The other crudes to these refineries come from within those six states.

Q What products are refined there at Toledo and Cincinnati?

A Oh, I'm not a refinery expert, but I would say full range of products. Asphalt right through gasoline.

Q Is this full range also refined at your refineries on the East Coast which refined imported crude? My question is in essence, are the products, the refined products of the imported crudes in competition --

A (Interrupting) No, because it's an entirely different area.

Q Where are your products from your Toledo and Cincinnati refinery marketed?

A In the midwest area there.

Q Have there been at no time any products from the Toledo and

Cincinnati area marketed in the area which is now being served by the imported crude products?

A Well, you say at no time. It may have been possible, but from an economic standpoint, I think I would feel safe in saying that it has never been done. I don't know why in the world products would be moved from that area to the East Coast. Of course, I'm not a products supply man, but just from an ordinary economics with refinery on the East Coast, I don't know why products would be removed from the midwest.

Q Is Gulf Oil Corporation presently repurchasing any oil in the State of New Mexico?

A Repurchasing?

Q Yes.

A In other words, do we purchase New Mexico crude from other companies?

Q Yes.

A You are speaking of leases or contract purchases?

Q In any manner other than direct purchases which you are prorating.

A We purchase some New Mexico crude down in West Texas.

Q Have you also reduced those purchases?

A No, those are contract purchases, they cannot very well be reduced.

Q Is Gulf Oil Corporation purchasing any condensate production in the State of New Mexico?

A Some, very little I would say. I don't have the figure on it. Of course, I am sometimes confused where you draw the line between the two. For instance, in the Caudill Pool.

Q Gas-oil liquids? A Very little.

Q Have they likewise been reduced?

A No, we don't reduce gas fluids from a gas well, no.

MR. COOLEY: I believe that's all.

RE-DIRECT EXAMINATION

By MR. KASTLER:

Q It is my understanding that last month when you testified, that you testified that some of the New Mexico crude is being taken into the Port Arthur refinery of Gulf Oil Corporation, is that correct?

A I think I probably said historically it had been done, but normally it has not been taken there. It is possibly what you were recalling, Mr. Cooley. I had forgotten that point.

MR. KASTLER: That's all.

MR. PORTER: Anyone else? Mr. Campbell.

MR. CAMPBELL: Jack Campbell, Roswell, New Mexico, appearing on behalf of the Independent Producers and Royalty Owners Association.

RE-CROSS EXAMINATION

By MR. CAMPBELL:

Q Mr. Coates, you stated at the last hearing and have repeated

today that the importation of crude by Gulf Oil Corporation has no bearing on the purchaser prorationing from New Mexico, is that correct?

A Yes, I would say that's correct.

Q Your basis for that is that the Toledo, Cincinnati refineries presently utilize no foreign crude?

A Yes.

Q Is the Gulf Oil Corporation not now in the process of constructing a line from the East Coast into that area?

A There's a products line being built back there. I am not familiar with it. I am not in the Products Department at all.

Q Do you know where it's going? A I'm not positive.

Q Is there someone here that can testify to that?

A Possibly.

Q If that is a products line, or crude line, into that area, then the competitive situation would be different, would it not?

A I suppose it's only obvious that it would be. However, also, the fact remains that imports are being reduced.

Q Are you reduce --

A (Interrupting) I would like to add one other thing. There is a large amount of domestic crude refined at the refinery where the foreign crude is refined.

Q Then the refineries could use the domestic crude in lieu of foreign crude if you do?

A Insofar as the refinery was so designed and built, but it was not built to refine crudes we have in the U. S. It was designed in part to handle the domestic crudes that we have, but some of the equipment there could not economically handle the crudes that we would send there if we didn't have the foreign crude.

Q The foreign crude that you import, at least in the Middle East, is the same type of crude that you purchase in West Texas and New Mexico?

A The only similarity that I could say is that they are both sour.

Q It is a similarity?

A It is a similarity, but I would like to state further that that refinery cannot refine West Texas and New Mexico sour crude.

Q Why is that?

A Because of the dissimilarity of the crudes. There is more factors to it than the sulphur. Many other, I'm not a refinery expert, I cannot give that to you in technical language, but nevertheless, there is many factors other than the sulphur.

