

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
APRIL 19, 1961

EXAMINER HEARING

DEARNLEY-MEIER REPORTING SERVICE, Inc.

PHONE CH 3-6691

ALBUQUERQUE, NEW MEXICO

IN THE MATTER OF: :

CASE 2249 Application of Southern Union Production Com- :
pany for an order force pooling a standard 160- :
acre proration unit in the Tapacito-Pictured :
Cliffs Gas Pool. Applicant, in the above- :
styled cause, seeks an order force pooling all :
mineral interests in the Tapacito-Pictured :
Cliffs Gas Pool in the SW/4 of Section 2, Town- :
ship 25 North, Range 3 West, MMPM, Rio Arriba :
County, New Mexico, to form a standard 160-acre :
gas proration unit. :

BEFORE:

A. L. Porter, Examiner

T R A N S C R I P T O F P R O C E E D I N G S

MR. PORTER: We'll go back to the regular order of the docket and take up Case 2249.

MR. MORRIS: Case 2249. Application of Southern Union Production Company for an order force pooling a standard 160-acre proration unit in the Tapacito-Pictured Cliffs Gas Pool.

MR. SANCHEZ: Manuel Sanchez, Santa Fe, New Mexico, attorney at law representing Southern Union Production Company.

MR. PORTER: Mr. Sanchez.



MR. SANCHEZ: The applicant is ready to proceed with the evidence.

MR. PORTER: Do you have any witness?

MR. SANCHEZ: Yes, I have two witnesses.

MR. PORTER: Will you have them stand and be sworn at this time?

(Witnesses sworn)

MR. PORTER: The witness may be seated.

MR. SANCHEZ: I'll have to offer to record first, and then I will ask the questions of the witnesses. I have here a certified copy of the documents in the United States Land Office at Santa Fe, New Mexico with reference to the title of Southern Union Production Company to the north half of the southwest quarter of Section 2, which is involved in this case.

MR. PORTER: Are you offering this as an Exhibit?

MR. SANCHEZ: Yes. I'm offering it in evidence to prove our title.

MR. PORTER: Let this document be identified as Southern Union Production Company's Exhibit No. 1. Is that all right, Mr. Sanchez?

MR. SANCHEZ: That's all right.

(Whereupon, Southern Union Production Company's Exhibit No. 1 was marked for identification)

MR. SANCHEZ: Now, with reference to the ownership of the south half of the southwest quarter of Section 2 involved in this

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suit, I desire to state that I have made an investigation as to the ownership of the said south half of the southwest quarter. I find that the south half of the southwest quarter was patented to Ricardo Martinez in 1931. Ricardo Martinez is now dead. There has been no judicial determination of the ownership of his estate or who his heirs are. I made an investigation, and find that the ownership is as set forth in the application under Paragraph 5 of the application on Page 2. I have verified that as well as I could with respect to the names and the addresses by contacting three of the parties who are listed in there; two of the parties giving me the information, and one of them advising me as to his ownership, namely, the party who owns the majority interest in the party, Jose Maria Martinez.

I will ask Mr. Whitlow to take the stand.

MR. PORTER: What's the witness' name, please?

MR. WHITLOW: Whitlow. W-h-i-t-l-o-w.

D. W. WHITLOW,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. SANCHEZ:

Q Your name is Mr. Whitlow?

A D. W. Whitlow, assistant manager of the Land Department, Southern Union Production Company, Dallas, Texas.

Q How long have you been assistant manager of Southern Union

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Production Company?

A The past two years. I was District Landman for seven years.

Q Your total years of experience has been in connection with the Land Department with Southern Union Production?

A Nine years with the Gas Company.

Q Mr. Whitlow, you made an investigation with reference to the matters covered in this application as to the matter of drilling on the lands involved in the application --

A Yes.

Q -- requesting a proration unit of 160 acres --

A Yes.

Q -- including the north half of the southwest quarter of Section 2, Township 25 North, Range 3 West, MPM, Rio Arriba County, New Mexico?

A Yes, sir.

Q Do you have any information with reference to wells around that area as to the cost of the installation of a well?

