

STATE OIL & GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

20 July 1962

Testimony and proceedings before the State Oil and Gas Board of Alabama, in the Hearing Room, Walter Bryan Jones Hall, University Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this the 20th day of July, 1962.

BEFORE:

BOARD MEMBERS

Mr. Lindsey C. Boney.....Chairman
Mr. Hugh L. Britton.....Associate Member
Mr. E. K. Hanby.....Associate Member

BOARD PERSONNEL

Mr. Philip E. LaMoreaux.....Secretary & Supervisor
Mr. Gene White.....Ass't Supervisor & Chief Pet. Engr.
Mr. Gus Harris.....Attorney

(Reported by Lou M. Chambers)

A P P E A R A N C E S

<u>NAME</u>	<u>REPRESENTING</u>
1. Dr. Walter B. Jones,.....	Royalty Owners of Humble Consultant Lister "B" Well
2. T. C. Aitken.....	Sun Oil Company
3. Thomas J. Holifield.....	Petroleum Management, Inc. George H. Jett Drilling Co.
4. Matthew Harper, Jr.....	Petroleum Management, Inc. George H. Jett Drilling Co.
5. D. M. Haken.....	Self
6. Mrs. D. M. Haken.....	Self
7. H. M. Townsend.....	Ancora Corporation
8. C. L. Hastings.....	Central Oil Company
9. B. P. Tillery.....	Central Oil Company
10. R. B. Jefferies.....	C. P. R. O. A.
11. Jack Gurley.....	Northern Natural Gas Pro- ducing Company
12. Joe A. Thompson.....	Humble Oil Company
13. W. L. Horner.....	Unit Manager
14. Frank T. Bruer.....	Mobile Press
15. R. C. Wood.....	Oil & Gas Board Field Agent

P R O C E E D I N G S

(The hearing was convened at 9:30 A.M., 20 July 1962)

CHMN. BONEY: Gentlemen, we'll come to order.

MR. WHITE: Mr. Chairman, this meeting has been advertised as required by law.

CHMN. BONEY: First, we'd like to welcome a good many of you Mississippi people here -- Mr. Thompson and Harper, I believe, are new. Josh is a fixed asset or a liability, I don't know which. He's here all the time, but we do welcome y'all and enjoy having you very much with us. There might be some others from Mississippi. You might be...

MR. AITKEN: Aitken, with the Sun Oil Company.

CHMN. BONEY: Anyway, we're glad to have all you people with us.

Item No. 1:

"Petition by Petroleum Management, Inc., for permanent approval to establish the:

Southwest Quarter of Northwest Quarter of
Section 9, Township 1 North, Range 2 West,
Mobile County, Alabama,

as an oil drilling unit in the Citronelle Field,
Mobile County, Alabama; to approve the location
of an oil well in said drilling unit as being:

692 feet South of the North line and 670
feet West of the East line of the Southwest
Quarter of Northwest Quarter of Section 9,
Township 1 North, Range 2 West, Mobile
County, Alabama."

Who represents Petroleum Management in this?

MR. HOLIFIELD: My name is Josh Holifield and I
represent Petroleum Management, Inc. Mr. Chairman, if
the Board please, I think we can consider Items 1 and 2
at the same time. They're identical except just a differ-
ence in the description.

CHMN. BONEY: All right, sir, passing on to 2:

"Petition by Petroleum Management, Inc., for
permanent approval to establish the following..."
and so on down the line, set out generally, no use to read
it. Do we have any cause for objection to this? Does
anyone oppose it? Does anybody have any objection or would
like to discuss it at this time?

(No response)

CHMN. BONEY: I don't see any need in putting on your testimony, Mr. Holifield, if nobody objects to it. Let's see, who did you set out as operator in that?

MR. HOLIFIELD: That's Petroleum Management, Inc.

CHMN. BONEY: Oh, I see. Oh, you didn't set out an operator in that?

MR. HOLIFIELD: Yes sir, they are the operator.

CHMN. BONEY: Oh, they are the operator?

MR. HOLIFIELD: Yes sir.

CHMN. BONEY: That combines 1 and 2, doesn't it?

MR. HOLIFIELD: That's right.

CHMN. BONEY: All right, do I get a motion on that?

MR. BRITTON: I make a motion that it be granted.

MR. HANBY: I second it.

CHMN. BONEY: The motion has been made and seconded that the petition be granted, that approval be granted. All in favor, say "aye" -- any opposed, "no."

(All Board Members voted "aye")

CHMN. BONEY: The "ayes" have it.

(The motion was made, seconded, and carried unanimously that Items 1 & 2 of the Agenda be approved.)

CHMN. BONEY: That brings us down to Item 3:

"Petition by George H. Jett Drilling Company and Ancora Corporation to approve, reapprove, establish and re-establish the:

Northeast Quarter of Northeast Quarter of Section 6, Township 1 North, Range 2 West, Mobile County, Alabama, as an oil drilling unit in the Citronelle Field, Mobile County, Alabama; to approve and reapprove the location of a proposed oil well in said drilling unit as being:

624.3 feet north of the south line and 669.9 feet west of the east line of the Northeast Quarter of Northeast Quarter of Section 6, Township 1 North, Range 2 West, Mobile County, Alabama."

Who represents Jett?

MR. HOLIFIELD: Josh Holifield. I represent the petitioners in this matter, and the reason this sounds a little bit peculiar there is George H. Jett Drilling Company originally took out the permit and now Ancora is going to be the operator of that particular unit. We, of course, are integrating it and the well hasn't been drilled yet, of

course.

CHMN. BONEY: Are there any objections to this permit being issued or granted by Ancora or any other parties?

(No response)

MR. HANBY: I move that it be granted.

MR. BRITTON: I second it.

CHMN. BONEY: It's moved and seconded that the petition in Item 3 be granted. All in favor, let me know by saying "aye" -- any opposed, "no."

(All Board Members voted "aye")

CHMN. BONEY: The "ayes" have it.

(The motion was made, seconded, and carried unanimously that Item 3 of the Agenda be approved.)

CHMN. BONEY: Gentlemen, that brings us down to Item 4. Before we go into that, does anybody have any statements they'd like to make on any other subject matter at this time?

(No response)

CHMN. BONEY: All right, Item 4 -- most of you are aware that this Board issued an emergency order known as Order No. 191 some few weeks ago, and we have extended it from time to time. We have set it up to see if the Board

thinks it's feasible or advisable to make it a permanent order. Does anybody have any objection to it being made permanent or have no objection but would like it to be made permanent? Do you have any discussion on the matter one way or the other?

(No response)

CHMN. BONEY: Mr. Horner, do you have any?

MR. HOLIFIELD: We'll have some in just a minute. I'm trying to get the data here together.

CHMN. BONEY: Oh, all right. You said you had some objection or you had something else against it?

MR. HOLIFIELD: I have no particular objection. I want to make a comment. Gentlemen, if the Board please, I'm Josh Holifield and I'm representing Citronelle Field Unit. The Unit has...

CHMN. BONEY: Excuse me just a minute -- are you going to testify? We'll swear you, now, if you're going to testify.

MR. HOLIFIELD: Well, I'm not going to testify. I'm just going to talk to the Board.

CHMN. BONEY: All right.