Q Can your company or your refinery people furnish that information as to the reason that you cannot in your refineries on the East Coast handle New Mexico and West Texas crude?

A Furnish that information to whom?

Q To the Commission for this record.

A I suppose it would be possible.

Q What is the present position of Gulf Oil Corporation, if you know, with regard to the President's request on reduction of imports?

A We are abiding by his order and have so stated.

Q What would be the position, if you know, of Gulf Oil Corporation in the event relief is granted to other importers by the administrator?

A Well, about all I could say to that is the release that was made by Captain Carson in the last few days, that quotas assigned to other companies is increased, we would have to re-evaluate our compliance with the program. I think that is obvious and apparent to anyone that we would be economically forced to evaluate our position if the other companies are allowed to increase. However, I may say further to that, I can't recall whether it is four or five times that the Government has asked Gulf to reduce its imports, not only Gulf, but the industry, on each and every occasion we have abided by the request and directive. That is during the last three or four years.

Q What were the imports, if you know, for the last recorded week, to the East Coast?

A I don't get them by weeks. We furnish the Commission with our monthly figures.

Q Are you now importing only the average monthly amount which would comply fully with the President's request?

A No, because I don't recall the date of that directive.

I believe it came out in July, wasn't it?

Q I believe so.

A It is impossible to make such a large reduction overnight, so to speak, but each month our imports are lower, excuse me, are lower than they have been, although they haven't quite reached the low figure which we might call our quota. However, we will average out during the year to that quota of 111,600 assuming the program is accepted by all companies, and during the month of October I have a forecast and the Commission also has it, our imports will be less than the quota in order to average out the higher figures in August and September.

Q Your present position is that if there are any changes made you will have to completely re-evaluate your position?

A Re-evaluate. I don't know what the change will be. It depends on what changes Captain Carson allows and what the rest of the industry is made.

Q It is not the position of your company that in the event that any changes are made you will no longer comply with the request?

A No, we haven't said that. We said we will re-evaluate the situation and see what we can do, but we will attempt to abide as far as the industry will abide, or we will abide insofar as the industry abides.

MR. CAMPBELL: That's all.

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

By MR. NUTTER:

Q Mr. Coates, I believe you testified that presently you had twenty-seven million barrels of crude oil in storage?

A Yes, sir.

Q How much of that twenty-seven million barrels is actual working stocks, not pipeline fills or below tank outlets?

A Well, I said last time that we had at the very least, six million barrels too much, but of course, even that was an optimistic figure, but it is hard to say what normal stocks is because they have been so high for the last several years. At least higher than they should have been except for the Suez period. But talking about desired stocks, what we would like to have them down to, we're about ten million barrels over what we would like to operate on.

Q How much of the twenty-seven million barrels --

A (Interrupting) What I'm saying, if you subtract the ten from the twenty-seven million, the sixteen million remaining would include line fill, tank bottoms, working stock and so forth. We could operate very efficiently on that volume.

Q In ^{working} ~~work on~~ the day's supply, what is Gulf's desired level crude stock?

A I have never calculated that. I don't see that it means much.

Q I just wonder how your desired working day's supply compared with your actual working day's supply at the present refinery runs.

A I have never calculated that.

Q If the Port Arthur refinery were to be shut down, Mr. Coates, would the demand for New Mexico crude be affected at all?

A Yes, sir, it certainly would.

Q In what manner?

A Well, we refine 120,000 barrels a day of West Texas, New Mexico sour crude at Port Arthur. In fact, that is one reason we are in trouble. Last spring we had fire and trouble and turn around with that particular equipment and we went to stock with four million barrels of sour crude. That helped to contribute to our present situation.

Q How much of New Mexico crude goes to Port Arthur?

A Well, that's a little hard to say. We often get into various trades and so forth, but it would be quite accurate to say that just about all of our New Mexico sour crude goes to Port Arthur. I have the figure in mind, but I had better check it. I would say in the neighborhood of ten thousand barrels a day.

MR. NUTTER: I believe that's all. Thank you.

By MR. COOLEY:

Q You spent about fifteen minutes talking about refining and sour crude in Toledo and Cincinnati, and you assured me that is

where it was all being refined, and now it's being refined at Port Arthur.