A We have drilled, we own the offset acreage and have drilled the four wells in this immediate area offsetting this proposed area. Our costs have ranged anywhere from forty thousand three hundred dollars to forty-three thousand four hundred dollars to drill and complete and get ready to go into the line.

MR. PORTER: You want this marked as Exhibit No. 2?

MR. SANCHEZ: Yes.

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(Whereupon, Southern Union Production Company's Exhibit No. 2 was marked for identification)

Q (By Mr. Sanchez) Mr. Whitlow, I hand you a paper marked applicant's Exhibit 2, and ask you if you prepared or helped prepare that Exhibit?

A Yes, this was prepared in our exploration department on estimated cost of a well to be drilled in the southwest quarter of Section 2. And for a producing well, we estimated forty-one thousand six hundred dollars; for a dry well, thirty-two thousand three hundred eighty dollars.

MR. SANCHEZ: We offer the Exhibit in evidence.

MR. PORTER: Mr. Sanchez, I'll rule on your motion for the introduction of the Exhibits at the close of your direct testimony.

MR. SANCHEZ: That's all right. In connection with that Exhibit, I would like to state to the Commission that I have contacted Mr. Tom McKenna and Mr. Joseph Sommer, each of whom own a one-sixth working interest in this property, and they have agreed that the expenses shown on that would be reasonable, and have also advised them that I would request the Commission to allow Southern Union Production Company a 25 percent increase over the actual cost of the amount of the well. They said they had no objection to that.

Q (By Mr. Sanchez) Mr. Whitlow, with respect to the oil pool and the location of this well, if you put it in the southwest

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quarter of the southwest quarter, or even in the lands covered by the Southern Union Production Company's lease, with respect to the pool, would that well be in the middle of the pool or close to the fringe or just about where?

A It would be a northeast stepout from what we would classify as the pool. We're going toward a dry hole, plus an established water barrier. I would definitely call this a stepout, not particularly a development well. We think we will get a well, however.

Q But it's not proven territory?

A As far as the stepout goes, no, sir.

Q You know, of course, that the oil and gas lease from the Federal Government, held by Southern Union Production Company expires next August --

A Yes, sir, August 31.

Q -- if the land is not drilled on it?

A Yes, sir.

Q What about drilling there so that Southern Union Production will receive its just and proper portion of the oil and gas, is that necessary?

A Yes, that's the only way we can hold the lease, which also includes other lands other than the 80 acres.

MR. SANCHEZ: I believe that's all from this witness.

MR. PORTER: Does anyone have any questions of Mr. Whitlow?



MR. MORRIS: Yes, I do.

MR. PORTER: Mr. Morris.

CROSS-EXAMINATION

BY MR. MORRIS:

Q Mr. Whitlow, what attempts have you made to secure the approval, or have you been in charge of securing the approval of the nonconsenting interest owners in this tract?

MR. SANCHEZ: With respect to that, let me state that I will have a witness on that with respect to the securing of the interest, as far as oil and gas leases are concerned.

A But I have also tried, yes, sir, for the last year.

Q I see. Have you contacted the people listed under Paragraph 5 of the application?

A Only through people out here and through Mr. Sanchez.

Q Would you detail what other efforts you have made to secure the consent of the nonconsenting interest owners?

A Well, first of all, we talked to Mr. McKenna and Mr. Sommer last June, and asked if they would like to join us in a well, and also since the Martinez, et al, were clients of theirs, if they would contact them for us, since we did not at that time have any names, addresses or anything. It is my understanding that they talked to Mr. Martinez, who is up northeast, he was not willing to lease at all, under any circumstances. They would be willing with their third interest to go on anything that would be equitable to get the well drilled.

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Q Did you ever talk to Mr. Martinez?

A No, sir. I understand that he does not talk English, so I would be at a loss.

MR. MORRIS: That's all I have of this witness.

MR. PORTER: Mr. Nutter.

BY MR. NUTTER:

Q Mr. Whitlow, as I understand it, Southern Union Production Company has a Federal lease on the north half of the southwest quarter.

A Yes, sir.

Q The south half of the southwest quarter is not leased to anyone?

A That is correct, yes, sir.

