

NEW MEXICO OIL CONSERVATION COMMISSION

Regular Hearing

9:00 a.m., August 20, 1953

MR. CAMPBELL: I'm Jack Campbell of Roswell, New Mexico appearing for Blackwood & Nichols, the applicant in Case No. 566.

I would like to make an opening statement to the Commission with reference to this case. The application here is brought under Section 13-C of the Conservation Act, which provides that if the pooling of properties is not agreed upon, it may be required by the Commission where under a uniform spacing plan already adopted by the Commission, any owner of the property within that area who would otherwise be deprived of its right to recover its fair share of the oil and gas.

The area involved here is four 320-acre drilling units in San Juan County in the Blanco-Mesaverde gas pool. The area here is within the exterior boundaries of the Blanco unit agreement, but this application does not contemplate and no effort is being made to require anyone to commit their acreage, royalty or working interest to the unit agreement and if the application is granted, accounting would have to be handled in such a manner that the owners of these interests would - - which are pooled under the spacing plan, would recover the same amount of oil as they would in the absence of the unit agreement.

It is our position that the owners of the acreage within this

four 320-acre drilling units who have joined the unit agreement and have voluntarily pooled their acreage and we are seeking here to get the Commission to pool the acreage which has not been committed to the unit, but since it is pooled into 320-acre drilling units and not be required to be committed to the unit agreement itself.

I have two witnesses - Mr. McAfee and Mr. Foster Morrell - will you swear them please?

K. E. McAFEE,

having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. CAMPBELL:

Q. What is your name, please?

A. K. E. McAfee.

Q. Where do you live?

A. Oklahoma.

Q. Do you have some position with Blackwood & Nichols?

A. I am the oil conservation supervisor.

Q. In that position, are you acquainted with the application of Blackwood & Nichols in Case No. 566?

A. I am.

Q. Have you become acquainted with the ownership of working interests and royalty interests within the four 320-acre tracts involved in this application?

A. I have.

Q. Would you state what proportion of the working interest in the W/2 of Section 17, the E/2 of Section 18, E/2 of Section 19 and the W/2 of Section 20 have been committed to the Blanco unit agreement?

A. Well, the working interests have all been committed except a small tract owned by T. H. McElvain which includes Lots 1 and 2 in the NW $\frac{1}{4}$ of Section 20 and Lots 6, 7, and 8 -- no, 6 and 7 of Section 17. I believe in all, that is about 52.12 acres in Section 20 and about 46.52 acres in 17 that have not been committed to the unit.

Q. And can you state what proportion the royalty interests have not been committed to the unit within these four tracts?

A. Well, the McElvain leases are federal leases and of course, federal royalties are committed. But there is some land that the working interests are committed so I assume that the royalty under the McElvain lease is not committed and then there are tracts 63 and 65 which is -- tract 63 is 120 acres and tract 65 is 40 acres. The royalty owners of those two tracts which comprise 160 acres have not been committed.

Q. Does Blackwood & Nichols own a portion of the working interests in what is shown as Tract -- strike that question. I will hand you what has been marked as Exhibit A in Case 566 and ask you to -- if you have examined that?

A. Yes, I have.

Q. What is that, Mr. McAfee?

A. That is an ownership plat of the tracts described in the application.

Q. Referring to that ownership tract, the tract which you have referred to is shown on that Exhibit A as tract 45?

A. Yes.

Q. And that is the tract on which the royalty interests have not been committed to the unit agreement?

A. That's right.

Q. Does Blackwood and Nichols own a portion of the working interest under that tract?

A. They do.

Q. What area is covered by the lease itself?

A. There are two leases, as a matter of fact. What is the north 120 acres, shown as tract 45, is covered by one lease. According to the original survey was the W/2 of the SE $\frac{1}{4}$ and the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 18. The south 40 acres of tract 45 is covered by another lease and under the original survey and as patented that was the north east northeast of Section 19. Now the resurvey quit that so that the 520 acres lies partly in Section 18 and partly in Section 17 and the south 40 acres partly in Section 19 and partly in Section 20, as indicated in this exhibit.

