

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

IN THE MATTER OF:

Case No. 1211

TRANSCRIPT OF PROCEEDINGS

DEARNLEY - MEIER & ASSOCIATES
INCORPORATED
GENERAL LAW REPORTERS
ALBUQUERQUE - SANTA FE
3-6691 2-2211

February 20, 1957

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO

-----: :
IN THE MATTER OF: :
: :
: :

Application of W. P. Carr for an order force :
pooling certain acreage in the Blanco Mesa- :
verde Gas Pool, San Juan County, New Mexico; :
or in the alternative for approval of a non- :
standard drilling and proration unit of less :
than 320 acres in said Blanco Mesaverde Gas :
Pool. Applicant, in the above-styled cause, :
seeks an order force pooling all interests in :
oil or gas or both of them in that portion :
of the Blanco Mesaverde Gas Pool underlying : CASE NO.
the N/2 of Section 10, Township 30 North, :
Range 11 West, San Juan County, New Mexico; : 1211
or in the alternative for approval of a non- :
standard drilling and proration unit con- :
sisting of the N/2 of said Section 10 less :
that portion of the S/2 NW/2 thereof lying :
west of the Denver and Rio Grande Railway :
right-of-way, and designated as "Town of :
Aztec and Townsite Lots -- 37.36 acres;" :
said acreage to be dedicated to applicant's :
Hampton No. 3 Well located 790 feet from :
the North line and 1550 feet from the East :
line of said Section 10. :
: :
-----: :

BEFORE:

Mr. Daniel S. Nutter, Examiner

TRANSCRIPT OF PROCEEDINGS

MR. NUTTER: Case No. 1211.

MR. COOLEY: Case No. 1211. Application of W. P. Carr
for an order force pooling certain acreage in the Blanco Mesaverde

Gas Pool, San Juan County, New Mexico; or in the alternative for approval of a non-standard drilling and proration unit of less than 320 acres in said Blanco Mesaverde Gas Pool.

MR. KELLAHIN: Jason D. Kellahin representing W. P. Carr. I have one witness, Mr. Mr. Cummins, I would like to have sworn.

(Witness sworn.)

DIRECT EXAMINATION

BY: MR. KELLAHIN:

Q Will you state your name, please?

A M. L. Cummins.

Q Where do you live, Mr. Cummins?

A Durango, Colorado.

Q What business are you engaged in?

A Real estate and oil property.

Q In connection with your real estate business, have you represented the applicant, W. P. Carr?

A Yes, I took a block of leases for him surrounding the Town of Aztec in 1952.

Q And did that block of leases include the area in the N/2 of Section 10, in Township 30 North, Range 11 West?

A It did.

Q Are you familiar with the lease situation as to that acreage,

Mr. Cummings?

A Yes, sir.

Q Are you familiar with the application which has been filed in this case?

A Yes.

Q Referring to the plat which has been attached to the application, Mr. Cummins, will you state whether that fairly represents the lease ownership in the N/2 of Section 10?

A Yes, sir.

Q What is the condition as to lease ownership in the N/2 of the section, and the SE/4 of Section 10?

A Well, the NE/4 was not leased because it was old town lots.

Q I am referring to the N/2 of the section, and the SE/4.

A Southwest, well, it was -- I took leases on everything with the exception of the SW/4 of the NW/2.

Q In other words, W. P. Carr now owns, holds leases on all of the acreage with the exception of the SW/4 of the --

A NW/4.

Q --NW/4, is that correct?

A Then he holds a lease on railroad right-of-way through there, which might be on two or three acres.

Q Aside from the railroad right-of-way he holds no other lease on the SW of the NW/4, is that correct?

A That's right.

Q Now, can you tell the Commission what efforts you made and what you found as to the ownership in the SW/2 of the NW/4?

A Well, I believe that there will probable be a hundred owners on that thirty-seven acre tract.

Q How is that acreage divided up?

A Well, in town lots, and, oh, I think that you have about four ownerships to an acre there. That is, four building sites to an acre, and it is practically improved. Some of it is under FHA and GI, and you have subrogation agreements in there to get, if you did happen to get a lease from the owner.

Q FHA and GI, you mean that the property is --

A Developed, yes, sir.