A Yes, I said that today. I am sorry. I am talking about two grades. We have two grades out of New Mexico, semi-sweet crude, which is in the amount of thirteen to fifteen thousand barrels per day goes to Toledo, Cincinnati. The sour crude goes to Port Arthur. Again, I am sorry that I confused the issue.

Q In what volume?

A As I said, one hundred. About ten thousand would be New Mexico crude.

Q So nearly half of our crude goes to Port Arthur that Gulf purchases?

A Ten thousand out of twenty-three or twenty-four.

Q Now, the products that are refined at Port Arthur, where are they marketed?

A Oh, actually I don't know. That sounds like an evasive answer, but I really don't.

Q Is it the practice of Gulf and other companies refining on the Gulf Coast to ship these products to the East Coast?

A Yes.

Q For marketing?

A Yes.

Q Is not the products being refined by your refineries using imported crude being marketed on the East Coast?

A I imagine that is correct.

Q And they didn't refine the imported crude and make a gallon of gas in New York City, could that gallon of gasoline not be sent out by New Mexico crude economically?

A State that again, please.

Q If these products are in actual competition on the East Coast--

A Yes.

Q (Continuing) -- and it has been the practice of companies for several years to do coastal shipping to transport the products to the East Coast, being refined, which were refined at the Gulf, could not the gasoline that is being made and all other products, for that matter, the gasoline being made from imported crude be replaced by New Mexico gasoline?

A To this extent, we are running our equipment at Port Arthur, this 120,000 barrels a day of sour crude, we refine down there, it's being run at total capacity. Anything that we have over 120,000 barrels a day of necessity has to go to tanks when we can't sell it, and we haven't been able to.

Q But isn't your dire situation your high products stocks?

A Yes, we have high product stocks.

Q Could you not sell the New Mexico products on the East Coast if it were not for the refined import products being refined there at the present time?

A I agree with you to some extent, but when our refineries are, ~~that are running New Mexico crude are running at capacity.~~

Q What is capacity?

A That is all the crude that you put and it can handle, you can put so much and no more.

Q All three of these refineries are refining every barrel of oil they can refine?

A Of New Mexico crude. I'll have to define that a little bit, at Port Arthur, the capacity is 120,000 barrels a day. Regardless of the products situation, that is all it can refine of sour crude. Toledo, Cincinnati, New Mexico semi-sweet goes up there, there is other crudes go up there too. I'll admit that if we cut off the crudes coming from other states they can handle more New Mexico semi-sweet, but the total runs at the refinery, the refinery is running at capacity.

MR. COOLEY: That's all.

MR. PORTER: Anyone else have a question?

By MR. PORTER:

Q Mr. Coates, I believe you indicated that Gulf would like to reduce stocks by about ten million barrels to get down to what you consider a desireable level?

A However, I don't have much idea we will get down that low. That's what we would like to do.

Q Are you going to try to attain this goal before you consider lifting prorationing?

A No, sir. We would be prorating for a long time if we did.

Q Do you have any idea now as to when you might consider lifting prorationing?

A We will consider it in October. It depends on the sales and refinery runs. We are considering it continually in studying our picture. I hope, but understand I'm saying hope, we can lift it in October, but I'm not saying in any way we will.

Q I understand you.

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

(Witness excused.)

MR. COOLEY: Mr. Campbell, do you have any questions of any other witnesses?

MR. CAMPBELL: I would like to ask a witness some questions about a line they're building.

MR. COOLEY: Mr. Osborne, can you answer those questions?

MR. OSBORNE: I will try to the extent of my ability.

C. H. OSBORNE

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

DIRECT EXAMINATION

By MR. COOLEY:

Q State your name and position.

A My name is C. H. Osborne, Manager, Crude Oil Supply, Gulf Oil Corporation at Pittsburgh.

MR. COOLEY: Mr. Kastler, do you have any questions?

MR. KASTLER: No.

MR. COOLEY: Proceed, Mr. Campbell.

By MR. CAMPBELL:

Q Is it correct that Gulf is presently constructing some sort of line from the East Coast into your Mid-west refinery?

