

BEFORE THE
OIL CONSERVATION COMMISSION
Santa Fe, New Mexico

November 29, 1961

EXAMINER HEARING

IN THE MATTER OF:

Application of Southwest Production Company
for an order pooling all mineral interests
in the Basin-Dakota Gas Pool in the E/2 of
Section 22, Township 39 North, Range 12 West,
San Juan County, New Mexico. Interested
parties include Roy Rector and O. G. Shelby,
both of Flora Vista, New Mexico, and Myron T.
Dale, address unknown.

CASE NO.
2446

Application of Southwest Production Company
pooling all mineral interests in an undesig-
nated Mesaverde gas pool in the E/2 of Sec-
tion 22, Township 30 North, Range 12 West,
San Juan County, New Mexico.

CASE NO.
2416
(consolidated)

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

EXAMINER NUTTER: We will call Case No. 2446.

MR. VERITY: George L. Verity, Verity, Burr & Cooley,
representing the Applicant. If the Commission cares to do so,
there is great similarity between Case No. 2446 and Southwest
Company's application 2416. I believe we might save time if we
bring evidence in both cases at one time. Both cases involve the
East half of Section 22, Township 30 North, Range 12 West. One

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application requests pooling of the Basin-Dakota gas; the other requests pooling of the Mesaverde.

EXAMINER NUTTER: We will call Cases Nos. 2446 and 2416 at this time.

MR. WHITFIELD: Case No. 2446: Application of Southwest Production Company for an order pooling all mineral interests in the Basin-Dakota Gas Pool in the E/2 of Section 22, Township 30 North, Range 12 West, San Juan County, New Mexico.

Case No. 2416: Application of Southwest Production Company for an order pooling all mineral interests in an undesignated Mesaverde gas pool in the E/2 of Section 22, Township 30 North, Range 12 West, San Juan County, New Mexico.

MR. VERITY: We will call Mr. Jack D. Jones.

(Witness sworn.)

MR. VERITY: By way of introduction as a preliminary statement, if I might, the East half of Section 22, Township 30 North, Range 12 West, falls within the area of Case No. 2445, which the Commission has just heard wherein we requested 320-acre spacing on the Mesaverde and in this application we are requesting that it be force-pooled for that 320-acre spacing, which we have earnestly requested the Commission to grant. If not, we would, of course, force-pool to the 160-acres upon which the well is located.

JACK D. JONES,

called as a witness, having been first duly sworn on oath, was

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examined and testified as follows:

DIRECT EXAMINATION

BY MR. VERITY:

Q Will you please state your name?

A Jack D. Jones.

Q Mr. Jones, what is your present occupation?

A Independent lease man.

Q Have you been employed in recent months by Southwest Production Company?

A Yes, I have.

Q In San Juan County?

A Yes.

Q Are you familiar with the land and lease situation in the East half of Section 22, Township 30 North, Range 12 West?

A Yes, sir.

Q Can you state whether or not Southwest Production Company owns the majority of the lease in the East half of that Section 22?

A They do.

Q Do they own all of the lease?

A No, they do not.

Q Have you made efforts to contact Mr. and Mrs. Roy Rector, Mr. O. W. Shelby, and anyone else in the East half of Section 22?

A Yes, I have.

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Q Who else have you contacted in an effort to obtain either their joinder in a Dakota well and Mesaverde well on a lease from them?

A Julian Coffey and Milton -- I can't remember what his first name is.

Q If you will, please, tell us whether or not you have been able from these various individuals to obtain either their joinder in a Mesaverde and Dakota well or lease from them?

A I think you should differentiate between the Rectors and the Shelby situation. We did have these lands under lease. There were four parcels involved. They are on the map.

(Applicant's Exhibit No. 1 marked.)

Q Directing your attention to Exhibit 1, would you continue your statement with regard to these different parties?

A Exhibit 1 is a plat showing the lease status in the east half of Section 22, Township 30 North, Range 12 West.

