

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE 1522

TRANSCRIPT OF HEARING

MAY 13, 1959

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

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
MAY 13, 1959

IN THE MATTER OF:

CASE 1522 Application of General Petroleum, Inc., for :
 an amendment to Order No. R-1299. Applicant,:
 in the above-styled cause, seeks an order :
 amending Order No. R-1299 to provide that any: :
 merchantable oil recovered from sediment oil :
 shall not be charged against the allowable :
 for wells on the originating lease, which :
 amendment would revise Rule 311. :

BEFORE:

Mr. Murray Morgan
Gov. John Burroughs
Mr. A. L. Porter

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

MR. PORTER: Next case is Case 1522.

MR. PAYNE: Case 1522. Application of General Petro-
leum, Inc., for an amendment to Order No. R-1299.

May it please the Commission, we have had a request from
General Petroleum, Inc., that this case be continued until the
June regular heading, and General Petroleum also requested that
the Commission appoint an industry committee to study the ap-
plication in its entirety.

MR. PORTER: You have heard the request from the
applicant for a continuance of this case until June, and also the

request for the appointment of an industry committee for further study of the matter involved. I would like to have comments at this time if anyone cares to make any concerning the motion for a continuance and/or the request for the appointment of an industry committee from any interested party that may desire to comment.

MR. BRATTON: I am Howard Bratton, Hervey, Dowe & Hinkle, Roswell, New Mexico, appearing on behalf of Humble Oil & Refining Company. We were the chief opponents of this proposal when it was heard before. We have seen no reason to change our position to date. We have no objection to the continuance, and if the Commission sees fit, and if Mr. Reeder wants an industry committee, we have no objection to it. We do not see how it is going to change the basic position on whether this oil should be chargeable to the allowable or not, but we have no objection to the committee so long as whatever the committee -- the Commission appoints; each member is entitled to bring in a report or recommendation as it sees fit. With that we would have no objection.

MR. BUSHNELL: H. D. Bushnell, appearing on behalf of Amerada. Amerada is interested in this case and is generally opposed to it. We have no objection to continuance. We have no objection, as a matter of fact, and will be willing to participate in any industrywide committee.

MR. KELLAHIN: Jason Kellahin for Continental Oil Company. Continental Oil Company has no objection to a continuance of this case, and if the Commission sees fit, has no objection to

an industry committee. However, Continental is one of the opponents to the proposals which were previously made, and is still of the opinion there should be no deviation from the basic principle that oil produced should be charged against the lease.

MR. PORTER: Anyone else care to comment on the motion for a continuance and the industry committee? The Commission will continue the case to the regular June hearing, which has been moved up to June 9th. At this time we will take a short recess, and we will announce our decision relative to the appointment of a committee as soon as we reconvene.

(Recess)

MR. PORTER: The hearing will come to order, please. With further reference to Case 1522, the Commission has decided that the appointment of an industry committee would serve no useful purpose at this time; that is, an industry committee appointed by the Commission, so the case will be continued to the regular June -- or did he ask for July?

MR. PAYNE: June.

MR. PORTER: To the June hearing and no committee will be appointed by the Commission to study that.

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, J. A. Trujillo, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in Stenotype and reduced to typewritten transcript by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 26th day of May,
1959, in the City of Albuquerque, County of Bernalillo, State of
New Mexico.

Joseph G. Lynch
NOTARY PUBLIC

My Commission Expires:

October 5, 1960

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE 1522

TRANSCRIPT OF HEARING

JUNE 9, 1959

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

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
JUNE 9, 1959

IN THE MATTER OF:

CASE 1522 Application of General Petroleum, Inc., for an amendment to Order No. R-1299. Applicant, in the above-styled cause, seeks an order amending Order No. R-1299 to provide that any merchant-able oil recovered from sediment oil shall not be charged against the allowable for wells on the originating lease, which amendment would revise Rule 311.