MR. HOLIFIELD: Because I'm not an engineer, just sort of a "poor lawyer." I don't imagine my testimony would be

worth much. What I wanted to point out to the Board, if the Board please, we have a problem in the Citronelle Field Unit in reducing that storage space down there and have by letter dated July 6, 1962... I wrote a letter to the Honorable Gus Harris, attorney for the Board, in regard to interpretation more or less of Order 191 to try to ascertain exactly what the order meant in relation to oil that we have down there. In other words, as I pointed out in that letter, I'm sure the Board doesn't intend or doesn't want to create any hardship on any particular operator down there regardless of whoever it may be, but the Citronelle Unit, by reducing its storage capacity, and they were reducing their storage capacity to prevent waste, you know, every time you handle oil or any other liquids you usually waste some of it. Then to prevent fires or various hazards and what have you in the field, they have continued to reduce their storage capacity. Well, by virtue of the Order 191, they were forced into a position wherein they came short of approximately 7 to 8,000 barrels short of the allowable that they could produce under the 191 Order. So what we are more or less proposing and asking the Board for is relief, not only for the Citronelle

Field Unit but any other operator in the field that reduces his tankage. In other words, move the tanks from the field making it a permanent removal of these tanks in order to give them some sort of relief. Now, this particular oil that's given the Citronelle Field Unit such a problem was oil that was produced long prior to the order, and we were most anxious to see if the Board in this particular order or by later interpreting the order would grant to any operator or state that this order would not apply to oil produced prior to the effective date of this order. In other words, that way, well, then if we could get the pipeline company to take the oil, if we could get rid of it, in other words, it's a situation that will occur one time and one time only. It can't occur again because the tankage is gone, the storage is gone, but it's posed a hardship on us now at the present time and we're unable to make the amount of the allowable that's allocated to us because we have no place to put the oil so we can sell it. We've filled everything full that we've got down there and we've just reduced all that storage down there to where we're in that particular position. Now, I would like for the Board, if any of them have any questions concerning it,

I have Mr. William L. Horner, Unit Manager, here present. He's able and willing to testify and give you any data concerning this measure, and of course, we want to mention some other things a little bit later on, but if they want to ask any questions, we'll be glad to swear in Mr. Horner as a witness and explain further this particular problem.

MR. WHITE: Do y'all have any questions?

MR. LAMOREAUX: Any questions?

CHMN. BONEY: Does anybody want to question Mr. Horner -- anyone?

(No response)

CHMN. BONEY: There's no use swearing him if nobody will answer me. I don't have anything I want to ask him, do you?

MR. HANBY: No, I don't have anything.

MR. WHITE: No, I understand it.

CHMN. BONEY: Gus?

MR. HARRIS: No.

MR. HOLIFIELD: Excuse me -- do I have a right to ask the Board what are their feelings in regard to this particular order? Does it mean that we can't...

CHMN. BONEY: You have a perfect right, but I'm afraid you can't get an answer.

MR. HOLIFIELD: Does it pertain to oil that was produced prior to the effective date of this order or does it pertain to oil produced on the effective date hereafter?

MR. WHITE: Josh, it might be a good idea if you and Mr. Horner were sworn... if Mr. Horner were sworn in and you examined him to point out to the Board how this situation developed, exactly how the lack of tankage affects or lack of storage affects it.

MR. HOLIFIELD: I think Mr. Horner could be sworn in and make a statement in regard to it. How about doing that?

MR. WHITE: Mr. Horner, would you raise your right hand, please?

(Mr. Horner was then duly sworn)

CHMN. BONEY: Just have a seat there, Mr. Horner.

MR. HARRIS: Let me ask him a question: Mr. Horner, would you explain to the Board why this will not reoccur? In other words, if you got rid of your tank permanently, explain just how or why that would not be recurring?

MR. HORNER: Yes. The unit area contains, Mr. Harris, a large number of tanks, more than are needed for the efficient operation of the unit to carry out its purpose.

That excess tankage is recognized by the State Oil and Gas Board in its orders when it permitted us to use such wells we've considered to be most efficiently situated to fit into the conservation program of injection and production which would necessitate idling some wells, even whole tank batteries, and to use others more efficiently, more intensively. Then it should also be recognized that we should not use anymore of the surface of lands than absolutely necessary in the efficient conduct of our business to carry out the purpose of the order. Injection and production to reduce the surface waste is also an implicit requirement of the Unit Manager. So to reduce surface waste and to reduce the amount of surface lands in use and to conduct a good operating practice to prevent other waste, the operators authorized expenditures to reduce tank batteries in number, reduce tanks in number, and they are on a program now to cut out 39 tanks totaling some 33,000 barrels of storage, return those tanks to the former field operators, give them a chance to buy them back. If they don't want to, we'll put them on the market. We have no use for them. The cost of consolidating these tank batteries is at least \$80,000, and so it's done deliberately.

Meanwhile -- I'm trying to get to the answer of your question, Mr. Harris, just to give you the picture -- meanwhile, those tanks were in the field and available, being available, for storage, and being required to produce such oil as we could and anticipating that we'd have the sales force, sudden interruption that we felt coming on in the middle of April, then we got notice that it might be imminent the same time the Board was notified it could be imminent. We had by that time filled our storage and had promised the tanks to be disposed of and made available to these former field operators and it was necessary to proceed to dismantle them or remove them for dismantling, put them in a safe where they could be claimed, actually physically claimed and taken away if necessary. So as we began to produce oil during our first 300,000-barrel share, we eliminated one after another of certain of these tanks, eliminated about 13,000-barrel storage. Then the oil was run... then the allowable that was given us to produce from our wells, our share necessary to protect the correlative rights, was not producible because they had no place to put it. We could put everything except that last 13,000 barrels, and everywhere we shorted ourselves, but it was

done for good cause, to prevent waste, and it's our contention that that oil was legally produced and would not be produced again and that it just isn't in any of those tanks, and we're going to continue that conservation practice of reducing storage. We don't believe that we should be stopped in that because we know it does prevent waste. We know that there are such hazards as evaporation losses which amount to $2\frac{1}{2}$ to 3% by degree loss in gravity. You can have a small loss in gravity and consequently serious evaporation loss to the atmosphere in a matter of a short time.

MR. HARRIS: Well, why would you not be 13,000 barrels short next time?

MR. HORNER: Oh, well, next time we might be short again if we continue this practice, but we have reviewed the matter. If we had to continue the practice, the penalty of not being able to produce and protect our correlative rights, in other words, if we don't remove oil from our project area, we will not be availing ourselves of the opportunity that the Board has given us to produce our allocated shares.

MR. WHITE: Mr. Horner, how much oil did the Citronelle

Unit have in storage at the time of the first ratable take?

MR. HORNER: Approximately 120,000 barrels, 125,000 barrels salable.

MR. WHITE: How much of this did the Citronelle Unit actually sell?

MR. HORNER: We have sold practically all of our allocated shares.

MR. WHITE: How much storage did the Citronelle Unit have at the end of the ratable take period?

MR. HORNER: I wouldn't say that we've completed the end, but we expect to have 13,000 barrels less storage at the time we finish our last drop, which is practically done by now. We didn't shut it off at this time because there was no definite time limit put, and I think most operators are doing the same. They're allowing some wells for certain purposes to peter along at a lower rate.

CHMN. BONEY: But as you go along, that will reduce your storage capacity?

MR. HORNER: Yes sir, normally we would in order to prevent waste, surface waste.

CHMN. BONEY: I believe you testified and Josh said you wanted a chance to work off your storage. Now, you

said you have about how much storage now as of... will be effective now?

MR. HORNER: Well, we will have produced... reduced our storage capacity by about 13,000 barrels.

CHMN. BONEY: How much was it normally?

MR. HORNER: It was about 120-something thousand.

CHMN. BONEY: Approximately 100,000 barrels storage now, approximately?

MR. HORNER: Approximately, yes.

MR. WHITE: Mr. Horner, is it true that the Unit would have sold its share of the 300,000-barrel purchaser nomination but would not be able to produce that, that same amount of oil?

MR. HORNER: That's it. We were unable to comply completely because of that imbalance. We were able to produce, were able to sell, no question about that.

MR. WHITE: You were able to sell your ratable share of purchaser nomination but you were not...

MR. HORNER: We were unable to avoid the reservoir of the amount allocated to us, avoid it, and we feel responsible to the owners in the Unit and royalty owners in the Unit to void the allocated amount.

MR. WHITE: In other words, what you're asking, relief, is that you be allowed to sell an additional... approximately 13,000 barrels of oil over and above the ratable allocation to the Unit in order that the wells inside the Unit can produce back into storage this 13,000 or so barrels of oil?

MR. HOLIFIELD: If the pipeline will take it.