Q There are houses on it?

A Yes, sir, lots of houses on it.

Q Did you make any effort then to find the ownership of those lands?

A No, that's too damn tough. I backed away from it.

Q Did you make any estimate then as to the cost of securing those lease, Mr. Cummins?

A I figured it would take \$250.00 an acre for abstract and legal work, without the expense, and the leg-man, that is, the man that goes out in the field and gets the lease.

Q Take how much?

A Around \$50.00 an acre for abstracting, or \$50.00 a lease, and then your legal expense would run around \$100.00.

Q A lease? A Yes.

Q And how many leases did you say you thought you had?

A I imagine about a hundred in there.

Q Mr. Cummins, did you so advise Mr. Carr in connection with that? A Yes, sir.

Q How long have you been engaged in this lease business?

A Oh, since about 1949.

Q And how long have you worked in the area of the Townsite of Aztec?

A Oh, about, took the better part of a year to put those leases together.

Q That is not in Section 10, but --

A I think it is around thirty-six hundred, yes, sir.

Q I am asking these questions, Mr. Cummins, to show your qualifications for making this estimate. A Yes.

Q Did you, in connection with this lease activity, become familiar with conditions generally around Aztec?

A Yes.

Q Are you familiar with the prices paid for leases?

A. Yes, sir.

Q Do you make any estimate on how much these leases would

cost each owner?

A On a town-basis like that, you probably give them \$10.00 an individual bonus.

Q And on the basis of the cost of abstracting, which you have given us, the cost of legal fees and the cost of the lease for each lease secured, would you consider that a reasonable price to pay for leases on the area included there?

A Yes.

Q I mean, would it be a reasonable price compared to the cost of other leases?

A Well, I am basing it on leases that we took on that area. See, a lot of the tracts in that area were one-acre, two-acre, and ten-acre.

Q But what I am -- The question, I believe you misunderstood my question, Mr. Cummins, let me restate it. Taking the cost of the abstract, which you have stated, per lot, the cost of the legal fees per lot, and the cost of the lease per lot, what would the cost of those lease be per acre, where you are able to secure it in the Townsite of Aztec?

A And you add the cost of the individual that takes the lease?

Q Yes, sir.

A It will run \$350.00 net.

MR. NUTTER: Is that per acre, or is that --

A Per acre.

MR. COOLEY: Three fifty.

Q (By Mr. Kellahin): Now, on the basis of securing other leases there, is \$350.00 a reasonable price to pay for an acre?

A Oh, hell no;

Q Now, Mr. Cummins, in connection with the application which has been filed here, the applicant asks for forced pooling on the acreage on which he does not presently own, and the applicant further asks the Commission to set a reasonable provision for the allocation of well costs on the well to be drilled on that acreage. Have you any suggestions to the Commission in that connection?

A Well, the cost of the wells average around seventy thousand dollars a well in the area north. I believe this well is the first well that has been drilled in that area in Mesaverde.

MR. NUTTER: Do you know the cost of that particular well?

A Not exactly, but I think seventy thousand dollars a well will run --

Q (By Mr. Kellahin): How would you suggest that cost be allocated in the event any of the owners of the township lots wish to come in --

A Well, I imagine about one and a quarter times the cost of the well.

Q Is that the usual cost of many of those wells?

A That is what has been done, some of them a little higher.

Q Now, in the alternative, the application asked for a non-standard drilling and ~~proration~~ unit of less than 320-acres. Would you be able to supply the Commission with a survey description of the acreage which would then be omitted?

A Well, it will be that quarter, with the exception of the railroad right-of-way.

Q Would you be able to supply the Commission with a survey description of the right-of-way which he presently holds ^{under the} ~~the~~ lease --

A Now or later?

Q --in the vicinity?

A Oh, I don't think there will be any variation.

MR. COOLEY: What was the answer?

A I said it could be furnished to the Commission.

MR. KELLAHIN: I believe that concludes my examination.

MR. NUTTER: Mr. Kellahin, you have been directing your questions along the line that the only acreage that isn't under lease is part of the SW/4. Is there not a small tract in the SE/4 that is described by the plat as being part of the Townsite Lots?