BEFORE:

Mr. A. L. Porter
Mr. Murray Morgan
Gov. John Burroughs

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

MR. PORTER: Take up next Case 1522. I would like to announce at this time that we won't have a recess this morning. The Governor is going to have to be away attending to other duties from 11:00 o'clock until 2:00, so we are going to recess for lunch at 11:00 and reconvene at 2:00 o'clock.

Case 1522.

MR. PAYNE: Case 1522. Application of General Petroleum, Inc., for an amendment to Order No. R-1299.

MR. REESE: If it please the Commission, I am Randolph Reese from Hobbs, attorney for General Petroleum, and our only

witness is Mr. Rieder, the President of General Petroleum, Incorporated.

(Witness sworn)

C. M. RIEDER,

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

DIRECT EXAMINATION

BY MR. REESE:

MR. REESE: With the Commission's permission, I would first like to present a written statement of Mr. Rieder, which I desire that he read into the record, and then we will present testimony later.

MR. RIEDER: The applicant, General Petroleum, Incorporated, of Hobbs, New Mexico, originated the changes in the present Rules 311 and 312 in what was, and still is believed to be an honest conservation measure. We proposed, among other changes in the Rule 311 that oil recovered from tank bottoms and pits would not be charged to well allowables. The Commission in its Order provided for charging oil that was recovered from tank bottoms and pits to the allowable of the wells connected to the tanks or drained to the pits. Thus, the oil in sediment oil was placed in a category where if it was recovered and marketed, it was charged to the allowable of the wells which produced it, but if this same oil was destroyed by burning or used on the lease, it was not to be charged to the allowable. We propose to amend the present Rule 311 (c) in

4

the second sentence to read "any merchantable oil recovered from sediment oil shall not be charged against the allowable for the wells on the originating lease."

We feel that the present Order actually encourages waste by destruction by charging against the allowable of the wells on the originating lease any oil salvaged and recovered. The Order also requires the associated accounting for the salvaged oil in exactly the same manner as the allowable oil produced. The present Order is inconsistent in itself and with the rules of the Commission. It provides that oil burned or used on the lease is not charged against the allowable, and in the same Order it provides that oil recovered and marketed is allowable oil and subject to the same regulations, taxes and accounting as other allowable production. We believe that oil recovered from sediment oil is not allowable oil whether it is burned, destroyed or put to beneficial use on the lease, and we further believe that it is illogical to assume that an operator will include in his allowable production any such oil when it is possible under the present rule to destroy this oil without the attendant allowable problems.

It is our position that the charging to the allowable of any oil recovered from sediment oil, including tank bottoms and pit oil, is improper and contrary to the definition and understanding of allowable oil. An allowable is granted to a proration unit; that is to say "per well" while sediment oil can be accounted for only on a lease tank battery basis. Sediment oil accumulates over

a period of time during which any and all allowable requirements are met. Not only by definition, but historically, such hydrocarbon accumulation has been considered as a waste by-product of production and in no way a part of the allowable production. This is borne out by the definition of tank bottoms in the Rules and Regulations as well as the other definitions and general knowledge and understanding of the industry.

We believe that there is from 4,000 to 10,000 barrels of sediment oil wasted each month. We further believe that this oil will not and can not be salvaged so long as the oil recovered therefrom is charged against the allowables. If we are mistaken in these assumptions and the allowable clause is removed, only we and the others with treating plants will be injured by having no oil to treat. If the allowable charge is retained and our assumptions and conclusions are correct, an inexcusable amount of oil will be destroyed which could be recovered in the interests of conservation. We have arrived at the above figures of waste through an analysis of the oil destruction permits for Lea County on file with the Commission. These figures are derived from the reported volumes of 3.35% of the wells in pools representing approximately 50% to 55% of the wells in Lea County. We feel the extensions to be fair as the reports from which they are taken are from producers who represent a cross-section of the New Mexico producers so far as efficiency and conservation practices are concerned. We feel there is no reason to believe that other producers are more or less

efficient or more or less conservation minded than the ones who have filed their applications to destroy sediment oil from January 1, 1959 to June 1, 1959, the period covered by the accompanying chart.