As I started to say, the leases which are designated in the righthand margin, tracts 2 and 3 and tract 4 were all under lease to Southwest and subsequent to the first hearing we had on the Mesaverde, I was going over these leases in reference to royalty problems. I noted that these leases, which were all one-year leases, provided for the payment of 1/8 royalty and shut-in royalty, but inasmuch as they were one-year leases, the man who had taken these leases had stricken the provision which



detailed the manner and the amount in which the royalty and shut-in royalties were to be paid. Consequently, it appeared to me that the lease calling for a shut-in royalty and then deleting the manner and amount in which the shut-in royalty was to be paid were fatally defective. If not extended and amended, the lease would terminate. This occurred subsequent to our first hearing.

I prepared amendments of the lease which extended them for a year and detailed the manner in which the royalties were to be paid. These amendments were signed by the McCartneys who are shown on tract 2 and the Caldwells in tract 4, so that those lands were extended and are still sub-leased.

The other two did not sign.

Q Who are the other two?

A They would be the Rectors and Snelbys.

Q They refused to join in the well?

A Yes.

Q Is there any other area where Southwest Production Company had endeavored to obtain joinders in these two wells and then been unable to do so?

A The items marked Milton and Coffey on the map. Milton is in the Northwest of the Northeast quarter and Coffeys lands fall in the Northeast of the Southeast quarter. We endeavored to lease from them. They would not lease so we then instituted a force-pooling action against them but that was withdrawn when they agreed to enter into an operating agreement and to join us

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in the drilling of the well.

Q Was that operating agreement prepared and submitted to them?

A Yes, it was.

Q Have they made any late decision with regard to whether or not they would execute the agreement?

A I received a call Monday night about 9:30 informing me they decided not to sign the contract because they had looked it over and determined that they couldn't afford to join us.

EXAMINER NUTTER: Is that Milton or Coffey?

THE WITNESS: Coffey.

EXAMINER NUTTER: Is Milton still in?

THE WITNESS: No. Coffey purportedly spoke for both Milton and himself.

Q (by Mr. Verity) What were the general provisions of that agreement?

A It was that they would join in the drilling of the well. They would receive $12\frac{1}{2}$ percent royalty as on the production allocated to their lands. Southwest was to receive 125 percent of the proportionate cost of the well and at that time, Milton and Coffey would have all of the production therefrom minus their share of the cost of production.

Q As I understand it, they were to receive $1/8$ as a royalty from initial production and then none of the $7/8$ until Southwest Production had received 125% production of their cost and

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they would receive their prorata share from other production?

A That's right.

Q And you think it's impossible to negotiate any sort of a satisfactory joinder of these parties in this action?

A Yes, I do. They wanted me to lease the lands at \$100 an acre and 25% royalty.

Q Is that in excess of what is being paid?

A It certainly is.

Q Now, has Southwest Production Company drilled a Dakota gas well in the East half of Section 22?

A Yes.

Q Where is it located?

A It is located in the Northeast of the Northeast. It would be just a few feet south of the little parcel on the exhibit noted one.

Q Is this well now a completed producer?

A Yes, it is.

Q Do you know approximately when it was completed?

A It was completed several months ago.

Q In August of this year, possibly?

A Yes, it could be.

Q Has Southwest Production Company drilled and completed a Mesaverde well in the East half of Section 22?

A That would be on the Brown lease. It would be in the Southwest of the Southeast quarter just south of the railroad

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right-of-way there.

Q Has it been completed as a producer?

A Yes. Both wells have been completed as wells capable of producing gas. I don't believe either one of them are producing.

Q Are you familiar generally with the drilling and completion of oil-gas wells in this vicinity?

A Yes.

Q Do you know whether or not it is a hazardous undertaking?

A Yes, I believe any time that you drill you assume a risk because of any number of unforeseen situations.

Q Are the San Juan sands unpredictable in these two formations?

A Yes, I think that is aptly proven by Mr. Wiederkehr, the previous witness's testimony, as regards to Mesaverde wells in this Section 22. You have the Glen Turner well and then the Brown well. You'd think you'd have a good well, the Brown well, being as close as it was to the Glen Turner well, but it was far from being a gas well.

Q Do you have an opinion as to the amount of hazard with relation to the cost of the well?

A I think --

Q Do you have an opinion as to the percentage of hazard that there is in drilling and completing a well in the Dakota and

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Mesaverde formations and in that vicinity?