A No, sir, not quite. Such a line is, however, projected. A partnership line, Laurel Pipeline Company.

Q Which pipeline company?

A Laurel Pipeline. L-a-u-r-e-l. There is no pipe being layed. It is projected for probably 1959 completion.

Q Where would that line run, do you know?

A Oh, it will run from say Philadelphia, Pittsburgh, going over to Youngstown, up to Cleveland.

Q Would that transport products?

A So I understand, yes, sir, I have no official connection with the Laurel Pipeline.

Q Are you building it in conjunction with them, or are you just going to supply the product for the movement?

A Gulf Oil Corporation will own stock, as I understand it, in Laurel Pipeline Company. There will be other stockholders. Gulf Oil will supply products.

Q When and if that line is completed, then the Philadelphia refinery will be, so far as its products are concerned, competing

with Mid-west refineries in the market?

A No, sir. Of course we talk for ourself alone. That line will be bringing products over to supplement the supply out of Toledo and Cincinnati.

Q You are going to move products entirely from the west to the east in that line?

A From the east to west, I think you mean.

Q I thought you said you were going to bring products from the Toledo area into Philadelphia. A No, sir.

Q I misunderstood you.

A My statement was intended to be that we will move products from Philadelphia westward to Pittsburgh and the Cleveland areas, and these products will supplement the supply out of our Toledo and Cincinnati refineries.

Q You mean that your refineries do not have sufficient capacity to meet the market demand for products in the Toledo area right now?

A I wouldn't say right now, no, sir. But looking down the road, yes, that is a true statement.

Q Instead of increasing capacity of the refineries using domestic crude, you are going to move crude from your Philadelphia refinery? A Products.

Q Products refined from your East Coast refineries into that area? A That is true.

MR. CAMPBELL: That's all.

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

(Witness excused.)

Does anyone have anything further to offer in this case? Any statements? We'll take the case under advisement.

C E R T I F I C A T E

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 *1st* day of *October*, 1957.

Ada Dearnley
Notary Public-Court Reporter

My commission expires:

June 19, 1959.

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 15, 1957

TRANSCRIPT OF HEARING

Case 1299

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

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
August 15, 1957

IN THE MATTER OF: :

Application of the Oil Conservation Commis- :
sion of New Mexico, upon its own motion for :
an order concerning purchaser prorationing :
by Gulf Oil Corporation commencing August 1, :
1957. Applicant, in the above-styled cause, :
seeks an order concerning purchaser prora- :
tioning of crude oil in New Mexico by Gulf :
Oil Corporation commencing August 1, 1957. :

Case No.
1299

BEFORE:

Mr. A. L. Porter
Mr. Murray Morgan
Honorable Edwin L. Mechem

TRANSCRIPT OF HEARING

MR. COOLEY: Application of the Oil Conservation Commission of New Mexico, upon its own motion for an order concerning purchaser prorationing by Gulf Oil Corporation commencing August 1, 1957.

MR. KASTLER: I'm Bill Kastler of Roswell, representing Gulf Oil Corporation. As the principal advocate in this case, we have two witnesses, and one of whom has already been sworn, and that is Mr. Jack Coates from Houston. The other one is Mr. Osborne from Pittsburgh. I would like for him to be sworn at this time.

MR. COOLEY: I think we should swear Mr. Coates again.

This is a different case.

MR. KASTLER: All right.

MR. PORTER: Mr. Nutter, will you also be sworn at this time?

MR. KASTLER: If it please the Commission, I would like to call Mr. Coates to the stand first of all.

(Witnesses sworn.)

J. J. COATES

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

DIRECT EXAMINATION

By MR. KASTLER:

Q Would you please state your name and your employer and your position with that employer?

A J. J. Coates, Gulf Oil Corporation, Manager of crude oil supply, Southern Division.

Q Mr. Coates, as the Manager of crude oil supply, is it your duty to appear at hearings before various state regulatory bodies?

A Yes, it is.

Q In what states have you appeared?

A Louisiana, Texas, New Mexico.

Q You have previously appeared in New Mexico?

A Yes, sir.

MR. KASTLER: I'm assuming that the witness is qualified.

MR. PORTER: Yes, sir.