MR. KELLAHIN: The plat would so indicate. Would you answer the question, Mr. Cummins?

A Carr hasn't any acreage with the exception of the right-of-way in that quarter section.

MR. KELLAHIN: Mr. Nutter is referring to this acreage.

A Yes, this is developed in here.

MR. KELLAHIN: But he is referring to this acreage here.

A That is under lease.

CROSS EXAMINATION

BY: MR. NUTTER:

Q The plat attached to the application, Mr. Cummins, shows a portion of the SE/4 of the NW/4 as lying within the Town of Aztec in Townsite Lots. Can you state what the condition is as to the lease ownership in that acreage?

A It is all under lease.

Q To W. P. Carr?

A To W. P. Carr.

Q Then the only acreage affected by this application would be in the SW/4, NW/4?

A Yes.

MR. NUTTER: That is all. Does anyone have any questions of the witness?

MR. UTZ: Yes, I would like to ask one question.

BY: MR. UTZ:

Q I would like to know what does the plat show as to the ownership of that lease?

A It is Mary Ann Shepard's.

Q How much acreage does that particular tract --

A The Mary Ann Shepard Lease?

Q --cover. Yes. A 160 acres.

Q It is contiguous with the other lease of 32.1 acres as shown to the east of the right-of-way?

A Yes, sir.

MR. NUTTER: In other words, that tract northwest of the railroad right-of-way is included in the 32.1 acres. The plat indicates that Mary Sheppard owns --

A That belongs to the Mary Sheppard Lease.

Q It is included in the 32.1 acres?

A That's right.

MR. NUTTER: Anyone else have any questions.

MR. COOLEY: I have some questions.

MR. NUTTER: Mr. Cooley.

BY: MR. COOLEY:

Q Mr. Cummins, you say that Mr. Carr has leases on all of the N/2 of Section 10 with the exception of that portion of the SW/4 of the NW/4 designated as Aztec Township?

A That's right.

Q Is the lease ownership -- Is the royalty ownership common throughout?

Q There are a number of leases, yes.

Q You gave an estimate of seventy thousand dollars per well in the Mesaverde wells in this area. How long do you estimate that a well like that would take to pay out. Are you qualified to answer that sort of question?

A Well, not too well.

MR. COOLEY: Strike the question please.

Q Yet, you estimate that a hundred and twenty-five percent out of production would be --

A That's the policy, because on several occasions, Mr. Carr has taken leases in that area and he had to pay one hundred and twenty-five per cent to get back in the unit, once it was a fellow named Larker.

Q In a voluntary communization plus this one hundred and twenty five per cent out of production --

A That is what it would cost him on this one particular well that I have in mind. It was an ownership by Stanolind and Southern Union.

Q Mr. Carr entered into a voluntary communization agreement?

A Yes, that's right.

Q In the event this acreage, this forced pooling would be approved, is it Mr. Carr's suggestion to set up a fund?

A I believe you better refer to the attorney on that.

Q What would Mr. Carr's suggestion be in the event that the

forced pooling handles the production attributable to the Aztec Townsite?

MR. KELLAHIN: Mr. Carr would abide by any order entered into by the Commission, but due to the diversity of ownership in this area, and the unlikelihood of anyone coming in on this well, it would seem an imposition on the applicant and also on any trust officer who might be named, to hold that money indefinitely. It is very doubtful any of it would ever be claimed, and therefore, this is just by way of suggestion, it would seem to us better that either the matter be left open until they come in and ask for it, a share of the production of the well, or if the Commission sees fit to ask Mr. Carr to post a bond, which would cover it --

MR. COOLEY: Is that a suggestion to allow Mr. Carr to retain the proceeds until it is claimed?

MR. KELLAHIN: I think it is, until the well --

MR. COOLEY: If and when the well is paid out, and then there is cash dollars attributable to this acreage, then what do you proposed to do with them?

MR. KELLAHIN: It is my suggestion Mr. Carr be allowed to retain it, or in the alternative, to post a bond, rather than deposit the money, because of the small likelihood that these lot owners would ever make a claim for it. The Townsite Lots ownership would be small, but when you take them all together, it is quite

a lot of money. It would seem a useless part or gesture.