MR. HORNER: If the pipeline will take it, this amount. What we did, we have many tank batteries and many tanks all over this field. We started out with 55 tank batteries in the Unit area. We're reducing that to 28, and we have a lot of areas, tanks we changed the levels in them, change them to various surfaces daily. Actually by manipulating the best we could, we have currently found that we are unable by 7804 barrels, we estimate, to produce from our wells to void from the Unit the amount we're authorized to void, and because of ambiguity, conflict, the first restriction is a limiting one. They have two restrictions. We have a restriction on the amount we can sell and a restriction on the amount we can produce. We haven't availed ourselves of the opportunity to produce. Now, we could buy tankage and put it up or do something,

maybe haul it around, put it in some other tank someplace, but that would be costly and we thought wasteful and unnecessary.

MR. WHITE: In other words, to implement what you have suggested here, a 300,000-barrel purchaser nomination then would become a 307,804 nomination in essence? In other words, they would buy actually, the pipeline would actually buy more than the 300,000 barrels of oil if the Unit were allowed to sell this additional amount of oil?

MR. HOLIFIELD: Not necessarily.

MR. HARRIS: 307,000 that would be allocated outside, if you were to have a 307,000 nomination, that 307,000 is divided among all...

MR. WHITE: That's not what the deal is here, Gus. Let's suppose then, Mr. Horner, that we have a 300,000-barrel purchaser nomination and this 300,000 barrels is divided ratably amongst all of the wells in the field, as it was. Then what you are requesting is an additional sale in addition to the 300,000 barrels of 7,804 barrels if the pipeline will take it, is that correct?

MR. HOLIFIELD: Let me answer that.

MR. WHITE: Josh --

MR. HOLIFIELD: If the Board please, I think we can put it this way. It might help explain just a little bit better on the situation. Now, then, if Order No. 191 means that you can produce so much oil, that's one thing. If Order 191 means that you can sell so much oil, that's another thing. Now, then, what we're... what's concerning us is this, that we had this oil before any of the problems came about, in other words, before Order No. 191. We had it in the storage tanks. Then we started to moving under the first 300,000 barrels of oil. We emptied out our storage tanks and started producing it back in the storage tanks. Then when we got within, say, 7,000 or 8,000 or whatever the figure is, then our tanks were full because we had moved out the tanks and there wasn't any place to put oil, so therefore we have been unable to produce the allowable that has been assigned to us under this nomination figure here, and the reason we say it will not reoccur is because the tanks that we have taken out of operation will not be reinstated or replaced there in operation. So this really creates a hardship on us, and that's why I mention that if the order said that shall not apply to oil produced prior to the effective date or a letter to us to

that effect or something so we would know exactly where we stood. We didn't want to start moving oil until we know exactly what the order covered, in other words, the effective date if the order was retroactive or exactly what the situation is. That's what our problem is and we've moved this tankage out of operation and have no place to put it, so we can't produce even the allocation that's allocated to us.

CHMN. BONEY: You mean you have oil in storage that you had prior to this emergency order?

MR. HOLIFIELD: That's right, sir.

CHMN. BONEY: That you haven't been able to move?

MR. HOLIFIELD: That's right, sir.

MR. TOWNSEND: Mr. Chairman...

CHMN. BONEY: Excuse me...

MR. TOWNSEND: My name is H. M. Townsend...

CHMN. BONEY: Just a minute, Mr. Townsend. We'd like to swear you if...

MR. TOWNSEND: I'd just like to make a statement.

CHMN. BONEY: Swear him.

MR. WHITE: Would you raise your right hand, please?

(Mr. Townsend was then duly sworn)

CHMN. BONEY: All right, sir.

MR. TOWNSEND: My name is H. M. Townsend, Ancora Corporation. I don't believe the Unit is by themselves on that problem. We have the same problem -- one tank battery -- we had five wells going into it with approximately 3500-barrel storage and we lacked 500 barrels of filling our allocated amount of oil from that particular battery and this oil was in that storage prior to Order 191, and also it looks like every month we will be short on that particular battery. So it could... I think it can reoccur. It can reoccur.

CHMN. BONEY: It can reoccur?

MR. TOWNSEND: I think so.

MR. HOLIFIELD: Mr. Townsend, have you moved your tank?

MR. TOWNSEND: Yes, we've done the same thing that you have.

MR. HOLIFIELD: That's why we're saying it's not only for the unit, it's for any operator that has the same problem.

MR. HARRIS: Has your allowable been changed?

MR. TOWNSEND: Yes, it was changed on the second

300,000, yes.

MR. LaMOREAUX: See, if storage or the allowable is changed, and that's... your storage is the same?

MR. TOWNSEND: You see, our storage is an old battery and we didn't anticipate at the time we threw it to the battery that we'd have this problem, so we put up enough storage that we thought would be sufficient as long as oil moved, and we had five wells in that battery, which would roughly be pretty close to 5,000 barrels to sell per month and we can't do it because we have two or three wells that it's going to take more pumping to do. In other words, we can strip that battery but we can't refill it in time to get our quota in on that month. So as far as we're concerned, I think it would be reoccurring to us in that one particular battery.

CHMN. BONEY: Would y'all like to ask Mr. Townsend any questions, anybody?

MR. HOLIFIELD: No. I asked Mr. Townsend, he said that they were moving... reducing their storage capacity.

MR. TOWNSEND: No, we're not reducing our storage. We just didn't have the storage built to handle the 5,000 barrels of oil.

MR. HOLIFIELD: Have you brought any new wells in?

MR. TOWNSEND: No, no. We had a five-well battery, approximately 3,500-4,000 barrels storage, which was sufficient as long as oil moved all the time, but with the allocation that we had for those wells we can fill all that storage up and move it out, but we can't refill it in time to get our full allocation in.

MR. HOLIFIELD: In other words, does that come about by virtue of the... in other words, you only produce certain days and then certain days you don't produce? That's what I haven't quite understood.

MR. TOWNSEND: Well, in that battery, we have a couple of wells that are better than 100 barrels and we have two or three that aren't. We just can't... by the time that pipeline takes a tank at a time, we just can't get, with three wells that make 50 or 60 barrels, we just can't make it.

MR. HOLIFIELD: In other words, that's a switching problem in the field?

9 MR. TOWNSEND: It's a lack of storage on our part.

MR. WHITE: Mr. Townsend, your excess wells refilled your storage so quickly that your deficient wells don't

have time to...

MR. TOWNSEND: Well, we shut the good wells in. We just pumped the deficient wells.

MR. HOLIFIELD: I believe Mr. Townsend's situation is a little bit different than ours. We had the necessary storage capacity. Then we removed and we will continue, hope to continue, to remove the storage capacity and get it down to where it would be an efficient operation.

CHMN. BONEY: How long do you think it would take to reduce the storage down to this possibility?

MR. HOLIFIELD: You'll have to ask Mr. Horner that one. He's the Unit Manager.

CHMN. BONEY: How long do you think it would take you to work that surface storage off?

MR. HORNER: Well, we're getting rid of these tanks...

CHMN. BONEY: Certainly it depends on your purchaser nominations, of course.

MR. HORNER: Yes sir -- how fast we produce that much. Well, we can produce... half a day we can produce that much.

CHMN. BONEY: But I assume that your nominations would come as they have in the past and you're beginning

to move it out. How long would it take -- assuming that it has been in the past month or two -- to work that storage off, assuming you have 300,000 barrels? Now, how much approximately? It's a question of the nominations?

MR. HORNER: Yes sir. That's for the entire field, about 300,000 barrels.

CHMN. BONEY: Well, how long will it take you to work your storage off, assuming that you have the same nominations?

MR. HORNER: Well, we can produce about, with half our wells, 10 to 11,000 barrels a day, so it won't take... it doesn't mean much time to us to produce 7,800 barrels.

CHMN. BONEY: But Mr. Holifield is asking permission, the right to work that storage off, see.

MR. HORNER: Oh, yes sir, yes sir.

CHMN. BONEY: How long will it take you to work that storage off, roughly?

MR. HORNER: We don't know whether the pipeline will accept this additional oil or not, but his proposal was to offer it, wasn't it, outside of the Order 191 and to exempt previously legally produced oil from the jurisdiction of Order 191?

CHMN. BONEY: Yes.

MR. HORNER: Well, we don't know whether the pipeline will take it or not, but if they do, they could take it in a matter of a couple of hours.