A I think 25% would be a minimum, myself, because it's just hard to say what the risk factor is but there are so many things that can go wrong that you never know whether or not you're going to have a well until you have actually drilled and completed a well.

Q Do you have anything else?

A I believe the application talks about the streets and alleys and their efforts to lease the streets and alleys. We have made the streets and have not yet been able to conclude our negotiations, but I'm still conducting negotiations on those streets and alleys.

Q So far, has there been a refusal?

A Well, I first offered to lease and then I started doing some more studying on this matter. I came to the conclusion that the county did not own the streets and alleys so I withdrew my offer to the county. The county has now advised me that they are asserting claim to those streets and alleys. In my opinion, it still remains the same, that they do not own them, but we have re-opened negotiations.

Q You haven't been able to get one as yet?

A That's right.

MR. VERITY: That's all.

CROSS EXAMINATION

BY MR. MORRIS:

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Q Mr. Jones, the Rector interest that you have listed here contains .46 acres?

A No. The map shows .30 acres.

Q Where is that located on this map?

A It would be -- you see the road running up the middle of it? You come down to where it joins the road coming in from the west, proceed north up there, oh, about an inch, where you see Tract 4. The Rector interest then would be Lots 7 and 8, which would be the last two in that small tract 4, there.

Q .30 acres would comprise all of those Lots 7 and 8?

A That's right; and the Shelby interest is the one immediately to the east thereof, which is marked Tract 3. You see it?

Q Tract 3.

A Just immediately --

Q How many acres are there in the Shelby parcel?

A .36 of an acre.

Q Is Mr. Shelby's name O. G. Shelby or O. W. Shelby?

A O. G. Shelby.

Q Is that parcel owned by him or by him and his wife?

A I believe it's owned jointly by two.

Q The same with the Rectors?

A Yes, sir.

Q How many acres are contained in the Milton interest?

A That is approximately 26 acres.



Q What is Milton's initials?

A I can't remember what his first name is.

Q How about Coffey?

A His name is Julian.

Q How many acres are in his interest?

A Well, Coffey has been disputing the acreage of his land for the last fifteen years with all of his neighbors that he has driven off with a gun and has been attempting to stake other people's property. I have calculated it mathematically and within the fence there are less than 10 acres. He's claiming sixteen.

EXAMINER NUTTER: How many do you suggest be force-pooled?

MR. VERITY: All of it.

THE WITNESS: All of it.

Q (by Mr. Morris) Mr. Jones, you suggest force-pooling the Rector interest, Shelby interest, Milton interest, and the Coffey interest, and then --

A The Dailey interest which I haven't discussed yet.

Q Would you tell me about Mr. Dailey's interest, please?

A We would like to force-pool Dailey's interest on the following basis: We have a lease from his brother, George T. Dailey, but George Dailey had a power-of-attorney from his brother, Myron H., who owned the land. Mr. Dailey exercised that power-of-attorney to convey the land to himself. Subsequently, he sold the land to another person, reserving half interest in the minerals;



so, we questioned whether Mr. George Dailey is the owner of those lands. I have attempted to get from him the address of his brother so that we could contact him and either get a lease from Myron H. Dailey, and Mr. Dailey has refused to supply me with that information. He is in Alaska. Myron H. is somewhere in Alaska. That's the only information I have been able to develop.

Q What is the extent of the Dailey interest?

A A half interest in 13 acres, or $6\frac{1}{2}$ acres.

Q You stated that you had made efforts to lease the streets and alleyways. How many acres are involved in those streets and alleys?

A Approximately 5 acres.

Q And you have made efforts to lease that acreage in spite of the belief that the County's claim to that mineral interest is unfounded?

A That's right.

Q You have the railroad right-of-way leased?

A Yes, sir.

Q How about the State Highway right-of-way?

A That is merely a right-of-way. It is, I believe, a grant in fee.

Q Did you say when the Mesaverde was completed?

A I did not. However, it was within the last two months.

Q I believe you said August, 1961, for the Dakota well?

A It was completed prior to the Mesaverde, I believe. I

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believe it would be some time around there, in the early fall.

Q Can you state why Southwest Production Company did not bring a force-pooling application covering this land before these two wells were drilled?