Q Would that be more desirous, to maintain a bond over a period of years, than to establish a fund and to attribute to that 37.36 three hundred and tenth per cent of the production after the pay out?

MR. KELLAHIN: The question that comes to my mind, Mr. Nutter, is this: If he opens a trust account and deposits the money, and Mr. Carr I am certain is presently willing to do so, there should be a termination date set on that in some fashion, otherwise, you have a trust account sitting in the bank in Aztec, or wherever the trust may be designated, who would hold that money from now until -- It would never be claimed by anyone.

MR. NUTTER: So that you would recommend that if a trust fund should be set up, it should have a limitation of time on how long it should be maintained?

MR. KELLAHIN: I have not investigated that matter, but I think it should be left to the discretion of the Commission as to how it should be handled.

MR. NUTTER: What about the question posed previously, if you should keep the proceeds and provide a bond to cover them, how long should he maintain the bond?

MR. KELLAHIN: That's another question that I have not explored. As a matter of fact, in my own opinion, I think that Mr. Carr does own a considerable amount of property up there, and

he should be allowed to retain it, and if the claim is made, he is liable for it. It is a question of whether he is able to pay for it, that is the question that the Commission should be concerned with.

BY: MR. NUTTER:

Q Mr. Cummins, I wasn't able to follow precisely the manner in which you built up this cost of \$350.00 per acre to acquire the lease. I wonder if you would go through those again, what the individual cost would be and how they would total \$350.00 per acre?

A I figured that your abstracting per unit would run at \$50.00 a unit.

Q That's abstracting for each building section?

A Yes, each piece that you come in contact with.

Q And how much was that? A \$50.00.

Q And --

A And a hundred dollars would have to take care of your legal fees, and then the individual who went out and secured these leases would get the difference.

Q Now, there are four building sites per acre?

A Just about.

Q Well, that would be about \$200.00 per acre for abstracting and \$100.00 per acre for legal fees. A That's right.

Q In other words, this \$250.00, is that per acre, or is

that per building --

A Be per acre.

Q Well now, those don't total up, Mr. Cummins.

A You will run into some where you will get a group probably of three or four lots.

Q Were the legal fees \$100.00 per acre, or \$100.00 per unit?

A \$100.00 per portion that an individual owned.

MR. COOLEY: There must be some mistake, that would figure out to \$600.00 per acre plus the cost of the lease. That would be pretty close to \$100.00 per acre for legal fees, but at \$100.00 per unit, four times a hundred would be \$400.00 and four times fifty would be \$200.00, and you get \$600.00 there.

MR. MANKIN: There are some cases there is one per acre, and in some cases, four per acre.

MR. NUTTER: Rather than going into the detail of how you built up the cost, would you leave the cost stand. Your estimate would be \$350.00 per acre to acquire the leases?

A Yes, sir.

MR. NUTTER: Does anyone else have any questions of the witness?

MR. MANKIN: I have some questions.

BY: MR. MANKIN:

Q Is ~~there~~ a dispute, as to the cost of seventy thousand dollars on this well?

A No, I based it on some -- a well that he drilled, and several others in the area.

Q Why do you want the Commission to determine cost when there is no dispute?

A I don't know.

MR. COOLEY: The application does not request determination of cost, Mr. Mankin.

MR. MANKIN: Mr. Kellahin read from the application for the determination of cost.

MR. COOLEY: Allocation, percentage allocation and the actual cost of the well are two different things.

MR. MANKIN: Since there is no dispute, I don't believe there is any question over here.

MR. NUTTER: The application clearly requests that provisions be made for the allocation of the cost, which could be on a percentage basis rather than an actual dollars and cents value. I think the record indicates that one and a fourth is the established price per voluntary communization in the area, one and a fourth per cent.

MR. MANKIN: Again, if there is no dispute, the Commission would have no jurisdiction as to the percentage of the cost.

MR. COOLEY: The Commission will determine these matters.

MR. NUTTER: Are there any other questions? Mr. Kellahin,

your application asked for forced pooling, or in the alternative, a non-standard drilling unit consisting of less than 320 acres. Does Mr. Carr have a preference as to which course to be followed?