At and after the previous hearings on this rule, the question of the possibility of theft in connection with the handling of sediment oil was raised. We do not believe in theft of oil in any manner, and we feel that the concern exhibited represents an honest and thoughtful attempt on the part of those expressing concern to guide the industry. However, we vehemently object to the levelling of such an insinuation against New Mexico treating plants investigated and licensed by this Commission, supervised by this Commission and bonded to operate under its regulations and rules and the laws of the State of New Mexico. We find it difficult to believe that a mature industry and informed Commission would allow the mere possibility of theft in connection with the salvage of a natural resource to be used as the excuse for the continued known destruction and waste of oil. We grant that the possibility of theft and dishonesty exists in all walks of life, but we deny that such a possibility justifies waste of a natural resource. If the possibility of theft is an adequate reason for waste, why not shut down the whole industry?

We grant to others the legal presumption that citizens act in a lawful manner, and we believe that treating plants, investigated, licensed, supervised and bonded, are entitled to the benefit

of the presumption. We believe that the rules with the supervision provided render the possibility of theft in this instance much more remote than in other industries. No sediment oil can be removed from the originating lease without the knowledge and written consent of the operator. Merchantable oil recovered from sediment oil can not be marketed without the knowledge of the Commission of the volume, source and disposition.

We are a legitimate business enterprise proposing an amendment to the present rules which will prevent the waste of 4,000 to 10,000 barrels of oil per month. For the reasons set out, we urge the adoption by the Commission of the proposed amendment to Rule 311 (c).

Q Mr. Rieder, do you have the chart and the analysis mentioned?

A Yes, sir.

MR. REESE: We would like to have one of these marked.

(Thereupon, the document above referred to was marked General Petroleum's Exhibit No. 1 for identification.)

MR. REESE: We offer in evidence General Petroleum's Exhibit No. 1, being the tabulation of the permits and the General Petroleum analysis from the tabulation.

MR. PORTER: That's Exhibit 1?

MR. REESE: Yes, sir.

MR. PORTER: Do you have other Exhibits that you plan to enter?

MR. REESE: No, sir.

MR. PORTER: Without objection, the applicant's Exhibit No. 1 will be admitted.

(The document heretofore marked General Petroleum's Exhibit No. 1 was offered in evidence.)

A I would like to call to the attention of the Commission that in this there is an omission of four permits which inadvertently I must admit I overlooked.

Q In other words, it lacks four permits being complete?

A Yes, sir.

Q Mr. Rieder, would you very briefly explain the analysis portion of this Exhibit to the Commission?

A Very briefly, an analysis was made based on the number of -- based on the permits which were on file at the Hobbs office of the Oil Conservation Commission. And an attempt was made to form an extrapolation based on these permits on file, to the pools within -- which they were within.

Q Mr. Rieder, you have previously qualified before this Commission and testified before the Commission?

A Yes, sir.

Q If you will just take this analysis and go across the top entry "Anderson Ranch Devonian," and explain it by column there, please.

A Well, the first column is the number of wells reported on that permit, or permits, depending on the pool. There was in

some cases one or more permits, and the permit was -- we then checked it against the number of wells for the battery described in the permit. We have in the second column the volume reported on this permit. The third column represents the percentage of the wells reported against the wells in the pool.

Q To refer back to volume reported, that states forty barrels. What does that mean?

A That means that there were forty barrels of sediment oil applied for under the permit.

Q All right. And you explained that the third entry is the percentage reported against the total number of wells in the pool?

A That is correct.

Q Your next --

A The fourth column is merely the pool allocation for the month of June, 1959. The fifth column is the number of wells in the pool, and the last column is the extension or extrapolation of the volume.

Q As I understand you, then, you have one well reported in that pool, and there are ten wells?

A That is correct.

Q And, therefore, you increased your estimated pool waste volume proportionately to the ten percent report?

A That is correct.

Q And does that -- that same system apply throughout

this report?

A That is correct.

Q And your estimated total for this period, January 1st, 1959 to June 1st, 1959, was 148 permits, and I believe you stated there have been four more you knew of since then?