Q Are there any overriding royalty interests under the north half of the south half?

A Yes, sir, three percent.

Q Have they agreed to the pooling?

A Yes. Mr. Langston will testify to that.

Q Southern Union is willing to pool?

A Yes.

Q And I presume the Federal Government would approve the communitization?

A Yes, sir.

Q And Mr. Langston would approve it?

A Yes.

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Q So everybody is in agreement except the owners of the south half?

A Yes.

Q The owners of the south half are the heirs to the man who received the patented deed in 1931?

A Yes.

Q What was his name again, please?

MR. SANCHEZ: Ricardo Martinez.

Q And Ricardo Martinez is now dead, is that correct?

A That's correct.

MR. SANCHEZ: That's correct.

Q His heirs have not leased the property, and do not wish to lease it, and they haven't expressed an interest in pooling their interest with Southern Union?

A A bonus offer was made to them, and they did not want it whatsoever. Actually, it was for a one-year lease, is what we were trying to get.

Q If this acreage were to be pooled by the Commission, we would be pooling the heirs of Ricardo Martinez as well as the other interests in that 30 acres, not only as working interest owners, but as royalty owners, as well?

A Yes, sir.

Q You are requesting that the cost of the hole, which would be forty-one thousand six hundred dollars, for a producer, be taken out of production?

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A Yes. We have evaluated the four wells that are producing out of the same zone, and we had our accounting department prepare the runs, gross income, and so forth, and it looks like it will be approximately a forty-eight month payout, based on present runs; in other words, to receive initial cost back.

Q You have drilled four producers in the area --

A Yes.

Q -- at an average cost of forty thousand three hundred to forty-four thousand three hundred?

A Yes. The second well was forty-two eight, and the other was forty-two thousand. Our well cost estimate, I believe, was forty-one thousand, approximately, a little less.

Q McKenna and Sommer each own a sixth, so that's a total of a third?

A Yes.

Q They have indicated they have no objection to the pooling order?

A That is correct, I believe.

MR. SANCHEZ: That is correct.

MR. PORTER: You estimated the time of the payout at forty-eight months, and that would be about five years to pay out a hundred twenty-five percent?

A Actually, we were trying to get a figure of actual net payout. I mean four years, five, including the additional twenty-



five percent, yes, sir.

MR. PORTER: Yes, sir.

MR. MORRIS: One more question.

MR. PORTER: Mr. Morris.

BY MR. MORRIS:

Q Have you given any thought to leaving out the south half and asking for a non-standard proration unit, consisting of only the north half?

A Other than there is a spacing order, I understand, already in existence there; we have followed a set pattern in this field.

Q Can you think of any reason, though, why an 80-acre non-standard unit would not be practical in this situation? Could you get a payout on 80 acres is what I'm really asking?

A Well, geologically, we're moving further away from the field if we do. In other words, our proposed location is southwest southwest on the 80.

Q Right. So you want the whole unit in order to locate your well on the part that's going to be forced pool?

A If at all possible, yes. For economic reasons we think it's much better.

BY MR. NUTTER:

Q Is Southern Union acreage productive, Mr. Whitlow?

A No, sir. You mean this lease in particular?

Q You stated that the preferable location was the -- the



north half of the southwest quarter. Is the south half of the southwest quarter productive of gas?

A Yes. Just trying to get as nearly as we can.

Q Do you have any contour maps of the pool?

A No.

Q Does the other witness have contours of the pool?

A Not of the pool, as such.

Q Of the acreage?

A Of the acreage, no.

MR. NUTTER: That's all.

MR. PORTER: Any further questions? The witness may be excused.

(Witness excused)

MR. PORTER: If there are no objections, Southern Union's Exhibits 1 and 2 will be admitted to the record.

(Whereupon, Southern Union Production Company's Exhibits 1 and 2 were received in evidence)

MR. PORTER: Call your next witness, Mr. Sanchez.

CLAUDE S. SENA,

called as a witness, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. SANCHEZ:

Q State your name, please.

A Claude S. Sena.

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Q Your address?

A Santa Fe, New Mexico.

Q What is your occupation?

A I'm an attorney at law.

