

First of all, on behalf of the Commission Staff, I would like to compliment and to thank the members of the Committee for the work they have done on this report. The Commission was fortunate in having men of their caliber to study this problem and to make such a thorough and comprehensive analysis of it. They have worked hard and done a good job, and certainly deserve much credit.

At the outset of my testimony, I wish to go on record as recommending adoption, by the Commission, of this report, with certain modifications, as a manual for the installation and operation of commingling facilities in the State of New Mexico.

I would like to make it clear, and I believe that the manual itself should make it clear, that these are minimum standards, compliance with which would be mandatory for administrative approval of commingling installations.

Further, I believe that these standards should serve as a guide for the design and operation of any facility for which approval is sought after notice and hearing. I believe that the Commission should give very serious consideration to the matter prior to approving any installation which does not conform in principle to these standards.

People have asked me whether these standards may not be excessive and may not impose too great an expense upon the operator who desires to save some money by commingling.

In reply to this, I would first point out that the rules strictly provide that the production from each lease and from each pool shall be measured, stored, and marketed separately. Commingling of production from one or more leases then, or from one or more pools, or from both, becomes an exception to the rules. And when any operator seeks an exception to the rules, he must be willing to go along with certain other rules governing the exception to the rules. This is for the benefit of all, and provides for more orderly development and depletion of our resources. As far as cost is concerned, the installations contained in the Committee's report will cost no more than some of the more elaborate installations heretofore put in. And the operators of those installations saved money on them. The record-keeping as required by the proposed standards probably is more detailed and probably will cost more money than the records heretofore kept, but certainly some minimum standards of book-keeping are indicated as required.

The Commission has, in the past, authorized many different types of commingling installations. Some were Model T arrangements. Some were Cadillac-type facilities. Almost all, regardless of the amount of money spent on them, left the door open for the pumper or the farm-boss, whether through innocent error, or because of over-eagerness to make the allowable, or whatever other reason, to cause oil from one lease or pool to be attributed to another. As most systems are presently designed, a pumper could in many cases accidentally divert oil from one

place to another and not be able to tell it himself the very next day.

We have reason to believe, as the result of our own investigations as well as those of the Federal Petroleum Board, that in quite a number of instances that we know about, and perhaps in other instances which we do not know about, that this accidental or purposeful transfer and mismeasurement of oil has occurred.

Several times I have heard the inquiry, "Well, then, why doesn't the Commission prosecute the violators rather than appoint a Committee to design such costly installations?"

In reply, I might point out that several investigations are being conducted, and have been for some time. Prosecution of several cases can be expected in the near future.

Certain of these investigations, as a matter of fact, helped point out the need for more adequate commingling design and record-keeping. As mentioned before, in some of these systems, which were formerly thought to be adequate, it is impossible to tell from one day to the next which zones or leases produced how much oil or when. In systems like these, it is extremely difficult, if not impossible, for a company itself, let alone the Commission, to detect purposeful mismeasurement of oil.

Without numerous additions to the Commission's field inspection staff, I believe that it will be impossible to

properly observe the operation of the existing commingling installations, not to mention the many new ones we can expect in the future.

For these reasons, the Commission, in appointing the Committee, requested it to design installations which would be as fool-proof as possible.

The Committee members accepted this charge, and devoted many hours of work to it. They have designed installations where mismeasurement of oil is possible but not easy. Deliberate tampering and falsification of records would probably be necessary to divert oil. In most cases, this tampering will result in mechanical alterations which we believe can be detected.

For the good of all concerned, and the overall protection of correlative rights, I believe that this report should be considered by the Commission as a criterion for the ideal installation.

I, therefore, urge its adoption, but would also recommend the following changes be made: