

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

CASE 1749

TRANSCRIPT OF HEARING

AUGUST 13, 1959 .

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

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

IN THE MATTER OF: :

CASE 1749 In the matter concerning purchaser prorationing: :
by Indiana Oil Purchasing Company in certain :
oil pools in Lea County, New Mexico, which pro- :
rationing is necessitated by refinery strikes. :

BEFORE:

A. L. Porter
Murray Morgan

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: Consider next Case 1749.

MR. PAYNE: Case 1749. In the matter concerning purchaser prorationing by Indiana Oil Purchasing Company in certain oil pools in Lea County, New Mexico, which prorationing is necessitated by refinery strikes.

MR. KELLAHIN: If the Commission please, Jason Kellahin of Kellahin & Fox, Santa Fe, representing Indiana Oil Purchasing Company. I have associated with me Mr. P. W. Perryman, who will handle the case.

MR. PERRYMAN: Gentlemen, my name is P. W. Perryman. I'm attorney for the Indiana Purchasing Company. As you undoubtedly know, five refineries of the Standard Oil Company of Indiana

and affiliates having a total capacity of approximately 545,650 barrels went on strike during July and August. Since we supply these refineries with crude oil, these strikes necessitated a drastic change in our purchasing activities. Due to the excellent cooperation of other companies in the industry and with the ability of some of the refineries to operate under reduced basis with supervisory personnel, we were able to forestall purchaser prorations until August the 1st, 1959. We advised you by wire on July 31st that effective as of August 1st, 1959 and until further notice, we were forced to curtail our purchases of crude oil from leases in New Mexico to 80 percent of the August allowables with no reductions in our purchasers from any well to less than 10 barrels per day. You promptly advised us that an emergency order had been issued providing for 100 percent takes from water floods and from wells that make 10 barrels or less daily, in that no well shall be cut below 10 barrels a day if it is capable of making that amount. The hearing on this matter was set for today, and I have Mr. D. A. East, our general manager, with me, who will be sworn in. Try to answer any questions the Commission may have.

(Witness sworn)

D. A. EAST,

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

DIRECT EXAMINATION

BY MR. PERRYMAN:

4
Q Would you please state your name?

A D. A. East.

Q What is your address, Mr. East?

A Tulsa, Oklahoma.

Q And what is your business?

A I am general manager of the Indiana Oil Purchasing Company, Tulsa.

Q How long have you been general manager of the Indiana Oil Purchasing Company and its predecessors, Sandolin?

A About eleven years.

Q What is Indiana Oil Purchasing Company's business?

A The business of buying and selling crude oil.

Q In other words, it does not refine any crude oil or have any --

A It does not.

Q As general manager, you are familiar with Indiana Oil Purchasing Company's markets for the disposition of this crude that it buys?

A I am.

Q Will you briefly tell the Commission the status of these markets?

A I have a short statement here that probably will give a better story. On July the 1st, 1959 American Oil Company Refinery at Texas City, Texas and El Dorado, Arkansas were shut down by strikes. Crude for these refineries and those of Stand-

ard Oil Company (Indiana) are supplied by The Indiana Oil Purchasing Company. On July 8, 1959, operations at Standard Oil Company (Indiana) refinery at Sugar Creek, Missouri were discontinued for reason of strike. On July 28, Standard's largest refinery at Whiting, Indiana was shut down by strike. On August 5 Standard's Wood River refinery was also shut down by strike.

The overall refinery requirements of Standard and American were thus reduced by about 35 percent during the month of July. It was necessary as the result of this reduction to increase our inventory of crude oil about 2.5 million barrels during the month of July since we put in no purchaser prorationing in New Mexico and most other areas in July. The only areas prorated were in Louisiana, Arkansas and the Texas Gulf Coast.

During August it was necessary to prorate purchases to 80 percent of allowable or of June actual purchases in most areas where we purchase. This crude was delivered to the struck refineries which are running between 25 and 50 percent of capacity with supervisory personnel. A portion of this oil was resold to other companies.

The 80 percent proration in the State of New Mexico during August reduced our -- will reduce our purchases approximately 5,000 barrels daily, or less than 10 percent with a 100 percent allowable purchases.

MR. PERRYMAN: Do you gentlemen have any questions?

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

MR. PAYNE: Yes, sir.

MR. PORTER: Mr. Payne.

CROSS EXAMINATION

BY MR. PAYNE:

Q Mr. East, are you reducing your purchases by 20 percent in the other states in which you purchase?

A We are reducing our purchasing by 20 percent where we are not able to dispose of all the oil by sale or by delivery to these struck refineries or to available tank farm storage that can receive the oil.

Q What is your total oil storage capacity?

A Oh, the total oil storage capacity is probably in the neighborhood of about 25,000,000 barrels.

Q And how much do you have in storage at the present time?

A At the present time 21,000,000 or 22,000,000 barrels in storage. I am quoting these figures by memory, I don't have them before me.

Q Do you propose to continue purchasing 80 percent?

A That is difficult to say. Depending, of course, upon the ability of these refineries that we supply with crude to continue on their present operation. At least during the month of August we would be forced to prorate to 80 percent.

Q You do intend to continue purchasing 100 percent from fields -- from pools which are authorized water floods in New

Mexico?

A That is correct.

Q And do you propose to continue purchasing not less than 10 barrels from wells which are capable of making that amount?

A Yes, sir.

Q And to produce 100 percent from wells which make 10 barrels or less daily?

A That is correct, sir.

Q You have no idea when these strikes may be ended?

A No, sir, I do not.

Q Would you notify the Commission immediately when each of the particular strikes are settled?

A We will be glad to do that.