A Not 148 permits, 148 wells were reported on the permit. There were -- pardon me a minute --

Q A list of the permits is attached to the Exhibit, is there not?

A No, only as you would check against the pools. Total number of permits was 61, plus 4 would be 65. 65 permits have been granted.

Q And you arrived at what volume, summing the total of those permits?

A The 61 permits totaled 4313 barrels; the four permits omitted covered 100 barrels. Therefore, the total would be 4413 for the actual volume of sediment oils destroyed by burning.

Q In your opinion, then, what is the total sediment oil product for this period under study?

A Our extrapolation for the total sediment oil burned and in any other way otherwise destroyed would extrapolate to 44,183, which, when converted back to a per day figure would be roughly 250 barrels per day, or about, roughly one tenth of one percent of the total Southeast production, which actually is a very reasonable and very low figure. Very few industries would have

the one tenth of one percent waste.

Q Now, in your attached tabulation of destruction permits, can you state whether or not these permits were issued to burn all of this oil?

A These represent approved permits, they were issued for volumes indicated.

Q Can you recover oil that will burn?

A Yes, sir. We feel that any oil that can be burned has an economic recovery. If it could not be burned, chances are it would not be economic to recover because the percentage of water would be extremely high then.

Q Do you have anything else to state in connection with this application?

A I don't believe so.

MR. REESE: That's all we have.

MR. PORTER: Any questions of Mr. Rieder?

CROSS EXAMINATION

BY GOV. BURROUGHS:

Q In your column four, Mr. Rieder, reading across, pool allocation, --

A Yes, sir.

Q -- is that allocation per day or --

A Yes, sir.

Q That is per day?

A Yes, sir.

Q That is not total allocation for the month?

A No, sir, that is the daily allocation.

Q Your column reads ^{pool} ~~proved~~ allocation, June 1959?

A Well, it was for that month. In other words, I used the month for June. It is the per day for that month.

Q It is the per day for that month?

A That is correct, sir.

Q You have assumed in your column six on waste volume that each well within a pool has equal wastage?

A Yes, sir. That was a linear extrapolation for the simple reason that not knowing an accurate or possible correct variance, it introduces less error if you state in the linear rather than try to put in some factor.

Q But other wells in those pools have not applied for burning permits?

A That is correct, but that is unnecessary under the present rules; if it is put on the fire walls, roads, in any other manner, no permit is necessary nor is any report required; only if it is burned or only if it is recovered. Our position may be, to sum it up in a few short words, would be simply this, if it is allowable oil when it is recovered, then it also must be allowable oil when it was put on the roads, or put on the fire walls or used in any manner. In other words, if it is allowable oil in one place, then it must be allowable oil throughout its life.

Q But you have no definite information that this much

oil was actually --

A No, sir.

Q -- wasted?

MR. PORTER: Any questions? Mr. Nutter.

QUESTIONS BY MR. NUTTER:

Q Mr. Rieder, --

A Yes.

Q -- I presume you are acquainted with the statute that prohibits the excessive surface loss or destruction of oil without beneficial use thereof?

A That is correct, yes.

Q You don't think, do you, that an operator is going to destroy oil if he can sell the stuff, even if it is charged to its allowable?

A I don't believe I understand what you mean.

Q Do you believe that a prudent operator is going to destroy oil or burn it in a pit if he could sell it, even though it were charged to his allowable?

A Let me put it this way. I don't believe that any operator is going to destroy anything from which he can derive any economic benefit. I also don't think that an operator is going to be foolish enough to sacrifice two dollars and ninety-five cent oil, or three dollar oil, or whatever it happens to be, for oil that possibly might net him fifty cents a barrel, or even a dollar, say. I can't believe that that would be fair to himself or to his company.

Q Well, isn't it part of the normal operations of a lease on many of these leases that you set out here on your tabulation that they treat this oil and cycle the stuff through the heater treaters and back into the tank bottoms and recycle it time and time again, many times?

A That is correct. It is done in many leases.