CHMN. BONEY: And it would not reoccur?

MR. HORNER: It wouldn't reoccur from those tanks, no. We're not building tanks. We're tearing them down.

MR. BRITTON: Mr. Horner, I believe you were understood to say a while ago that you'd have 28 tank batteries when you got through cutting them down, all out down?

MR. HORNER: Yes sir.

MR. BRITTON: In other words, you had 55 batteries to start with and you intend to stop tearing them down when you have 28?

MR. HORNER: Yes sir, that's our present plan, and when we enlarge the unit, we plan to do the same thing there, tear down tanks and restore the land wherever possible to its owner for any use he wishes to make of it. Right now we are appropriating that land under the lease agreement for oil field use. We don't need all of that space.

CHMN. BONEY: Does anybody have any objection to the
pro

proposition that Mr. Holifield has presented of working the storage off? Does anybody have any objection to that, if the Board sees fit to do it or not do it?

MR. GURLEY: Mr. Chairman, I'd like to ask a question.

CHMN. BONEY: You just want to ask a question?

MR. GURLEY: I'm Jack Gurley, Northern Natural Gas. I know that other operators in the field do and will have this problem and it's hard for me to see how the Board should set them up to help anyone with their storage problems. I think making exceptions to rules would be adding confusion to an already confused situation. I wonder if keeping track of the over and under production would not solve this problem. In other words, if the unit is 7,000 barrels, say, under-produced the first of July when the new nominations come up, give them 7,000 barrels; Ancora 500 or whatever they're under-produced. If you're over-produced, subtract that and then make the nomination over and above those overages and underages which will be kept... I think this is done in most prorated oil fields, and I'd just like to see what Mr. Horner and Mr. Holifield think about it.

MR. HOLIFIELD: Mr. Chairman, if the Board please, our thought was not to make an exception to this order directly for the Citronelle Unit but for any operator in the field who has the same or similar problem. In other words, it wasn't asking for a favor for one individual. It just asked for, in other words, to alleviate a problem because we can't understand how the order can be retro-active and affect oil that we had legally produced and just had in our tanks. Now, we don't know that we will have a sale for this oil. We have no assurance whatsoever, but in the event that one does occur and we can make a sale to the pipeline company, we would like to know if we are authorized to make the sale to the pipeline company or does Order 191 restrict us. In other words, what we... what I was thinking about was to have some language or something similar to this, that it be specifically provided that Order No. 191 shall affect all oil produced subsequent to the effective date of Order No. 191 but shall not affect any oil previously produced prior to the effective date of Order No. 191 regardless of whatever the appointment may be. So we just have a problem and it's just causing us to get hurt a little bit by virtue of it. We wanted to bring

it to the attention of the Board and see if there's any possibility of getting some relief on the situation. It's just one that we thought we were doing good field-operator practices out there by reducing our storage capacity and trying to put this land back into use, get rid of these tanks, prevent waste, and all these other things, but sometimes when you do good, you kind of get caught in a spot. So we just wanted to know if we could get some little relief, because I felt for sure the Board wouldn't ever want to have an order that would create a hardship on anyone. It's just a matter of drawing a regulation. It's a matter of conservation. So that's why I wanted to bring it to the Board's attention to see if we could get a little relief on it.

CHMN. BONEY: Any other discussion on the matter?

(No response)

MR. HANBY: Let me ask this question. Now, outside of the unit, how many other operators do you think would be affected similar to your client?

MR. HOLIFIELD: I have no way of knowing that. I have no way of knowing it. Maybe Mr. Horner might have some idea, because I don't ever go in the field. I'm not

an engineer. I'm never down in there, so I don't know anything about the physical aspects. All I know is what's reported to me.

CHMN. BONEY: Are you in the same position there, Mr. Townsend, or are you in the opposite position?

MR. TOWNSEND: No, I'm in the same position, but I've got an underage in one tank battery by 500 barrels. I didn't produce in my first 300,000 nomination, and I'll probably be under on the same tank battery in the second 300,000.

CHMN. BONEY: Well, they're over.

MR. TOWNSEND: I understand that they're under.

CHMN. BONEY: Yes, they're under, yes.

MR. TOWNSEND: We're in the same situation because of lack of storage.

CHMN. BONEY: But you don't oppose his request?

MR. TOWNSEND: I don't oppose it as long as it's a sale for the unit. It'd be a sale for every other operator that's in the same situation.

CHMN. BONEY: Well, he cannot move it if there is not a sale. If the pipeline doesn't take it, he can't...

MR. TOWNSEND: Well, I know that, but I mean, in other

words, if the pipeline said "Well, we'll take 7,000 barrels from the unit," well, that 7,000 barrels ought to be ratably allocated to everybody that has an underage. In other words, I think Mr. Gurley's point of having an underage and overage tally every month might solve it.

MR. HANBY: Is that a general situation or is it an exceptional situation in the field?

MR. TOWNSEND: Well, I can't tell you. I think it's general because you'd have to poll the operators to find out what their storage capacities are, what their production is. Where you have one-well batteries, you don't have that problem, but when you have multi-well batteries, you do run into that problem where you have insufficient storage for a situation like this, and that's what we have.

CHMN. BONEY: Do you have any way of knowing, Bill?

MR. HORNER: Yes sir.

CHMN. BONEY: I mean, do you have the records here?

MR. HORNER: Yes, I have a map I'm glancing at and it shows that there are a lot of tank batteries outside the unit area. There are more wells outside than inside and they could very well have the problem such as we have.

Ours is a little bit more a special case than some of the others, more acutely evident, but anytime an operator due to his election of proper and prudent operation runs in conflict with his duty to protect correlative rights by producing the amount that the Board intends him to produce, then he runs into a conflict where he does need relief and must appeal to the Board. Otherwise, he'd be held responsible by his royalty owners and the other owners under his tract. We have 1300 royalty owners, as you know, in the unit area. They had nothing to do with our plan to tear down tank batteries. They didn't ask for it, but they are suffering from it because they're not being able to drain the limited amount of production that's been allocated carefully to every well in the field, every area. There's a conflict; we can't resolve it. We think the Board must for us because it involves correlative rights directly connected with drainage and Mr. Holifield has suggested... what Mr. Holifield has suggested is entirely his own idea in consultation with his colleagues, I'm sure. I don't know whether he consulted other companies or not. One way to do it would be to exempt oil from the jurisdiction of this order which never was even under the jurisdiction of

the order. In other words, the oil previously produced legally has nothing to do with the prevention of underground waste through protection of correlative rights. The order is based on underground conservation, as I understand it, but there are a lot of tank batteries in the field. If any of them wanted to be consolidated and had been full at the time... most people were pretty full at the time this sudden 300,000-barrel nomination under Order 191 came about. I presume they were. I don't know. We were, for sure, and a lot of other people were, too. Storage was full up and if they didn't have the opportunity nor the desire under good prudent practice to fill right up to that same level again at every tank, they'd never be able to produce all the oil they're entitled to to protect their leases and drainage. We weren't able to because we didn't have the tank there anymore.

MR. HARRIS: Mr. Horner, you said that the royalty owners didn't ask for the reduction, therefore they're suffering because you cannot effectively drain that much oil from the holdings?

MR. HORNER: Yes sir.

MR. HARRIS: All right. Now, why next month or the

month after next won't they suffer likewise? You will not have anymore storage next month than you have now?

MR. HORNER: No, we might even have less, but not due to that same tank battery reduction, that same tank reduction. We'll only tear down that tank one time. We're not going to build tanks. Now, if we were going to build tanks... we could just as well build tanks. If we built tanks we'd be restricted and should be restricted by part of the order that we're not concerned with, that is, your right to allocate production to protect correlative rights. If we'd fill up storage, we'd just construct storage and fill it up and run additional oil, then you'd see a violation of your order respective to control of production.

MR. HARRIS: Will you be able next month or month after next to reduce the allocated amount?

MR. HORNER: As long as we don't reduce our tankage. If we reduce our tankage, put out another tank battery, another tank, we'll be short again.

MR. HARRIS: You've got 28 tanks, I believe you said, now?