Q. When do these lease expire during the absence of production?

A. They are supposed to expire September 1st, 1953 unless the -- production is being conducted.

Q. In your position as general counsel for Blackwood & Nichols, have you made an effort to obtain a voluntary pooling agreement with the royalty owners under these two leases?

A. I personally have never been able to discuss this with Mr. McElvain - - Michaels, I believe it is and I had several conferences with three - - - at one time they agreed to this voluntary commitment but later told me that Mr. Michael did not agree to sign so they have been requested.

Q. Mr. McAfee, if the Commission pools the acreage here involved, is it your - - do you agree under your lease to compensate the royalty owner in the same manner as he would be compensated in the absence of any unit agreement in this area?

A. Certainly. That is our expectation, if it becomes part of a pool unit, we will pay the royalty to the - - on the well in the same manner as if a unit agreement were not present.

MR. SPURRIER: Are there any other questions of this witness? If not, the witness may be excused.

FOSTER MORRELL,

having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. CAMPBELL:

Q. Will you state your name, please?

A. Foster Morrell.

Q. Where do you live?

A. Roswell, New Mexico.

Q. What is your position?

A. I am now, at present, a petroleum consultant.

Q. In connection with your work as petroleum consultant, have you had occasion to become acquainted with the ownership of acreage in the area involved in Case No. 566 before this Commission?

A. I have.

Q. How did you have occasion to become acquainted with this?

A. At the request of Blackwood & Nichols, to assist them in connection with the northeast Blanco unit. And further, through the preparation of a map of the acreage involved in the present application.

Q. I hand you what has been identified as Exhibit A, in Case No. 566, and ask you to say if you prepared that map?

A. I prepared this plat.

Q. What does it reflect?

A. It reflects the ownership of lands located within the four 320-acre proposed pooling field.

MR. CAMPBELL: We would like to offer Exhibit A in evidence in this case.

MR. SPURRIER: Without objection, it will be admitted.

Q. Now, Mr. Morrell, I hand you what has been marked Exhibit B in Case 566 and ask you to state what that is?

A. Exhibit B in Case 566 is a certified copy of the original survey of the General Land Office, Township 30 North, Range 7 West.

Q. And when was that original survey made?

A. The survey was made in 1882.

Q. Mr. Morrell, with respect to the study of the ownership within that area, do you know whether patents were issued in the area involved in this case on the basis of the description in the original survey?

A. To my personal knowledge, some patents were issued on the basis of the original survey.

Q. Do you know whether a patent covering tract 45 on Exhibit A was issued in - - by description on the original survey?

A. ~~XXXXXX~~ It was.

Q. Do you know whether the oil and gas leases now covering tract 45, which are part of the subject of this hearing are described by the patent description?

A. They are.

Q. I now hand you what has been marked Exhibit C in Case 566 and ask you to state what that is?

A. Exhibit C in Case 566 is a photostatic copy of the independent re-survey made by the General Land Office of Township 30 North, Range 7 West.

Q. What was the date of that re-survey?

A. The re-survey was completed during 1940.

Q. Referring to Exhibit C there, what was the effect of the re-survey upon the patent of Tract 45 involved here in this case?

A. The effect of the re-survey was to cause what was originally described as the W/2 of the SE of 18 and the SE/4SE/4 of 18 and the

NE/4NE/4 of Section 19 to now be approximately 850 feet/^{east}of that original land description and approximately 100 feet south.

Q. You can probably illustrate that better by that exhibit.

A. Exhibit B in Case 566 is an enlarged photostat of Section 17, 18, 19 and 20. This enlargement more graphically demonstrates the shift in the land line as resulted from the independent re-survey. From the exhibit that you have, you will see on Tract 45 in the east corner there is a number and if you find Tract No. 2 in the extreme northwest portion of Tract 45, that point numbered 2 would originally have been the center of 18 and that demonstrates the east shift.