Q As a matter of fact, here in your tabulation I see several instances where the reason given in the remarks column for requesting the destruction permit is that the oil was treated and paraffin will not stay in suspension. Do you think that is merchantable oil?

A Yes, sir, I honestly believe that oil has an economic value.

Q Even though --

A I certainly do.

Q Even though they have tried to make salvage oil out of it and failed in their attempt?

A You must understand this oil can be treated in any position. It can be treated by any operator.

Q He can't treat it on the lease, --

A He can treat it on the lease.

Q In several of these instances he says he can't treat --

A With his facilities, that is correct; with facilities he had available to him, he was unable to treat it.

Q Do you think -- I notice here in one instance where

he reports he had fourteen barrels of B S water and mud. Do you think he could make salvage oil out of that?

A Yes, without having any actual knowledge of the oil in question, yes.

Q Do you think --

A If it will burn, it could have been recovered.

Q Do you think that the instance where the operator requested a permit to burn 5 barrels of oil it would have been economic for anyone to go after that oil?

A I don't believe it would have been economic for the operator to leave it on his lease; most likely no. I think it is economic only in large volumes.

Q Now, on your first page of your tabulation, Mr. Rieder, I note here in the Denton Wolfcamp that you have a request for burning oil for one well, and you have taken 60 barrels of oil from that well and expanded it to 5,650, because that well represented 1.06 percent of the total wells in the pool?

A Yes, sir.

Q Isn't it a possibility in expanding these figures as you have done here on Page 1, that you have taken the worst well in the pool, possibly the one that is making the sediment oil, and expanded that figure to cover the good oil that is not making any sediment oil?

A I believe this. You haven't -- you have very few leases in which you do not have a tank bottom buildup, very few.

Q Now, where the --

A Now, where the error would be introduced on this tabulation would be the leases where there is treating equipment, not all of the bottom buildup which does accumulate. Now, we recognize that there are many leases in which the operator is quite able to and does recover his own bottoms, and that would, of necessity, enter error into the tabulation. We recognize there is error here.

Q You wouldn't want to lead the Commission to believe that there are 44,183 barrels of waste volume accumulated each day or each month?

A No, that would be over a five-month period.

Q You wouldn't want to lead the Commission to believe that, would you, --

A I think it is quite reasonable myself, frankly.

Q -- even using this expansion of figures that you admitted had an error in it?

A That is correct, but what extrapolation doesn't? I mean, it would be rare indeed that you could make any kind of extrapolation based on no more information than we have that would be 100 percent accurate.

Q And you believe that one permit for 60 barrels in the Denton Wolfcamp Pool would indicate that 5,650 barrels of oil was wasted in that pool in this five-month period?

A I would believe so. I think it is quite reasonable.

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

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

REDIRECT EXAMINATION

BY MR. REESE:

Q Mr. Rieder, are there any better records available to you to present to the Commission than what you have presented?

A No, not to my knowledge.

Q You have presented the best records available to you?

A That is correct.

Q And this extrapolation presents a fair analysis, in your opinion?

A I believe so. We attempted to bring the analysis on each permit, assigned as many wells on the permit as existed on the lease. In other words, we didn't try to take just one well on the lease and ignore the others. We recognize there is error in here, and there can't be any doubt that one individual or one group of people could affix a figure to this volume that would be reasonable at this time. Each operator keeps a different set of records in a different manner due to his own operations. The figure probably is available, but I don't know how in the world you would ever arrive at it. We feel this way, that only if this oil becomes or is brought to the attention of all of the people involved can a more reasonable figure be accomplished. Now, we feel that under what we propose as an amendment here to the rules, you will then

have an opportunity to recover -- you will then have an opportunity to see exactly the volumes involved. Now, we feel that the indicated volume over a five-month period of some 900 barrels a month is indicative enough to develop some interesting salvaging, what might not be being burned, but going on roads and other utilization.

Q If the Commission sees fit to grant the application and removes recovered sediment oil from the allowable, will there then be any records available to determine the exact amount of this waste?