MR. KELLAHIN: Yes, I think Mr. Carr would prefer to have the forced pooling on account of the factor of recovering this well's costs.

MR. NUTTER: Under the condition you enumerated a while ago?

MR. KELLAHIN: I would like to make a statement in connection with that, however, could I go off the record a moment?

MR. NUTTER: Off the record.

(Discussion off the record.)

MR. KELLAHIN: In connection with the application, the application would seem to indicate that the only area affected is that portion of the S/2 of the NW/4 lying west of the Denver and Rio Grand Railroad right-of-way. As the record will show, Mr. Carr owns a lease covering that portion lying west of the railroad right-of-way in the SE/4 of the NW/4. The application would further seem to indicate that the only land left then would be that lying west of the railroad right-of-way in the SW/4 of the NW/4. There is, however, a small triangle lying to the east of the railroad right-of-way in the SW/4, which Mr. Carr does not have under lease. In connection with that, I do not believe that the scope of the application

would be affected, nor would the advertising be affected by that condition. For this reason, the application for forced pooling was made and advertised as including the entire N/2 of the section, and adequate notice was given. Insofar as the alternative proposal of the non-standard unit is concerned, the deletion of the small triangle lying east of the railroad right-of-way in the SW/4 NW/4 would further restrict the application rather than expand the scope of the hearing, and I do not feel again, that the hearing has been improperly advertised.

Now, in connection with the application as a whole, I would like to state that Mr. Carr would prefer forced pooling of the N/2 of Section 10 involved here. The suggestions which have been made as to the allocation of well costs are merely a suggestion and of course, Mr. Carr will accept any disposition of that point made by the Commission, and I might add that the provision in the application asking for allocation of well cost was made at the request of the Commission, that it might be determined at this time, and if the Commission sees fit, and I think it will probably do so, until a dispute arose on well cost, I personally do not feel that there is any necessity for such a determination to be made in connection with this hearing. In so far as the handling of any funds is concerned, after the cost of the well has been recovered, again, Mr. Carr will abide by any determination

made by the Commission. I do think it highly impracticable to require him to hold the money, or post a bond due to the fact that the small interests involved in that area are so infinitesimal individually, that there is extreme doubt that anyone would ever come in and ask for a share in production of that well, and those funds would be tied up, or Mr. Carr would be burdened with the cost of a bond needlessly, and certainly, he has enough property in this immediate area that they will be paid their proration share of production if they ask for it, if they pay their proportioned share of the well.

MR. UTZ: Mr. Kellahin, why do you feel that these people would not make claim on that oil well?

MR. KELLAHIN: Well, Mr. Utz, I think it wouldn't be an oil well, I think it would be a gas well, and being a gas well with the revenues divided from this gas well in the San Juan Basin, any share they might get would be so small, that it would be very doubtful that they would ask for and go to the cost of bringing their abstract up to date, and furnish their title information, and in many cases, obtaining a subrogation clause in their mortgage in order to qualify for participation of the well.

MR. NUTTER: Approximately what percentage of the production of the well would one-fourth acre building lot unit bring?

MR. KELLAHIN: I am sorry, Mr. Nutter, I can't answer

that.

MR. NUTTER: Would be in the neighborhood of one-thousandth in the production?

MR. UTZ: In other words, you feel that it would be sending a nickle after a dime?

MR. KELLAHIN: Yes, sir.

MR. COOLEY: I have one question. I would like to clarify here, in the event the Commission chooses to grant a non-standard unit rather than forced pooling, would you please outline again what acreage in the NW/4 of Section 10 would be included in the non-standard unit?

MR. KELLAHIN: The NW/4 of Section 10?

MR. COOLEY: Yes, sir.

MR. KELLAHIN: All of the NW/4 of Section 10 would be included with the exception of the SW/4 lying outside the Denver and Rio Grande Railway right-of-way, and Mr. Cummins in his statement stated that he would furnish a survey description of the portion.

MR. COOLEY: All of the Quarter Section?

MR. KELLAHIN: The Quarter-Quarter Section, that being the SW/4 of the NW/4 would be excluded from the unit, except the railroad right-of-way. Mr. Carr holds a lease on the railroad right-of-way.

