

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
September 20, 1961

IN THE MATTER OF:)

Application of Southwest Production Company)
for an order pooling all mineral interests in)
the Basin-Dakota Pool)

Case
2381

TRANSCRIPT OF HEARING



Q Have you been employed as a lease broker heretofore, and for how long a period of time?

A Yes, sir, for the past year.

Q Prior to that, were you employed by a major oil company?

A I was employed by Shell Oil as both an attorney and land man.

Q Are you familiar with both land and the drilling economics situation in the Basin-Dakota Pool?

A Yes, sir.

Q Have you had occasion to familiarize yourself with the lease situation in the E/2 of Section 22, Township 30 North, Range 12 West?

A Yes, sir.

Q Who owns the leases in this half section?

A The leases are held by Southwestern Production Company, certain of the leases Tidewater has an undivided quarter interest. There are two parcels in there which are not leased; they are shown in yellow and green.

Q You are referring to Applicant's Exhibit No. 1, are you, when you say yellow and green?

A Yes. Those lands are owned by Coffey and Millett, and are communitized by virtue of an operating agreement.

Q Does Southwest Production Company, other than those two tracts, own leases on all of the E/2 of Section 22, 30 North, 12 West?



A Yes, sir.

Q What is the land situation in this E/2 of 22; are there small tracts, is it a complicated land situation?

A There are quite a few small tracts there, metes and bounds, descriptions such as that.

Q Is the community of Flora Vista located within this E/2 of Section 22?

A Yes, it is.

Q Describe that community, if you will, please, to the Commission.

A The community is really not much of a community. There is one store in there, which is a typical country store as they used to exist in my childhood, where there is practically nothing in the store and the people gather around to smoke and chew the fat.

Q Has there been a plat dedication of a town site there?

A Yes.

Q When was it filed, do you know?

A In 1906, I believe.

Q Do those streets and alleys actually exist today?

A No, sir, they do not.

Q This is indicated, is it, on Exhibit No. 1?

A Yes, it shows on there.

Q Are there other unusual and somewhat questionable land situations with regard to small slivers and tracts of land?

A Well, there may be conflicts which exist, and as described

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and platted out, they leave gaps and such things as that.

Q Does this mean there is a possibility of some individual making claim of ownership that is not known to Southwest Production?

A I think that contingency probably exists.

Q As far as you know, with exception of Coffey and Millet's tracts, which are communitized, Southwest has a lease on everything?

A Yes, sir.

Q This area, is it in the Basin-Dakota Pool?

A Yes, sir.

Q Has Southwest started a Dakota well in this area?

A Well, yes, they have. In fact, it is completed, drilled in the N/E of the N/E there. As a matter of fact, it would be just on what is called Note 1, the lease up there.

Q At the time that this application was filed, was that well completed?

A No, sir.

Q Mr. Jones, how long have you been in the oil and gas business as a lease man?

A Well, I have been connected with the oil and gas business for the last eleven years, both as an attorney and lease man.

Q In this capacity, are you familiar with the cost of overhead operation of drilling and producing an oil well?

A At least as it affects a major company.

Q In your more recent experience, are you also familiar with the effects it would have on an independent such as South-

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western?

A I am becoming more and more familiar.

Q In your opinion, what percent of oil and/or gas income would be necessary to defray overhead costs and expenses?

A My experience indicates it would have to be at least ten percent.

Q Are you familiar with the fact that drilling oil and gas wells is a hazardous endeavor from an economic standpoint?

A Yes, sir.

Q Are you familiar with the percentage of success and failure in the Basin-Dakota Gas Pool, and particularly in the vicinity of the E/2 of Section 22?

A Generally, yes.

Q Can you have a failure in this area?

A You could have a failure; I don't believe there have been any, but the possibility would exist there could be a failure.

Q Do you have more than one kind of hazard?

A Yes, sir.

Q In addition to geological?

A There could be mechanical problems.

Q In your opinion, what percentage of pay would an operator need in order to compensate for those hazards in this area?

A Well, I think he should have a return of somewhere between twenty to forty percent, fifty percent.

Q In order to compensate for the hazard involved?

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A If he is going to invest his money and take the risk, yes.

MR. VERITY: I believe that is all.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Jones, how much acreage here does Southwest Production have the lease on?

A We have the lease on 320 acres.

Q What has to be force-pooled, then?