A Well again, the records available would be from the 117 A's and 117 B's. In other words, you would have a record of oil recovered and a record of the oils burned. Again, you would have no record of the oils put on roads or otherwise utilized on the lease. However, we believe that no operator is going to destroy or waste oil if it can be placed into economic channels where he will be not, at least not penalized for the recovery. As it exists now, he would actually be penalized for attempting to recover.

MR. REESE: That's all we have.

MR. PORTER: Any further questions of Mr. Rieder?

MR. BRATTON: Howard Bratton, Hervey, Dow & Hinkle, Roswell, appearing on behalf of Humble Oil & Refining Company.

QUESTIONS BY MR. BRATTON:

Q Mr. Rieder, in connection with your column No. 6, in addition to the problem of extrapolating the volume from one well,

don't you have the problem of affixing a period of time? Are you talking about a five-month period of time here when you are talking about these volumes in the column No. 6?

A Yes, sir. In other words, we've reduced it to the maximum length of time covered by oil permits.

Q Going over to Page No. 2, I see the first entry there is a Sunray Mid-Continent Well in the Anderson Ranch Devonian. Over in the remarks, it says "Two years' accumulation."

A Yes, sir.

Q Doesn't that indicate that there is no way of telling what period of time we are talking about, even the figure in column 1?

A Well, in that case, and in possibly a few others, I think that is correct, but we put down the remarks exactly as they were. In other words, --

Q Aside from that, there is no way of telling from the remarks whether it is a one-month or five-month or one year or two year accumulation?

A That is correct.

MR. BRATTON: That's all.

A I would like to say this, Mr. Bratton, that I think it is a general awareness of the industry that these buildups do take place, and they take place over a rather regular interval, depending upon the wells, how regular that interval is, but the accumulations are pretty regular, and it is rare that it would be

two years.

MR. BRATTON: I have no further questions.

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

RECROSS EXAMINATION

BY GOV. BURROUGHS:

Q Wouldn't you say, Mr. Rieder, that in your statistical recap here that you've done a considerable amount of comparing apples with oranges?

A I have taken a lot of liberties, Governor, there is no doubt of that. However, I think frankly that 4500 barrels alone is a considerable amount of oil. I feel a lot better about the tabulation in view of the fact that it does represent but one-tenth of one percent, which is, to my mind, a very reasonable waste volume figure, but I grant I've taken liberty, I shan't deny that.

MR. PORTER: Is that all the questions?

GOV. BURROUGHS: Yes.

MR. PORTER: Mr. Kellahin.

MR. KELLAHIN: Kellahin & Fox, representing Continental Oil.

QUESTIONS BY MR. KELLAHIN:

Q Mr. Rieder, in connection with your figure on column 6, I realize we have gone over it several times, but you do not mean to infer that any of that oil has been burned without a permit, do you?

A No, sir.

Q In other words, the only oil of which you have any record is that shown on the permit?

A That is correct.

Q Now then, if you extrapolated that at that rate, what did happen to that oil?

A Well, I think that oil ended up on roads, fire walls, tank grades, county roads.

Q That would build a lot of roads, wouldn't it?

A There is a lot of oil out there, Mr. Kellahin.

Q But you have no figures or no accurate source of information which would indicate -- which would support that conclusion of yours, aside from the extrapolation?

A That is correct, Mr. Kellahin. There is an additional error, Mr. Kellahin, that we haven't talked about, and that's the error of looking into a pit and ascertaining that you have 40 barrels -- for instance, in that pit, you have no way of knowing how much the actual volume is. It could be 4 barrels or 400. When you are looking at it in a pit, it is extremely difficult to tell unless you come out of steel storage.

Q Going back to that second column on the volume reported, actually, according to your supporting figures here, all of that had been treated in some fashion or other, had it not?

A Well, I don't know, Mr. Kellahin, but that is what -- what you see there is what was written on the permits.

Q Yes, sir.

A I don't doubt for a minute that the operator attempted to recover.

Q Now, what kind of equipment will you use for the treatment of that oil?