Q Mr. Coates, has Gulf Oil Corporation found it necessary to reduce its pipeline purchases in New Mexico?

A Yes, sir.

Q Would you please state the reason for that?

A I think I can make that very brief and at the same time very understandable. As of the first of August we had approximately 1,200,000 barrels remaining tank space for storing oil. As of that date we estimated for the month of August we would go to stock 75,000 barrels per day. Obviously the tankage would not hold the surplus crude, at that point, it gets beyond the point of decision, it merely becomes absolutely necessary.

Q To what do you attribute the lack of demand?

A Well, I can hardly answer that. Demand, of course, was forecast by the various economic experts over the country to increase between four and five percent during the year of 1957. During the first six months it increased approximately one percent. As to why it has not increased more, I don't feel qualified to answer.

Q Has Gulf Oil Corporation received the order, the emergency order A 93-A dated August 1, 1957, in which it was required to do certain things by this regulatory body?

A That is the order, I believe, pertaining to ten barrels and et cetera?

Q Yes.

A Yes, we have received that.

Q Is Gulf Oil Corporation voluntarily complying with President Eisenhower's Cabinet Committee recommendations?

A We are abiding by it and have so announced publicly.

MR. KASTLER: I don't have any further questions at this time.

Q Are you familiar with the reasons, Mr. Coates, of the failure of the ~~industry~~ demand to increase as forecast? For example, the curtailment in fuel oil sales as a result of the mild winter?

A Well, that is true, the weather has a great influence on fuel oil products.

Q Have there been reduced refinery runs?

A Yes, refinery runs are down. Gulf's refinery runs are down under last year.

MR. KASTLER: Thank you. You may inquire.

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

MR. CAMPBELL: Jack Campbell, Roswell, New Mexico, appearing on behalf of Independent Producers and Royalty Owners Association.

CROSS EXAMINATION

By MR. CAMPBELL:

Q Mr. Coates, you stated you had received the Commission's emergency order No., I believe it's 93-A?

A Yes, sir.

Q Are you complying with that with regard to your takes from minimum production wells?

A Yes, sir, Gulf Oil Corporation has instructed Gulf Refining Company, which is the pipeline, to abide by that order.

Q Is Gulf Oil Corporation willing to continue to abide by that provision of the order in the event it were extended?

A What was the term of the order?

Q The term would expire, I believe, today or tomorrow.

A Yes, we're willing to continue.

Q Have you prorated your purchases in all states except the State of Texas, in which you purchase? A Yes.

Q Have all of those states granted allowables on your wells from which you purchase in excess of your nominations?

A Louisiana, the allowables are quite a bit in excess of our nominations, New Mexico allowables are in excess of our nominations, Oklahoma allowables are in excess of Gulf's nominations, the states of Alabama and Mississippi do not have a nomination form of market demand.

Q In the event the State of Texas sets the allowable in excess of your nominations, would you prorate your purchases there?

A We would certainly give it heavy consideration. I'm not in a position to say exactly what we would do until we would know the situation.

Q I believe your purchases in Texas are approximately fifty percent of your total purchases domestically, is that correct?

A Speaking of those six states which we are discussing, they are in excess of fifty percent.

Q So that the rate at which you purchase in Texas has considerable bearing upon the degree to which you have to reduce your purchases in other states in this situation?

A I think that is only arithmetic that would be true.

Q Mr. Coates, you are acquainted with the back allowable provisions of the laws of New Mexico, are you not?

A I've read of that as applied to previous companies that purchaser prorated, yes.

Q You are also aware of the fact that Gulf Oil Corporation produces some 35 or 36% of the crude which it is purchasing in New Mexico, are you not?

A In other words, you are saying that Gulf pipeline total runs, of their total runs, one-third is Gulf production?

Q Approximately.

A Yes, I'm familiar with that.

Q Are you familiar to say that at the time that this situation eases ^{some} you will pick up your piece, that Gulf will pick up the back allowable?

A I'm not speaking for what the Production Department would apply, for I can only talk as a purchaser.

Q Do you have any idea how long this emergency might continue?

A Very loosely, several months.

Q What is your own opinion as to a reasonable level of crude stocks?

A National crude stocks?

Q Yes, sir.

A Reasonable or desireable?