A The possibility of contingent interests, because you can see on the map, you will notice there are certain gaps in there, overlaps between parcels, and that would be it, just contingent interests there, also some conflicts as to ownership in the area. I believe from studying the abstracts and attorneys' opinions, that we undoubtedly have defensible title to the whole area, but the contingency does exist there are third parties that might successfully claim an interest to some of those lands, in the mineral interests.

Q Southwest does hold a lease, though, on everything except the Millet and Coffey lands?

A Yes, sir, with whom we have an operating agreement.

Q And Millet and Coffey will be working interest owners?

A Yes, sir.

Q Do you have a lease on the railroad right of way?

A Yes, sir.

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Q Do you have a lease on the public road?

A That is one of the questions, to whom that land belongs. I have been unable to find any records of conveyances into the County, or anything, and the property descriptions cover that road.

Q So it may not be a public road?

MR. VERITY: If I could interject a comment at this point, there is an absence of authority in New Mexico that is definite and clear as to ownership of the minerals under a dedicated right of way. The statute is slightly ambiguous with regard to the matter. There are conflicting decisions from other states with regard to application of a similar statute. There is real good legal authority in the state to the effect the under such a right of way the County and/or the City, as the case may be, has no title, but there is some authority to the contrary, and this is one of the reasons that we need to have forced-pooling order here. In addition to this, as you will notice from the plat, the area is cut up badly, and the survey situation, and the land situation in this valley is such that survey is difficult and controversies do arise with regard to vacancies and overlaps.

Q (By Mr. Nutter) As I understand it you don't think you need a force-pooling, it is just in event of some undefensible title?

A Yes, sir, because we have proceeded to drill a well, and we feel we are entitled to be able to produce the full allowable and to be reimbursed in the event our title should fail by reason

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of one of these contingent interests.

Q And Millet and Coffey voluntarily joined in the venture?

A Yes, sir.

MR. NUTTER: Any further questions of Mr. Jones:

BY MR. MORRIS:

Q Mr. Jones, you say you may have some conflicts of ownership in this area?

A Yes.

Q Do you feel that the Oil Conservation Commission is the right ^{Forum} ~~form~~ to use to resolve these conflicts, or do you feel, if you have a title problem, you ought to quiet title?

MR. VERITY: I was wondering if I might interpose an answer.

MR. MORRIS: I was hoping you would.

MR. VERITY: Wherever there is an overlap of title we have no problem, because we have a lease from both sides. If there is a title vacancy in place, then this vacancy would need to be pooled, and this is the contingency, one of the contingencies we are concerned about. We, of course, do not suggest that this Commission could quiet title to real estate, only that they can force-pool the mineral interests.

THE WITNESS: That is the reason, as I said, so Southwestern can get full allowable and produce the gas and oil.

MR. MORRIS: In effect, an order of the Commission is going to be sort of in the nature of administrative quiet title

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order?

MR. VERITY: I don't agree with counsel in that regard. It doesn't quiet title. What is does do, we feel that it does pool all of the mineral interests in the area, and if someone proves they have a mineral interest, then it would be subject to a pooling order, and the individual who had drilled a well and expended his money would have a just and equitable return upon it.

MR. NUTTER: Mr. Verity, you were in shape, however, when you obtained the drilling permit, to file an acreage dedication plat showing 320 acres dedicated to the well, were you not?

MR. VERITY: And we contend we own 320 acres, that is correct, and we think we are ready to prove this, but I am sure the Examiner is familiar with the fact there are certain vagaries in the laws, always foreseeable.

MR. NUTTER: Any further questions of Mr. Jones? He may be excused.

MR. VERITY: We offer in evidence Exhibit 1.

MR. NUTTER: Applicant's Exhibit No. 1 will be admitted in evidence. Do you have anything further, Mr. Verity?

MR. VERITY: We have nothing further.

MR. NUTTER: Does anyone have anything further they wish to offer in Case 2381? Take the case under advisement and recess the hearing until 1:15.

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STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO) ss.

I, JUNE PAIGE, Court Reporter, do hereby certify that the foregoing and attached transcript of proceedings before the New Mexico Oil Conservation Commission at Santa Fe, New Mexico, is a true and correct record to the best of my knowledge, skill and ability.

IN WITNESS WHEREOF I have affixed my hand and notarial seal this 22nd day of September, 1961.

June Paige
Notary Public - Court Reporter

My Commission expires:

May 11, 1964.

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