A As I said, we were in the process of negotiating. Actually, we had negotiated and prepared operating agreements with Milton and Coffey and had their verbal agreement that they would execute. The other lands we had under lease, the Rector parcel, the Shelby parcel, and the other two parcels in there and we have an operating agreement lease on the Dailey parcel. We were attempting to get the necessary curative instruments. I worked out the arrangement with George Dailey that in return for our agreeing not to drill upon that lease -- because he desires to build a home there -- that he would proceed to get such curative instruments signed which were furnished him.

MR. VERITY: The No. 1 Brown well which is a Mesaverde well was completed the 16th of September, 1961.

Q (by Mr. Morris) Mr. Jones, do you feel that you have made fair and reasonable offers to lease all of the interests which Southwest seeks to force-pool?

A Yes; and we will probably continue to attempt to lease them.

Q If the Commission should see fit to approve your application and if it should grant a percentage of the well costs in this case to be withheld out of production for cost of super-



vision, what figure would you recommend be withheld for cost of supervision?

A It should be somewhere in the neighborhood -- it shouldn't be less than 10% of the cost of the well.

Q Do you base that figure on anything in particular?

A It's just a good round figure. I base it on my experience, my prior experience with the wells.

Q Do you believe that allocation of the cost of supervision based on percentage of well cost is a reasonable basis for the establishment of such cost?

A I believe that your well cost could be reduced to a percentage of the cost. However, I imagine we would be satisfied if you set what is a reasonable figure.

Q Will Southwest Production Company be willing to submit to the Commission itemized schedules of the well cost on the Dakota well and on the Mesaverde well?

A I have talked to them about that and they said that they would be happy to do so.

MR. MORRIS: That's all; thank you.

CROSS EXAMINATION

BY EXAMINER NUTTER:

Q Mr. Jones, do the various mineral interests as they stand, either leased, unleased, or in question, are they identical as far as the Mesaverde and Dakota wells are concerned?

A Yes, sir, assuming 320-acre spacing.



Q I meant the 320 in question.

A Yes, sir, identical.

EXAMINER NUTTER: Thank you.

FURTHER CROSS EXAMINATION

BY MR. MORRIS:

Q Mr. Jones, in the event the application in the previous case were denied and only 160-acre units would be in effect in the Mesaverde, would all the lease interests that we have talked about that are outstanding with the exception of Milton's interest and a portion of Coffey's interest be included within the 160 acres comprising the Southeast quarter of Section 22?

A It would exclude a portion of Mr. Dailey's interest.

Q A portion of Dailey's interest?

A Yes.

Q Could you tell me how much of Coffey's interest and how much of Dailey's interest would be included or would you just have to interpolate on the map?

A I would have to interpolate.

Q I suppose the Commission could do that in the event it would be necessary.

A I'd be happy to work it out for you. On Coffey's interest, I just don't know until we actually determined, settled what acreage he does have.

MR. MORRIS: I think the Commission should make the

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proper determination in the event it should be necessary.

MR. VERITY: We feel that pooling with regard to the interest of these parties should not be specific with regard to the acreage that we have calculated, because these can be in error. We have made them as accurate as we know. We feel we are entitled to force-pool the interests regardless of what Coffey contends in his case or what his neighbors contend, and with regard to the others, whether our figures are accurate or whether they are smaller than the true amount.

FURTHER CROSS EXAMINATION

BY EXAMINER NUTTER:

Q Mr. Jones, would you be able to furnish us with Milton's first name?

A Yes, I can get that.

Q You have stated that Milton and Coffey had declined to sign the agreement which you tendered them and he made an offer to you to lease a property for \$100 an acre and 25%?

A They wanted to know if I would lease it for \$100 an acre and 25% royalty.

Q You said that you had made reasonable offers to them. What was it?

A \$50 and 17½% royalty.

Q Per acre?

A Yes. I told them if they insisted on 25% royalty I'd see if I could get the company to pay them.

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Q And they have declined your offer?

A Up to the present time.

EXAMINER NUTTER: Thank you.

MR. VERITY: I offer Exhibit 1 in evidence.

EXAMINER NUTTER: Applicant's Exhibit 1 will be entered in evidence in Cases 2446 and 2416.

If there is nothing further, we will take the case under advisement.

* * * *