A Well, it depends on where I do it and how I do it, but it will be a high heat unit. These oils have to be treated with extreme heats and with large volumes of chemicals. Again, the same thing can be done on the lease, but it can't be done on most lease heaters. Heater treaters rarely have the B.T.U. input which we would have to consider in this treating.

Q Do you have this equipment now?

A Yes, sir.

Q Are you using it?

A Yes, sir.

Q If an operator had a comparable equipment, why he would be in as good a position as you to recover this oil, would he not?

A That is correct, yes, sir.

Q Now, do you propose to pay for that oil when you pick it up?

A If I have to, yes.

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

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

MR. UTZ: I have one.

MR. PORTER: Mr. Utz.

QUESTIONS BY MR. UTZ:

Q Mr. Rieder, of this 4353 barrels which represents five months' burning of oils from reports 117-A, how much of this oil would you have purchased?

A Quite frankly, Mr. Utz, I'd have taken every bit of it that I could have gotten to.

Q Then, if the Commission would set up a little more stringent provisions in regard to oil requirements; if they offer this oil for sale to some salvage company, that would take care of the situation, would it not?

A I presume so, yes. I think -- let me say this; I don't mean to infer that there is a necessity here of putting a gun at the head of the producers; they are doing exactly what they think is best to do. I frankly believe that the simple removal of the allowable charged against the recovery oil in itself, that one single act would place this oil where it would not be detrimental to the operator. He would, therefore, be interested in recoveries. Now then, if the allowable provision must be retained, then if it is allowable oil in all forms, that again would encourage the operator to take advantage of the means that would net him the most money. Our major point here, Mr. Utz, is this, no individual or group of people, I think, would salvage something, a questionable product to them, a nuisance to them, if you will, and lose money. They couldn't afford to, when it is so easy and so simple to get a

burning permit and destroy it or put it on a road or put it on a fire wall, just dump it. I can't believe that it is reasonable to expect him to lose money.

QUESTIONS BY MR. PAYNE:

Q Mr. Rieder, how is he going to lose money? In the long run he is going to get more oil?

A No, sir.

Q Why not?

A You only get so much allowable, --

Q Yes.

A -- you see.

Q But the allowable has nothing to do with the reserves -- recoverable reserves, does it, Mr. Rieder?

A No.

Q So that if he salvages this oil, no matter -- taking the allowable factor out of it over a long period of time, he is going to recover more oil by salvaging this oil, under the present rules?

A Oh, yes. That's quite correct because he will be picking up a source of oil which has heretofore been lost to him.

Q Well, it is available to him, isn't it, Mr. Rieder, if he wants to utilize it?

A Yes, sir, it is.

MR. PORTER: Any further questions?

MR. WHITE: Charles White of Gilbert, White & Gilbert.

appearing on behalf of Sunray Mid-Continent. I would like to ask Mr. Rieder a question or two, if I may.

A Yes.

QUESTIONS BY MR. WHITE:

Q In your Form C-117-A, I note that --

A Sir, where?

Q On the Form C-117-A, your sediment oil destruction permit.

A Yes, sir.

Q Sunray Mid-Continent has 40 barrels of such oil.

Would you come out to their lease and pick up that 40 barrels of oil?

A Yes. The thing about it is this. That oil is worth so much money to me, or to -- I hate to always talk in first person -- it is worth so much money at a treating plant, and the further you have to go, why, the less you are in a position to pay the operator; that is the major function in it.

Q Now, Humble Oil Refining Company, in the Barnes "A" lease, they have 10 barrels. Would you go out and recover that?

A Let me say this. We can get down to the smallest volume. In many cases, it might be economic for me to go get it. I have a small truck. In other words, if I have a large truck, I can go get a large volume. I also have a small truck, and I can operate that truck quite reasonably. Again, I hate to use myself as an example.

Q And you are in a position to state whether or not you will go out and pick up that 10 barrels?

A What I would do, if you had 10 barrels of oil in it, I would go out and look at it. If you had enough barrel contents, you'd better believe I would go out and get it.

Q Would you do the same for Skelly Oil Company in the Eumont Pool, would you pick up 8 barrels?