MR. HORNER: And we started out with...

MR. HARRIS: 55.

MR. HORNER: Every tank full up June 8.

MR. HARRIS: All right, with the 28 tank batteries you have left, will you be able to still produce the allocated amount allowed the unit for the next purchaser nomination?

MR. HORNER: Right now, yes sir, but we're planning to continue with this practice of eliminating tanks in our giant unit, eliminating all unnecessary tanks and making... we're negotiating now with property owners to wait until their crops are harvested so that we can pull that equipment off their land without damaging the crops.

MR. HARRIS: You anticipate reducing it to what extent, what number?

MR. HORNER: Within the next six months, we anticipate reducing it another 21,000 barrels, that is, tanks that had oil in them produced prior to June 8. Now, if we don't tear those tanks down, leave them there, we'll be unable and hampered to some extent in carrying out the purposes of the unit.

MR. HARRIS: You've got the 21,000 barrels. You've already produced your storage?

MR. HORNER: The only way we can produce it now, which

is as we've done, is produce it against our production allowable from the wells. We have two allowables actually, both the same. Whichever shall occur first, the production allowable or the sale allowable, that's the way it stands now, because your order has been applied to all the oil anybody had in his tank from the time June 8. That was the day.

MR. HARRIS: You'll produce but not store? You just produce it and then it's piped right on off?

MR. HORNER: That oil of June 8 was not produced after June 8. It was the day before. Production is quite another thing than runs. Production and runs are two different things. We have to produce in order to protect our correlative rights, but we cannot produce unless we have a place to put it. We could leave those tanks up and produce the oil we're entitled to, but if we did, we'd certainly be causing waste in doing and operating imprudently.

MR. HANBY: Well, now, the waste you're speaking of would be in the light of not being able to use the land surrounding the wells of where the tank batteries are located properly? Is that... that would be the waste

you're speaking of?

MR. HORNER: That is part of it. Of course, we create another waste, which we're bringing to your attention now, by doing away with our tank batteries and preventing surface waste. We're causing imminent sub-surface waste in the statute by not being able to produce the correlative amount, the amount required to protect correlative rights. It's a little bit of a hamper there, but now to recite these above-ground storage wastes, one is evaporation. That amounts to 2½ to 3% for every degree loss in gravity as volatile oil, and we found that by setting oil out in a container, open container, for three weeks, it would lose more than a fourth of its volume just by evaporation. While a tank is supposed to be pretty tight, they're not vapor sealed, they're not held under gas pressure in this field, and you have in this field a couple of hundred thousand barrels above ground right now waiting for something to happen to it. If it isn't sold, one thing that could happen is evaporation. That does happen. Another thing is leakage. Every tank is a potential little trickle outlet for leakage. There are valves, there are lines, there are pump connections where leakage occurs.

There are handling losses that occur when you have loading and unloading of oil -- move it from one tank battery that's not connected to another tank that is connected to the pipeline. In other words, you have to haul it by truck. All those things are deplorable but they're necessary and I would think that any operator who can improve his connections with the pipeline, that is, lay a line to the pipeline or reduce his losses in handling should not be hampered from doing that by this order or any other order. The order is in conflict with the purpose. Another very real hazard is that all this oil on top of the ground is a fire hazard. There have been several fires in the last six months. Loss of oil is great in those fires. There are inadvertent losses of oil in ordinary operations. The more points you have for exposure through equipment failure or fires, the more points there are for damage and loss. The service of the land is just one thing that is being done by completely eliminating a tank battery and releveling the ground and restoring it to agriculture or residence purposes. It's of no value perhaps to the purpose of this order but it's certainly of importance to the surface owner.

CHMN. BONEY: Bill, in operating the on-the-spot markets, will you be able to, in other words, as of today you don't have an order; you might wake in the morning and have an order for 300,000 barrels and you don't have the proper storage -- how are you going to quickly get that if your tank was ready? Are you going to have to pump it up to get it in there then that quickly?

MR. HORNER: We don't anticipate that the storage would be reduced in the field to the point where it would hamper the typical current operations. There still would be an excess amount of storage even if we put forth our best efforts.

CHMN. BONEY: Well, that's what I mean. You'd still have enough left for storage space?

MR. HORNER: I think so.

CHMN. BONEY: In other words, it would not hamper a quick order?

MR. HORNER: Well, if we would carry it to the extreme and reduce their storage to an extreme low amount in the field, let's say instead of 200,000 barrels cut it down to 50,000 -- it'd be all right from the producers' standpoint and good conservation in the field, but it

might hamper the pipeline where they'd have to buy some oil to keep in storage down there in the field to have it ready. They ran with their tanks awfully low while Tankar was on its way to load up.

CHMN. BONEY: Well, they will have plenty of storage at the end of the pipeline docks, is that right?

MR. HORNER: Yes, they have two big tanks down there and they can store oil. They ran pretty low. On June 8 they were pretty low. I don't know what... how much they had in storage at that time, but it wasn't very much.

MR. WHITE: 28,000 barrels.

MR. HORNER: That's... there you are, that's pretty low. Gene, do you know how much they have when they're full, how much they can hold, those two big tanks?

MR. WHITE: I don't have the statistics on it. They usually...

MR. HORNER: I think it's about 280 -- 160,000 barrels.

CHMN. BONEY: A fraction under 300,000, I mean, that's what you would figure, a fraction under...

MR. HORNER: About 150 or 160,000 barrels.

CHMN. BONEY: Per tank?

MR. WHITE: No, that's total capacity.

MR. HORNER: When they get a big load in there, start unloading one tank and then they cut it and pull it down a little and they start draining another tank while they're feeding into their first tank, and they can pump about 1200 barrels of oil, we're told, from the Citronelle Field, so they have to use our storage in the field in lieu of their own storage in order to operate.

CHMN. BONEY: Any other questions? Excuse me, go ahead.

MR. WHITE: Bill, let me see if I understand this thoroughly here now. Those are approximate figures. I think they are nearly what has happened with your ratable share in storage and so forth. Now, your ratable share of the first 300,000-barrel nomination was approximately 130,000 barrels. At that time, you had in storage in the field 125,000 barrels of oil approximately. This meant in order to produce... I beg your pardon, to sell your 130,000 ratable share, you first had to sell the 125,000 barrels in storage plus you had to produce back into storage the additional 5,000 barrels and then sell it. That would total your 130,000 barrels ratable share of production, is that correct?

MR. HORNER: I believe so. I don't...

MR. WHITE: Then at the same time, you were selling the 125,000 barrels and the 5,000 barrels which had to be reproduced into storage, you reduced your storage by 5,000 barrels. Then at the end of your sales of your original 125,000 barrels storage plus your sales of the 5,000 barrels which had to be produced from the wells, you were only able to store at the end of this period because you've got it in storage, 120,000 barrels. That plus the 5,000 barrels which had to be produced for the sales will give you a total of 125,000 barrels. In other words, you have sold 130,000 barrels of oil but were only able to produce back 125,00 barrels of oil. This leaves a 5,000 barrels of oil deficit at the production end.

MR. HORNER: That's correct.

MR. WHITE: So that every time you reduce your storage, some additional sales will have to be found equal to that amount of the storage reduction. Is that correct?

MR. HORNER: Yes, yes sir, that's essentially correct.

CHMN. BONEY: And if you did not find additional sales, you could not reduce your storage?

MR. WHITE: You could reduce your storage, but you would, just come up on the short end of the stick on

storage reduction.

CHMN. BONEY: Any other questions? Any other discussion on the matter?

MR. HOLIFIELD: Mr. Chairman, Mr. Horner also has a statement of some other matters that could directly or indirectly affect Order No. 191. He would like to make a statement in regard to those, if the Board would like to hear it, please.

CHMN. BONEY: All right.