Q Desireable level from the point of view from the purchasing company's refineries.

A 250,000,000 barrels; in all honesty, of course, I should admit this, we should have slightly more than that, but by actual operations at that level, the ~~industry~~ got along very well.

Q You have testified, Mr. Coates, that Gulf Oil Corporation has publicly stated that they are complying with the President's request for a reduction of crude oil imports to the east coast?

A Definitely.

Q Is that right?

A Yes, sir.

Q I assume from that that Gulf Oil Corporation has no intention of adverting any imports to the west coast?

A Of doing what?

Q Of diverting any imports to the west coast.

A Not so far as I am aware of. We have no refineries on the west coast.

Q You do provide crude for refineries on the west coast.

do you not?

A By contract sale.

MR. CAMPBELL: I believe that's all.

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

MR. KASTLER: I might ask one other question.

RE-DIRECT EXAMINATION

By MR. KASTLER:

Q Mr. Coates, are you aware of the percentage figure of Gulf's New Mexico production which is adversely affected by Gulf's reduction in its pipeline purchases?

A Approximately 43% of Gulf's New Mexico production is on or connected by Gulf refinery company and is therefore being prorated under the purchasers prorationing program.

MR. KASTLER: Thank you. I have no other questions.

MR. PORTER: Mr. Cooley.

RE-CROSS EXAMINATION

By MR. COOLEY:

Q Mr. Coates, you testified, I believe, that as of August 1, 1957, Gulf Oil Corporation had 1,200,000 barrels remaining space, storage space, for crude oil?

A That's right.

Q Mr. Coates, what is the desireable figure in that regard? I take it that you feel this figure is too low.

A Well, of course, we have leased many many tanks in order to try to prevent getting in this position or being a purchaser prorater, but I'll put it in this fashion, I would say that our

domestic crude oil stocks are at least 6,000,000 barrels above desired level.

Q And cutting your purchases by 20% in the six states just mentioned?

A Five states just mentioned.

Q Pardon me, five states just mentioned. How long would it take to make this 6,000,000 barrel reduction?

A We're still going to stock.

Q Won't you be stocking it at a decreasing rate?

A Yes, but we're still filling that 1,200,000. In other words, we are not drawing against the 6,000,00, we are adding to it even by prorating the five states.

Q Is there any possibility of ever going off purchaser prorationing?

A I certainly hope so. I would say, we will, yes, but if you ask me for definite reasons or supporting evidence, I would be hard pressed.

By MR. PORTER:

Q Mr. Coates, what is the total reduction in the five states that you mentioned?

A In other words, how much have we reduced our purchases by prorationing in those five states?

Q Yes, sir.

A It's hard to say, but I would say that we will fill that

1,200,000 at least half to three quarters of it on this present base.

Q Well, we don't know how long that will take.

A Well, I'm saying during August, on our present program, we would fill half to three quarters of that tank space.

Q I believe that according to the figures I have, that you have affected a reduction in New Mexico of around 4700 barrels a day?

A Well, let's see, our purchase pipeline runs are in the neighborhood of 23,000, 20% of that 23,000, 24,000.

Q Did you say what month that you were basing this on, the 20% cut in July?

A Not in this testimony that has not come out. We are purchasing 20% of the July runs, excuse me, we're purchasing 80% of the July runs.

Q One more question, Mr. Coates, now you are basing this total, I think, on July. We might have individual cases where a well would shut down for a working over or some other reason.

A In other words, they didn't have much if any July production?

Q That's right. Would Gulf?

A We will probably take a six month's period and adjust that to something that would be entirely fair.

MR. PORTER: : Mr. Campbell.

MR. CAMPBELL: I would like to ask one more question.

By MR. CAMPBELL:

Q I believe you stated that market demand had decreased as indicated by reduced refineries' runs in Port Arthur, Toledo and Cincinnati?

A Yes, our refinery runs are down.

Q Is that true of all your refineries or just the ones you mentioned?

A I was speaking of the total refineries' runs when I said they were down.

Q Are your refinery runs down in plants in refineries that utilize foreign crude?

A Yes, sir.

Q Are they down in the same percentage?

A They are down in a greater degree than the refineries using domestic crude, yes, definitely.