A Well, that E. C. Hill lease is, as I recall, reasonably close into Hobbs; I might. Let me say this, sir. The volume might or might not be a factor.

Q Very well. Now, one other question. What would you be willing to pay for this oil?

A Well, currently I am considering that that oil is worth about a dollar, dollar fifty at my plant, and it depends on how much transportation has to come out of it. The best price I can probably get for it if I have to sell at the plant is about two dollars a barrel.

Q In other words, you are making your independent deal with the operator and getting the lowest possible price?

A Well, yes, more or less.

MR. WHITE: If the Commission please, Sunray Mid-Continent opposes the granting of the application on general principles. We feel that any merchantable oil recovered from a lease should be charged against that lease. We further believe that this is necessarily so in order to protect offset operators

and correlative rights. We further believe that the operators here in the state are prudent operators and know economic waste of surface oil.

MR. PORTER: Any further questions of the witness?

You may be excused.

A Thank you.

(Witness excused)

MR. PORTER: Anyone else desire to present testimony in Case 1522? Any statements?

MR. ANDERSON: R. M. Anderson, Sinclair Oil & Gas Company. Sinclair is opposed to the granting of the application. Sinclair, like many other operators in New Mexico, has installed treating equipment on their leases, where necessary, heater treaters, chemical feeders, and we keep our tank bottoms clean on the lease. We feel that if the Commission were to grant this application that they would also have to give serious consideration to the granting of some bonus allowable for those operators who have their own treating facilities on the lease, and keep their tank bottoms clean in that manner.

MR. PORTER: Anyone else have a statement to make?

MR. BRATTON: Howard Bratton, Humble Oil Refining Company. Humble opposes the granting of this application. We believe that it basically boils down to the proposition of giving a bonus to the inefficient operator and to encourage inefficient wasteful practices. And while we do not cast any doubt on the

integrity of Mr. Rieder or his operation, we have the highest respect for him, we believe that the Commission's rules as they are presently defined will adequately cover the situation and protect the correlative rights of the operators and prevent waste and wasteful practices.

MR. BUELL: May it please the Commission, Guy Buell, representing Pan American Corporation. Pan American is opposed to the granting of this application, and recommends no charge, revision, or amendment in Rule 311 at this time.

MR. BUSHNELL: H. D. Bushnell. In association with Jason Kellahin, and on behalf of Amerada, Amerada is opposed to the application and believes that any changes here proposed would encourage wasteful practices.

MR. KELLAHIN: Jason Kellahin, representing Continental Oil Company. Continental Oil Company is opposed to the proposed change in the present rule and strongly urges the Commission that any allowable recovered be charged against the lease as under the present rules. Under the proposed rule, reclaimed sediment oil would not be so chargeable, and this creates a situation which, in our opinion, would certainly encourage waste or careless operations. Without a bonus allowable, those operators would be prudent; and equipped to do so, could recover their own tank bottoms. Those operators would then be penalized for their foresight in taking care of their own waste oil. This would greatly increase the burden of the Commission also in the matter of increasing the

industry to insure efficient operations, and further, with no penalty against the allowable, oil would be removed from the lease with no accounting safeguard for the lease interest owners with probable loss of revenue to the royalty owners, including the State and State institutions, we strongly urge that the Commission does not alter the present rule as has been requested here.

MR. PORTER: Anyone else have a statement to make in Case 1522? The Commission will take the case under advisement.

We are going to skip down to Case 1691, listed under the "New Cases." This could be a very short case, and perhaps we can conclude this one before we have to recess at 11:00 o'clock. We will take up the Case 1569, the no flare case, as soon as possible after we reconvene at 2:00 o'clock.

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

I, J. A. Trujillo, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Proceedings before the New Mexico Oil Conservation Commission was reported by me in Stenotype and reduced to typewritten transcript by me, and that the same is a true and correct record to the best of my knowledge, skill and ability.

WITNESS my Hand and Seal this, the 15 day of December, 1959, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

J. A. Trujillo
NOTARY PUBLIC

My Commission Expires:

October 5, 1960.