MR. HORNER: Of course, now, I'm going to try to sell you on unitization, unit operations, which is ridiculous because you are actually the biggest sellers of it in the United States. One thing we have done, as we promised to do, I think we've kept all of our promises because there's one thing we did, we promised to the people of Citronelle that we would be pretty good operators and they wouldn't have to go to various towns and cities all over the United States to get something done when it needs to be done. We get appropriations from the operators and directions from the operators to comply with orders of the Board, too. On January 16, Dr. LaMoreaux, in consultation with the staff, after making trips to the field, and Gene White

inspecting every lease and tank we had in the field, gave us a letter January 16 giving out some instructions, and we've complied with those instructions partially, not entirely, because it takes some time, but we've certainly done a lot of things on it and we tried to be good operators. Every operator wants to be called a good operator but it does cost money and it takes time to do all the little things and erase the ills of the past; ~~sentimental~~ of us here as operators or our successors to somebody else and sold out. Some operators have started fresh lately in plain leases, but we had to do a lot of things like build fire wells where old fire wells were torn down. We're half done on that, complying with Dr. LaMoreaux's request for us to put our house in order, and we've begun to control erosion. We think that's nearly complete. As we were requested to do, we drilled a salt water disposal well at a cost of \$29,000. It also serves as a well to test the quality and quantity of salt water to be produced should we ever need it for an injection supply, and we'll furnish the data on that to the Board. It's going to cost about \$12,000 or \$15,000 more to put it in complete use. It's being used now. We've already disposed of some salt

water into it. We don't think we need to be publicly commended, but we're so proud that we've done that. It's pretty hard for an individual operator to get the money to do something like that when he knows it ought to be done, but it's usually for the unit to do it. Now, the unit... this is, Dr. LaMoreaux, a summary of some of the work we've done in compliance with your letter.

MR. LaMOREAUX: You want to enter this into... we'd like to enter this into evidence.

MR. HORNER: The unit does have a problem common to all injection units in the country, when you have a partially unitized field. We couldn't wait till this field was drilled to unitize it. It's already going to pot and more wells than we could get in the unit needed... we're unitizing and enlarging with your help and complete cooperation with all of the operators to my knowledge just as fast as possible. Now, these orders that the Board has promulgated, including 189 and 169... is it 167, the original unit order?

MR. HOLIFIELD: 166.

MR. HORNER: 166, the original unit order, anticipate that the unit must be enlarged until it takes in essentially

all of the reservoirs that are affected by the... and part of the secondary recovery program, and another principle observed is that the unit... it's been found that the unit must control the production and injection of its wells so as to carry out the purpose of conservation under the unit operations. Now, we have no problem at all now but there might be one coming up and we want to just give you these guideposts and submit to any examination desired or requested. We've injected in the first six months of 1962 at a rate decline because of this market interruption. In April, we began to shut down our injection wells, shut down three, the only three we have, and we've restored one back to injection after the order that you gave us May 31, but so far this year we've injected 1,479,000 barrels. We've produced from the unit area 1,386,000 barrels and over injection, that's currently increasing at 2700 barrels per day. Now, we should be injecting more than that, and if we had the courage, we would do so. To protect the injection well, we have two wells idle, and I think as soon as we have the courage, we will do so, and then we'll start injecting in those other wells again. We should inject into them not the full rate

we were injecting before the market interruption but we estimate approximately 2500 barrels per day per well to maintain atmospheric pressure or higher so we'll have a positive pressure and we won't have any possibility of air leaking into our system, which is one of the worst possible things that could happen in a water injection system, but we'll be able to inject, say, 7500 barrels a day into three wells, and that we would expect 225,000 barrels per month. It is ridiculous, but I say that what we need and everybody needs is a market, but our allowable of the 300,000 barrel nomination is, our share of that, say, would be 125,000 barrels in a unit compared to the minimum injection rate that's found of 225,000. So we'd be injecting 100,000 barrels a month more than we'd produce. Produce 125,000 barrels a month and inject 225,000, so we obviously must inject less, and it's not desirable to inject less but we're planning to do it, less than we produce. The oil that was set in motion by injection is controllable mainly by production, by producing wells. The unit doesn't have any control over the outside wells except to restrict injection. The production of the off-set wells is... it's possible if we were delayed in unitizing, it's possible

that the production of those off-set wells over which the unit has no control could become wasteful to the... in that or injurious to the entire secondary recovery program. It's possible that they could and their production would not be allowing the Board or us to protect the unit from drainage under the present order. It's possible that undesirable water movement could evolve and develop that couldn't be controlled without having some Board control over the individual wells outside of the unit area. We can't be responsible for that. If we wanted to inject water to the extent that would benefit those wells and then break through to that, we would have no recourse, so we might have to come to you for protection on that for the parties concerned. Proper regulation might be required on those wells then for their benefit and protection as well as the unit. I think outside wells benefit by having the incentive to drill and they benefit by reduction of the hazards of drainage. Obviously, if we did not inject in the unit area and our pressures continued to drop as they had before we started to inject, we'd have more or less of a vacuum in there pulling oil in from the outside leases and we've stopped that actually by injecting enough

to maintain our balance and then some, so we've reduced greatly the hazard of possible drainage from outside wells into the unit area and from outside undrilled leases in toward the unit area. That's been stopped to the amount that this injection has been effective, and so it might be of interest and of value to all operators in the field to see some timely review made of this Order 191 and provision for it for additional review with those things in mind at times... well, this problem is common to these other operations. You lawyers are familiar, I'm sure, with the Dobson (phon.) case in Arkansas and the Sackerout (phon.) case in Texas where outside operators in their efforts to protect their interests were in contest in court with the unit and with the secondary recovery operations and the contests were eventually resolved by complete fieldwide unitization, but there was a long period of inequity where there was relief sought in courts. One typical way that the Boards help in other states, as you know, is to grant an injection bonus allowable where if a man injects and restores pressure and replaces the voidage he creates by producing oil, he's given recognition for that by getting a somewhat higher allowable so he can

recover some of the additional cost he's got into but more importantly he can recover some of that oil that he has set in motion and started to move it towards the boundary of his property. He's given an opportunity to collect some of that oil. We're not asking for any relief like that now but we do want you to know that it is a... it's an incentive towards unitization, which is the real solution. We think the incentive is and should remain not to threaten the unit but to join it as a result of that attitude, and I'm just grateful that you've let me say my piece. Thank you.

CHMN. BONEY: Does anybody want to ask Mr. Horner anything?

(No response)

MR. HOLIFIELD: Mr. Chairman, I will say this, I appreciate Mr. Horner, the information he's given me. Just like I've stated before, I'm a lawyer and I don't stay down in the field with the production man, so I always learn a lot with what Mr. Horner says because he is an expert in engineering and in secondary recovery methods, and what I gather from what Mr. Horner has said

here this morning, I might point out to the Board that they're trying to put on the most efficient operation that they possibly can that he knows how to do. He's trying to do everything he can for the landowners, royalty owners, operating interests, everybody concerned down there, and in fact, this situation brought up this morning about the storage capacity, we've been hampered in our productions -- just one of these hills that come up by virtue of trying to be very efficient and a good operator in the field. So if the Board could this morning and will give us some relief on this situation here about... we're unable to produce even the allocation under the 300,000 allotment or nominations, we certainly would appreciate it.

MR. BRITTON: Mr. Horner, I'd like to ask you a question. When did you start tearing these tanks down?

MR. HORNER: This program... well, we began to reduce the tankage in the field as soon as the unit became effective, but this program, our consolidating tank batteries, began in June, and we were using all the storage we had until this order came out, and we don't have any need for that much storage as long as we're on consolida-

tion. We started in June on this program of consolidation, and it was authorized in December -- January and February -- this last winter it was authorized.

MR. BRITTON: Authorized by...

MR. HORNER: By the operators.

MR. BRITTON: By the operators?

MR. HORNER: Yes. They wanted us to go ahead with it and we didn't start on it until... we got all of our plans finalized and negotiations with the landowners were made... we thought at first that we were going to have a much larger program of consolidation, tank batteries.

MR. BRITTON: Maybe you could give me some approximate idea of how many hours it would require the pipeline to run the amount of oil full between the 55 barrels and the 28 barrels.