MR. CAMPBELL: That's all.

MR. PORTER: Does anyone else have a question of Mr. Coates? The witness may be excused.

(Witness excused.)

MR. KASTLER: If the Commission, please, at this time I would like to state that Mr. Coates has ably presented the testimony that we have to present. However, Mr. Osborne is here from Pittsburgh and has been sworn. If the Commission or anybody else present cares to inquire further into the matter, I'm sure Mr. Osborne would be glad to take the stand. Do you so desire?

MR. PORTER: Mr. Kastler, the Commission would like for Mr. Osborne to testify.

MR. KASTLER: Thank you.

C. H. OSBORNE

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

DIRECT EXAMINATION

By MR. KASTLER:

MR. PORTER: Do you have any direct examination?

MR. KASTLER: Nothing except to establish his position in the company.

A My name is C. H. Osborne, Manager of Crude Oil Supply, Gulf Oil Corporation, Pittsburgh.

MR. KASTLER: I believe that is sufficient, that covers it.

MR. PORTER: Does anyone have a question of Mr. Osborne?
There is one question I would like to ask, Mr. Osborne.

CROSS EXAMINATION

By MR. PORTER:

Q In the notice that the Commission received from Gulf, it was indicated that the condition of Gulf's stocks have built up over a period of some five months. It is stated that the reasons for this were curtailment in the sale of fuel oil during the winter months and the failure of European customers to take estimated crude shipments, and reduced refinery runs.

A Yes, sir.

Q But it does indicate that that has come about during the past five months. Now, I notice that in an industry publication, I believe last week, that Gulf's average imports for the past three years, that's '54, '55, '56, the average daily imports was 124,000 barrels per day, and the same publication indicated that Gulf had programmed 153,000 barrels a day for the last half of 1957. In view of the fact that these stocks have been building up, could you say why this increase in imports had been programmed for the last half of 1957?

A May I say they had been programmed. They no longer are programmed at that rate.

Q But they were programmed, I believe, before we received this notice and before the President asked for the reduction in imports?

A Yes, sir. Specifically, they were programmed on the base that we had boats available, and just naturally we wrote down the figures because we were going to do something with the boats. It was with the hope that demand for products would increase to permit utilization of that crude and domestic crude at an increased rate.

Q But it's a fact that Gulf had programmed imports, an increase in imports while requesting decreases in domestic production?

A One might properly say that, yes.

MR. PORTER: Does anyone else have a question? If there are no further questions of the witness, you may be excused.

A Thank you.

(Witness excused.)

MR. PORTER: Mr. Nutter.

DAN NUTTER

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

DIRECT EXAMINATION

By MR. COOLEY:

Q Will you please state your name and position?

A Dan Nutter, Engineer for the Oil Conservation Commission.

Q In your official capacity as Engineer for the Oil Conservation Commission, have you made a study of purchasing practices, both of foreign and domestic crude, for Gulf Oil Corporation from the period 1953 through the present time?

A Yes, I have.

Q Would you please summarize the results of your study?

A In conjunction with this study, I have prepared four Exhibits which I believe give a rather comprehensive review of Gulf on purchasing practices. These exhibits were prepared from data derived from the Commission's own records and from information supplied by Gulf upon request.

(Marked Gulf's Exhibit A,
for identification.)

Turning first to Exhibit A, the exhibit in the upper left hand corner, we see that Gulf's purchases of domestic crude indicated by the upper line here from January of 1953 to date in 1957, as well as Gulf's daily average imports of crude and products from 1953 through 1956, domestic purchases have increased an average of 31.2% from 1953 through 1956. 1957 is not regarded as a normal year insofar as purchasing practices are concerned ^{in fact} ~~inso-~~ *much* ~~far~~ as there was an abnormally high demand during the early months of the year and things have not quite gotten back to normal since the period of high demand slacked off. You ~~note as I said~~ before that domestic purchases have increased 31.2%. Imports during this same period increased an average of 10.4% from 1953 to 1956. However, that 1956 figure includes two months, November which was obviously very low, imports were only 88,000 barrels that month, and December, which was probably low, being 141,000 barrels.