Q. In other words, Mr. Morrell, as I understand you, where this Tract 45 covered by these two leases which describes them in the original survey - shows them, the result has been that where those were once in two of the 320-acre units, they are now partly in four of the 320-acre units.

A. That is correct.

MR. CAMPBELL: I believe that's all.

MR. SPURRIER: Does anyone have a question of Mr. Morrell? If not, the witness may be excused.

MR. CAMPBELL: I would like to correct the record to this extent. A portion of the drilling units or these drilling spacing units are located in San Juan county and a portion in Rio Arriba county by virtue of being on one side of the river or the other.

I would like to explain to the Commission briefly what the change in the situation by the re-survey has done with reference to

these fee leases. As I said at the outset, the purpose here the Commission has already set up in its Case No. - - in its order No. R-110, spacing units of 320-acres in this particular field and in order to obtain all of the oil and gas to which we are entitled under these fee leases and still conform to the Commission's spacing pattern, which is the NE/4 and the SW/4 of each section in this field it is necessary for us to ask the Commission to pool this acreage.

The effect upon the royalty owner will be exactly the same as if the well were drilled on their acreage because they would get as royalty their proportionate part of the 320-acre production or 320-acre allowable if the area happened to be on gas proration.

I would like to have the record show also that Exhibits B, C and D were offered in evidence.

MR. SPURRIER: Without objection, it will be admitted. Does anyone else have a comment in this case?

MR. GRAHAM: Was there any response from those people?

MR. MORRELL: No. As I understand it, the Commission furnished the persons who had not committed their acreage to the voluntary pooling agreement or committed^{it} to the unit agreement with registered notices with reference to this particular case and we have had no direct response from any of the persons whose acreage had not been committed.

MR. SMITH: J. K. Smith of Stanolind Oil and Gas Company. We would like to join with Blackwood & Nichols in its application for the requested order.

MR. SPURRIER: Anyone else?

MR. WALKER: Mr. Campbell, did any of the royalty owners who did not wish to enter into this unit agreement state any reason for their desire not to enter into it?

MR. CAMPBELL: Perhaps Mr. McAfee can answer that question, since he was contacting these people.

MR. McAFEE: There are four owners and each -- well, I don't think they have an undivided 1/4th each, but there are four people who own the royalty under this 160 acres. They expressed the opinion -- the three to whom I talked expressed the opinion that this order would be appropriate and they couldn't complain if it were issued but they did not want to join the unit because they felt like that with this order they'd get develop now, by joining the unit it would be three, four or five years before it would be fully developed and they would be getting their maximum checks. And that was the sole basis for declining to join the unit, as I understand it.

MR. GRAHAM: That's by reason of their early exploration?

MR. McAFEE: Yes, they have early exploration (expiration).

MR. SPURRIER: You are referring to the joining unit agreement?

MR. McAFEE: Yes, I'm talking --

MR. SPURRIER: The acreage within a 320 drilling unit?

MR. McAFEE: That's the reason for declining to join the unit, which is a 33,000 acre unit.

MR. MACEY: Did I understand you correctly to say that some of the working interest owners had not signed up?

MR. McAFEE: You will notice there outlined in green in Exhibit A, the portion of federal lease owned by Mr. McElvain that has not been committed to the unit agreement neither has it been voluntarily pooled by such agreement. I assume that the effect will be that if this order was issued and these wells were drilled in the W/2 of Section 20 in the SW/4 would be the orthodox location for the well under the spacing order in the field, that the working interests would participate in the production without having to share in the participation, and you would also of course be required to pay its proportionate share of the cost of the well.

If the cost of the well could not be agreed upon by the ones who drill the well and Mr. McElvain, the statutes then provide that the Commission will have to decide, - - what would be a fair cost for the well to be charged against the acreage. But in order to get his proportionate acreage proportion of the production, he bears his proportionate part of the cost of the well, but he still gets exactly what he would get under the present spacing order if this order were not entered.

MR. SPURRIER: Anyone else? If not, we will take the case under advisement and move on to case 567.