MR. HORNER: Well, I couldn't tell you that sufficiently accurate because the 55, I was assuming the reduction of storage, some reduction of storage that actually took place prior to June 8, some reduction took place then, and it will be included in our reduction, our tank battery consolidation program because some tank batteries will have been actually... two or three were actually eliminated up

in the 55, weren't even used. We did those back in June 1961, but at least we've reduced our storage by 13,000 barrels in June and July to date.

MR. BRITTON: I believe you said a while ago it would take about two hours to run?

MR. HORNER: Oh, yes sir. We've reduced 13,000 barrels storage in June and July. We have another 21,000 barrels of storage that we wanted to turn back to the operators, too. Now, they need the tanks. They're pressing us to get those tanks reduced so that they can use them for their new wells. They'd like to have that material available and we should have had it done sooner. We just never did get around to it, but our losses, actual loss in storage capacity is not equal to the amount of the tankage that we eliminated because we were able to make other adjustments and make other use of tankage that we retained so that our loss is only 7800 barrels instead of the total 13,000 barrels. So we're using every inch we can in prudent operations and still we're not able to produce the last 7800 barrels that we're authorized to produce.

MR. TILLERY: Bill Tillery with Central Oil, Mr.

Chairman. Mr. Horner, do you plan to further reduce your tankage?

MR. HORNER: Yes sir, during the next three months. As soon as the crops are in, we intend to complete an additional 21,000 barrels reduction and possibly all of that will be reflected in the removal of oil that cannot be... it will have to be taken out of our production quota under the present order.

MR. TILLERY: In other words, after you further reduce it, you're going to be that much more short?

MR. HORNER: Yes, after we further reduce it, if we go ahead and reduce...

MR. TILLERY: Then you'd be running 28-29,000 barrels shortage each month that you won't be able to handle?

MR. HORNER: Not each month, no sir, just one time. You see, what Mr. Holifield suggested was that that be treated as separate from the jurisdiction of the order and the order applies essentially to production rather than to test production prior to the June 8 date.

MR. TOWNSEND: Yes, but when you reduce your storage another 21,000, it seems to me you're going to... that'll be reoccurring every month, you'll have a shortage. I

don't see how... I can't follow where you say it'll just occur once.

MR. HORNER: Oh, then after that, you see, we'll have so much storage, as we take out of storage, we can fill back up again.

MR. AITKEN: But you're limited by the capability of your wells.

MR. HORNER: Oh, no, not us. This is if you... we're not here to get two buckets of water with just one bucket. You had the right to take the two buckets of water but you only had one bucket. We can only fill one bucket. We don't have another one to fill.

MR. AITKEN: As long as you have a spot purchase like we're having now, the situation will reoccur.

MR. HOLIFIELD: Unless you reduce tankage.

MR. HORNER: What do you mean, "reoccur"?

MR. AITKEN: With on-the-spot purchases, you don't have enough time to take the oil back. You can't run it fast enough to reduce your storage.

MR. HORNER: I don't know what you're talking about. Are you with Sun Oil Company?

MR. AITKEN: I certainly am.

MR. HORNER: Do you want to do some testifying here? I certainly don't understand that. Let's simplify it down to one tank. You have one tank. You drain that tank and fill it up again. You can only put back into it what you took out of it. If you had a big tank and then you had a little bitty tank and you drained both of them and then you got rid of the little tank, you couldn't put anymore back into that system except what the big tank would hold. The little tank is gone. That's our situation. We've just sold our little bitty tank because we don't have any place to put that oil although we have the right to produce it.

CHMN. BONEY: I think what he meant here, Bill, was this. On spot market, assuming that you had a storage of 100,000 barrels in the tanks that you have now, see, and you got a spot market in the morning for 100,000 barrels. All right, you've got it pumped and you can immediately put it in tanks, you see. All right, but suppose before you even get that out you get another spot order for another 100 right quick. How quick could you fill that back up, fill that tank? I think that's his question.

MR. HORNER: Oh, that's not problem at all, no problem at all. The spot market...

CHMN. BONEY: Can you produce it quickly enough if the spot market should come over a notice of 30 minutes? They need some oil this afternoon.

MR. HORNER: Oh, yes, excuse me.

MR. AITKEN: I got the impression it was a physical thing rather than...

MR. HORNER: We don't have a production problem at all, no. We just can't produce the oil without an allowable. We have the allowable to produce the oil. We don't have any tank to put it in. The tank is gone. We sold it.

CHMN. BONEY: Any other question? I mean, it looks like we're going to over-do this in spite of thunder.

(No response)

CHMN. BONEY: Let me ask this question. Does anybody oppose making Order #191 permanent? Does anybody oppose it?

(No response)

CHMN. BONEY: Does anybody endorse it?

MR. AITKEN: Aitken, Sun Oil Company. We concur

with the Board's recommendation on this Order 191.

CHMN. BONEY: On making it permanent?

MR. AITKEN: Yes sir.

MR. HANBY: Mr. Jefferies, how do your men feel about that?

MR. JEFFERIES: We certainly approve ratable take.

MR. HANBY: You have no opposition to this Order #191?

MR. JEFFERIES: No.

CHMN. BONEY: Mr. Townsend?

MR. TOWNSEND: I still think it's a problem of under producing or over producing.

CHMN. BONEY: Well, it probably is. What I'm trying to get at now is Order #191. We'll resolve that problem later on. I mean, I don't know whether we'll resolve it or not. We'll discuss it, anyway.

MR. TOWNSEND: Well, I concur with Order 191.

CHMN. BONEY: Does anybody object to it? I would like to hear your views on it now because it'll be too late after we've made our decision.

MR. TILLERY: Mr. Chairman, I'm Bill Tillery with Central Oil, and we concur with the Board's action com-

pletely.

CHMN. BONEY: It sounds about like we're not going to have an argument. Does anybody want to discuss Order 191 further to see how... whether Bill can pump his oil quickly or anything? Let's take time while we're all here instead of getting back in the field and calling us back up here and saying "John Doe is not doing right." We'd like to have it now.

(No response)

CHMN. BONEY: Well, if everybody is satisfied with that, we'll move on to something else. Have you got any statement you want to make?

MR. BRITTON: No.

CHMN. BONEY: E. K?

MR. HANBY: Not on that.

MR. HARRIS: Has the motion been made that it be made permanent?

CHMN. BONEY: Oh, no. We're going to take this... any other matter to come ~~before~~ the Board at this time?

(No response)

CHMN. BONEY: Dr. Jones, did those people in Pollard talk to you about a matter before us here, Mr. Lister?

DR. JONES: Yes sir.

CHMN. BONEY: They were over to see me the other day and I told them instead of August 17, we could hear it today, because I don't think it requires an advertisement on it, see. After they talked to us, Mr. Lister and Mr. Moye... I don't believe the Board... it will come under our jurisdiction. Have you discussed it with them? What's your opinion on it? Do you want to hear it today?

DR. JONES: Yes, I...

CHMN. BONEY: Well, come on up and let's discuss it.

DR. JONES: I would like to...

CHMN. BONEY: I think we could dispose of it today rather than waiting until August on it. I know you're familiar with it, but I'm not quite sure the Board, Hugh or E. K. or even Mr. LaMoreaux might be familiar with it, and I have a letter from them saying that you would represent them if it was... if the Chairman and the Board didn't object to it, and I certainly don't and I'm sure the Board doesn't, but the theory in it... just sit down and I'll explain it and if I'm wrong you can correct me

on it. Mr. Hoster and others own 40 acres of land...

DR. JONES: Lister -- Lister.

CHMN. BONEY: Lister -- in the Pollard Field, with others, and it has been unitized properly by the Board in the past and there's some wells on three sides of this 40.

DR. JONES: Yes.

CHMN. BONEY: I think maybe the east, north, and west, but there is three wells and those three wells are set on a pattern to comply with the Pollard Field Rules. I don't remember what the location is.

DR. JONES: Right.

CHMN. BONEY: A year ago the Humble Oil people abandoned this well that Mr. Lister... on his place...

DR. JONES: Yes.