Now, the relationship between those two lines appears favorable. However we know that the imports are desirable imports, if they weren't desirable they wouldn't have brought them in. We also know that some percentage, I don't know what it is, but some percentage of Gulf's domestic purchases are undesirable because they maintained for a period of time they have taken oil they don't want to buy in certain states.

The straight lines on the graphs are the trends of the domestic production, and the trend of the imports as derived by the least

squares method. This method is an accepted system for obtaining a straight line fitted to an irregular curve. It is computed in such a way that the sum of the squared deviations of the observed value about the ~~triple~~ line is a minimum.

(Marked Gulf's Exhibit B,
for identification.)

Chart B, the chart in the upper right hand corner, depicts Gulf purchasing practices in the State of New Mexico. Purchases 1956 over 1953 increased 122.9%. Nominations depicted by the green line on the same chart increased a total of 25.75%. We have used the ~~least~~ squares method to draw straight lines on the irregular curves again.

(Marked Gulf's Exhibit C,
for identification.)

Chart C, the chart in the lower left hand corner, depicts the red line, depicts the number of barrels of oil purchased by Gulf per barrel of normal unit allowable assigned by the Commission. In 1953, Gulf purchased an average of 350 barrels of oil per barrel of normal unit allowable. In 1956 they purchased an average of 635 barrels of oil per barrel of normal unit allowable. 635 divided by 250 will give you 2.54; if you take the normal unit allowable that we have today of 38 barrels and divide it by 2.5 in order to get the same relationship, if we assume that Gulf was purchasing the desired amount of oil in 1953 as indicated by the fact that their nominations and their purchases in 1953 were

very much in line with each other.

Now, if we assumed that they wanted the same amount of oil per barrel of normal unit allowable today that they were getting in 1953, we would have to divide our normal unit barrel by 2.54 and come up with a normal unit allowable of 15.

(Marked Gulf's Exhibit D,
for identification.)

Chart D in the lower right hand corner depicts the four weeks' averages of New Mexico stocks, or crude oil of New Mexico, originally held by Gulf. It will be noted that throughout 1953 stocks of New Mexico crude averaged close to 1,000,000 barrels. 1954, the same holds true except for the fall months when the stocks decreased. 1955 stocks started down low and increased to almost a million and a half barrels through the latter part of 1955. 1956, they started out in a million and a half barrels and reached better than two million barrels of New Mexico crude storage prior to the time of the Suez crises occurred.

After Suez, stocks dropped fast, they reached their low in the middle part of March and started building up again. They reached their peak in mid June, but since that time the trend, as indicated by approximately eight weeks since the middle of June, has been downward on New Mexico stocks.

Another interesting thing to be noted from this chart is that this is the first time in the five years covered by this

graph, that Gulf's stocks of New Mexico crude have been as low as they are today, at this time of year. Gulf has only 800, I believe it is ^{403,000} 8,300 barrels, or some such figure, of New Mexico crude oil in storage right now. A year ago at this time they had 1,400,000 barrels. I fail to see any reason why Gulf should have to prorate a state today where the stocks of crude oil which originated in that state are obviously lower than the usual level of those stocks.

Q Does that conclude your statement, Mr. Nutter?

A Yes, sir.

Q Were Exhibits A through B, C, D prepared by you or under your supervision?

A Yes, they were.

MR. COOLEY: I would like to offer Exhibits A, B, C and D in this case at this time.

MR. PORTER: Any objection to the admission of these Exhibits? They will be admitted. Does anyone have a question of Mr. Nutter?

MR. COOLEY: We have nothing further.

MR. PORTER: You have no questions of the witness?

MR. COOLEY: No, sir.

MR. PORTER: Does anyone else have a question of Mr. Nutter? The witness may be excused.

(Witness excused.)

Does anyone have any statement to make in the case? There being nothing further, we'll take it under advisement and take a

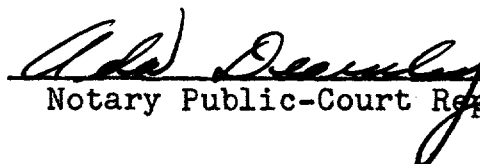
short break.

C E R T I F I C A T E

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 day of August, 1957.


Notary Public-Court Reporter

My commission expires:

June 19, 1959.