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

QUESTIONS BY MR. MORGAN:

Q Mr. East, did you bring out in your testimony -- if you did, I overlooked it -- what percentage of your total outlets that these five refineries represent?

A I can quote you some figures here and by deduction give you a number. The total capacity of all American and Standard refineries, 732,600 barrels a day. Now, originally during July, scheduled runs through the refineries was 628,800 barrels a day. Now, the average July runs through these refineries after these strikes were instigated at certain plants was 418,000 barrels a day. During August the original schedules for these plants

were 690,000 barrels a day, and on the basis of the latest information we have from these plants, the average August runs will be 398,000 barrels a day or some 300,000 barrels a day below the original August schedule runs. Now, included in those plants that are not on strike are these capacities: Neodesha, Kansas, 24,000 barrels per day; Mandan, North Dakota, 40,000 barrels per day; at Casper, Wyoming, 21,000 barrels per day; at Yorktown, Virginia, 36,000 barrels per day; Baltimore, Maryland, 10,000 barrels per day, and Savannah, Georgia, 78,000. So, out of a total capacity of 732,000 barrels, approximately 535,000 to 540,000 barrels a day are affected. Presently they are running at these plants in the neighborhood of 35 to 45 percent of their capacity with supervisory personnel.

Q Then, you are either diverting some of the oil to other refineries not on strike or else putting it in storage?

A We went into storage during the month of July in the neighborhood of some two and a half million barrels in addition to the excellent cooperation that we got from other refineries and purchasers. We were able to dispose of some 190,000 barrels per day in July -- I mean in August. At the end of August our available storage for New Mexico will be practically full. At the present time we have two tank farms that are completely full.

Q Will the completion of this service pipeline out of the Empire-Abo add to your complications if it is completed before your strikes are settled?

A Yes, sir, it will to this extent, that if and when that line is completed and we start purchasing oil, our intention is to purchase 80 percent of the allowable set for the field.

Q You are going to continue that regardless of the strikes?

A In the month of August, of course, the strikes may be settled. In that case, we will have to determine what we may be able to purchase due to our inventory levels.

Q Actually, the 20 percent represents less than the total outlet as represented by these five plants on strike, is that correct?

A Yes, sir. We have sold quite a lot of oil and otherwise we would have had to prorate much more critically.

QUESTIONS BY MR. PAYNE:

Q Mr. East, what is the target date for completion of the pipeline in the Empire-Abo?

A I believe it is around the 1st of September.

Q These strikes -- you have not postponed or curtailed the installation of this line?

A No. That, of course, is being built by an affiliate of ours, Service Pipeline. As far as I know, they are proceeding.

MR. PAYNE: Thank you.

QUESTIONS BY MR. PORTER:

Q Mr. East, you state that if these conditions continue

throughout the month of August, that your available storage for New Mexico produced crude would be practically non-existent?

A Let me put it this way, Mr. Porter. Most of the New Mexico oil that we purchase is processed at the plant at Sugar Creek, which is now on strike. Out of capacity of 80,000 barrels daily at Sugar Creek, they are running at the moment during August 21,300 barrels a day.

Q They are actually curtailed about --

A Seventy-five percent. Now, of course, what we would have to do if this thing continues is to curtail our purchases even more because we really don't have any place to go with the oil, that volume, and we have tank farms scattered all over the country; some of them are not available to store oil produced in the Southwest. In fact, one of the biggest tank farms is in Casper, Wyoming, which is not available for the use of storage of this oil.

Q What date did you give for the shutdown or the strike? It wasn't a shutdown, as I understand it, of your Sugar Creek refinery. When did they go out on strike?

A July 8th.

Q July 8th?

A Yes.

Q And how much did you curtail your refinery, your runs there at that time, to the present level of 21,000?

A The original schedule in July for Sugar Creek plant

was 78,000 barrels daily. After the strike, the average runs for the month of July -- they were running at full till up until the 8th -- the average runs were 33,880 barrels, or less than 50 percent of scheduled runs.

Q That includes full capacity during the first eight days?

A That's right, first seven days.

MR. PORTER: Does anyone have any questions of Mr. East?

MR. CAMPBELL: Jack M. Campbell, Roswell, New Mexico.

I have one question on behalf of the Independent Producers and Royalty Owners Association of New Mexico.

QUESTIONS BY MR. CAMPBELL:

Q Mr. East, I am a little confused between Mr. Nutter's comment and your testimony. Do I understand correctly that you are taking and plan to take during August a 20 percent reduction from allowables for the month of August --

A That is correct.

Q -- rather than any reference to your actual takes during any prior months?

A That is correct.

Q So that if you have wells that are not capable of producing your allowable, your impact on the New Mexico production will be less than if you were tying it to prior production?

A That is correct. I might quote some figures here. The fields in the State of New Mexico from which we purchase have

an allowable of 59,510 barrels per day in August, and our estimated normal purchasers are purchasing all of the allowable, 52,480 barrels per day, which is 7,000 barrels less than the allowable production, and as I understand, it is due to some of these fields not being able to make their allowable. Now, 80 percent of their August allowable, we will be purchasing 47,176 barrels daily or 5,304 barrels less than our estimated normal purchases during the month.

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

QUESTIONS BY MR. PAYNE:

Q Mr. East, are you going to tie your purchaser prorationing to the August allowable --

A Yes, sir.

Q -- rather than what the allowable might be set for in September?

A That is correct. We have some basis to proceed on.

MR. PORTER: Any further questions? The witness may be excused.

(Witness excused)

MR. PORTER: Anyone have anything further to offer in this case? Nothing further, we can take the case under advisement.

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 25th day of August, 1959, in the City of Albuquerque, County of Bernalillo, State of New Mexico.

Joseph A. Trujillo
NOTARY PUBLIC

My Commission Expires:

October 5, 1960