CHMN. BONEY: And he told me and of course our records will bear it out that it was producing 70 barrels of oil per day when he decided to abandon it, and he says that they are draining him, draining the drainage from the other three wells, which probably is or probably isn't, but he says he's asked Humble for a release back and they have granted it to him, I don't know, down to

6,000 feet but not below it, where this production here was between... just a rise of 6,000, I mean, below -- 5,900 and something, which wouldn't go below 6,000 feet. So that's the gist of the story on that, of his trouble. Now, you can present your side of it or just what your thinking is that you'd rather in it.

DR. JONES: Yes sir. Well, actually what has happened there, the well was brought in in 1952 and it's one of the better wells in the field, and the average production for 1960 and 1961 through July when it was abandoned was 55 barrels a day and they seemed to have some trouble with the casing and tubing and they fiddled around with that a while and couldn't get it back into production again and they decided to go ahead and plug it, which, of course, is decidedly disadvantageous to the people who own the royalties under that 40-acre unit, and there are wells on the east, west, and north sides of that particular one, and those wells have been kept in production all the while. It seems to me it's absolutely certain there is counter drainage. I think the people who own the royalties in there will find that their oil is being produced, particularly of the well to

the north, up toward the fault zone, the higher part of the structure. Now, the Humble Oil Company has agreed or suggested giving this back to the royalty owners, the mineral owners. Well, that's not as generous as you might think. It's only, as you stated, Mr. Chairman, the zone that was in production at that time, around 6,000 feet. The landowners then would have to drill a well. They would have to put in a tank battery, have to put in pumps, production equipment, and then they would have to sell that oil. They would just be there themselves responsible for what is left under that unit, and it's not quite fair to do it that way. They're not in the oil business. They don't know anything about it. They're just landowners, and it seems to me that Humble ought to either put in another well if it cannot rehabilitate that one, rework that one, to drill another well, so that these people can get their proper share of the oil in that pool. A well producing 60 or 55 barrels a day is not supposed just to "poop" out just in one moment. It should and if we had the graph of it, I think you'd find it leveled off at just about 55, 60, or 70 barrels a day. It seems it might produce that. I don't know whether

it's coming from farther to the south one or whether... maybe somebody is counter drained there. I don't know. I'm not a petroleum engineer, but I do know that that is one of the better wells in the field, and that Humble Oil Company ought to put in another well or rework that one so that these people can get their part and their share of the oil in that pool. Now, that is one of the fundamental principles of these laws of ours, that each owner will get his share with the correlative rights of the owners. That's fundamental in here, and I don't think Humble Oil Company ought to expect people who are not in that business and know nothing at all about that business to take over something that is their own fault in the beginning. That was their well. They should have kept it in order. They have not kept it in order, and it seems to me that the alternative there is to prorate all of the wells in that area so that there would be no counter drainage, or Humble Oil Company put in a well and produce a fair share of oil out of that unit.

CHMN. BONEY: Joe, you are with Humble but you didn't come in that particular phase, did you?

MR. THOMPSON: No sir. We didn't have any idea that

anything like this was coming up.

CHMN. BONEY: Well, it was not advertised.

MR. THOMPSON: I'd like to say this, that it has been thoroughly and particularly considered by our man. The well wasn't just arbitrarily plugged and abandoned. It just... the casing broke. We did everything we could to put that well back in production, now, and the only alternative was to drill a new well. We worked the economics of it and found that the production in this pool wasn't in that new well and would not pay for it. Hence, we went to Mr. Lister and told him that we couldn't justify drilling him a new well and the only thing we could do, even though their lease was maintained, ~~was~~ **lower the** production, if they wanted it, which I think is as much as anybody in the business... so we haven't heard from Mr. Lister, and hearing this this morning, and certainly, this is not a matter within the jurisdiction of this Board. It's a matter if Mr. Lister feels that we haven't fulfilled our obligations under the lease, it's a matter for the courts, and I don't believe it is a matter within the jurisdiction of the Oil and Gas Board of Alabama.

CHMN. BONEY: We could not have an official hearing on this since there would be opposition because it would have to be advertised.

DR. JONES: That's right.

CHMN. BONEY: It was not advertised, but I was just wondering whether it did come under the jurisdiction... have you released his lease to him, do you know?

MR. THOMPSON: We offered to, but we haven't heard from Mr. ~~Lister~~.

CHMN. BONEY: You've offered it to him but you haven't heard from him, is that right? And this one 40 is the only one that he's interested in, I'm quite sure, isn't it?

MR. THOMPSON: Well, in several other problems involved in this particular matter.

CHMN. BONEY: I suspect we'd better schedule it for another time for a hearing.

MR. LaMOREAUX: All right.

DR. JONES: Mr. Chairman, I'd like for the record to show that it is the problem of this Board to protect the correlative rights of owners. That is a problem of this Board.

CHMN. BONEY: Schedule that for a hearing at the next meeting, Gene. Joe, you all will be notified. Y'all are on the mailing list, are you not, in Jackson?

MR. THOMPSON: Yes.

CHMN. BONEY: Since it was not advertised, I don't think the Board should render any decision today.

DR. JONES: That's entirely correct, yes sir.

CHMN. BONEY: But since it'll be involved, you might say, let's set it for August, the third Friday. I have the letter from them and while you were here, I thought it best that...

DR. JONES: Well, I thank you for it, because it is something that should have full discussion.

CHMN. BONEY: Yes sir. Well, I see now that it does need it. Mr. Thompson is aware of the fact, too. The lease hasn't been sufficiently released back to them, and so forth and so on. So any other thing to come before the Board?

(No response)

MR. HANBY: Mr. Chairman, I have a little statement I'd like to read, if I may.

CHMN. BONEY: All right. Are you going to testify?

Do you want us to swear you?

MR. HANBY: No, I'm not going to testify, but I see Mr. Bruer back here and I've typed this thing out so that there wouldn't be any problem of what I said or any question about what I say. I'm sure that everyone here is familiar with the fact that I, as a member of the State Legislature, introduced and passed a joint House and Senate Resolution in the last Special Session of the Legislature, calling on the oil industry to establish a stable market for the crude oil in Citronelle. I might state here that this was entirely my action as a member of the State Legislature and in no way was it to be construed as an action of the State Oil and Gas Board, nor was the Board in any way cognizant of my action before or at the time of the introduction of the Resolution. I simply felt that the Legislature of Alabama was interested in the problem and took this course to so advise the oil industry. The Resolution passed both Houses unanimously. I am indeed pleased to state that I have received word from a representative of many of the major oil companies and independent producers in response to the Resolution I introduced and which was passed in our State

Legislature. I have been assured that the industry is desirous of cooperating fully in establishing a stable market for the Citronelle crude and that the industry intends to vigorously pursue a successful solution to the problem. It is gratifying to me to have this fine and speedy response from the industry, and I feel sure we can look forward to full cooperation on the part of them. I am mindful of the excellent cooperation that we have received from the industry in the past, and I have every reason to feel that this fine relationship will continue. We are very grateful for the part that the industry has played in developing the potentials for the oil and gas resources in the State. We recognize the fact that many millions of dollars have been spent in our State on exploration, and we certainly have every feeling that this will continue until the situation at Citronelle will be remedied, and I do want to thank the oil industry at this time for their past cooperation and the future cooperation I know we will receive.

CHMN. BONEY: Is there any other further comment of any matter that needs to come up at this time?

(No response)

CHMN. BONEY: It looks like that might bring us to the end of today's session, by golly, and we're not near through, are we. We like to have got every order in the world on here, didn't we..... If there's no other matter to come before the Board at this time, we stand adjourned, except for the approval of the minutes and the Executive Session of the Board. Phil, do you have any statement?

MR. LaMOREAUX: No.

CHMN. BONEY: Gene? Gus?

(Both indicated negatively)

CHMN. BONEY: All right. We stand adjourned.

(Whereupon, at 11:15 A.M., 20 July 1962, the regular session of the Board was adjourned. An executive session followed.)

* * *

THIS IS TO CERTIFY that the foregoing transcript
is a true and accurate account of the proceedings
of the Regular Session of the State Oil and Gas
Board of Alabama on 20 July 1962 in Tuscaloosa,
Alabama, to the best of my knowledge and belief.

Lou M. Chambers
LOU M. CHAMBERS
Hearings Reporter
State of Alabama