Q Mr. Sena, are you acquainted with Jose Maria Martinez, the party who owns the majority interest in this case?

A Yes, I am.

Q When did you meet him?

A I met him on the 23th day of March, 1960 at his home at Parkview, New Mexico, Rio Arriba County.

Q You say 1960 or '61?

A '61, I'm sorry.

Q Was there any discussion at the time that you met him there with reference to the matter of the drilling of this acreage which he owns?

A Yes. On that date, approximate hour of one-thirty, yourself, myself and Mr. and Mrs. Jose Maria Martinez were present, and the entire conversation was in Spanish, for his convenience. At that time you explained to him as to whether he would consent to a unit pool at this particular Tapacito area of his land there, and he definitely and emphatically stated that he would not consent to a unit pool. He said that the only way, that, he wanted definitely a hundred fifty dollar bonus or nothing, and that he would not consent.

Q Was it a hundred or one hundred fifty that he said about



the bonus?

A I think he said one hundred to one hundred fifty.

Q Did I explain to him the proposition of pooling, that he could throw in his property with Southern Union Production Company, that Southern Union Production Company would drill a well on the premises and then give him the share of the production?

A Yes, you explained the whole thing to him. You also advised him that he would not bear any expenses up to the time -- I mean in the drilling process, and that all that he would have to incur in expenses is if minerals or oil was hit later on, he would have to pay for his proportionate share of the well.

Q Did I also tell him that if he did not agree to this pooling, that the Southern Union Production Company would bring in a proceeding for forced pooling?

A Yes, you advised him of that. All this was done in Spanish.

Q Did I try to get from him at that time the addresses of some of the heirs that had an interest, that we thought had an interest in this property?

A At that time we tried to secure the address, or you tried to secure the address of that party, Mrs. Fred something, in San Diego, and he said he did not know where she was or could not locate her.

Q Did I try to get from him the addresses of his nephews in Ogden, Utah?

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A Yes.

Q And did he give me the addresses?

A He did not give me the addresses. He stated that they would visit him once a year, but that he did not have contact with this particular line of the family.

Q Definitely Mr. Martinez said that he would not agree to anything except the giving of a lease and the bonus that you mentioned?

A Yes. And his explanation of that was, "Well, if I get a lease, I'll get something, but yet if I give my consent and they do not hit oil, I lose everything."

MR. SANCHEZ: That's all.

MR. PORTER: Any questions of the witness?

MR. MORRIS: Yes, sir.

MR. PORTER: Mr. Morris.

CROSS-EXAMINATION

BY MR. MORRIS:

Q Mr. Sena, what efforts have you made to secure the consent of the other persons named in Paragraph 5 of your application?

A Mr. Morris, I'm not the attorney for Southern Union, I'm not in this proposition for obtaining a consent. I was just there to witness this approval.

Q Mr. Sena, I asked the same question of Mr. Whitlow, and I was informed that you would answer, or that the other witness would answer the question. What efforts, to your knowledge, have



been made to secure the consent of the other persons listed in Paragraph 5?

MR. SANCHEZ: For the sake of the record and shorten it up, he doesn't know what efforts have been made. The only one that has made efforts has been myself, and, of course, previous to that time Mr. Whitlow had contacted specifically Mr. Martinez to try to get a lease from him.

A I would like to say something, Mr. Morris. As far as attempting contacts to get consent, I did have a conversation with McKenna and Sommer, the attorneys, and they say that they had tried to get Mr. Martinez to go along on something reasonable and were unable to do so. But other than that, like I say, I'm just here as a witness to see what occurred at this particular time.

Q Is it not possible, Mr. Senna, that if you had contacted the other persons listed in Paragraph 5 there, and shown Mr. Martinez that they were willing to go along, you would have had a little better arguing point?

A I don't believe so. Mr. Martinez is rather bitter about this whole Tierra land grant proposition and land grabbing, and things like that, and he has been through Court before, and I think he's rather reluctant to go along on anything. It's just conjecture, like you asked a question that called for conjecture.

I'll ask another one. Do you feel that the proposition that was put to Mr. Martinez was fair, under the circumstances?

I do. Not only Mr. Sanchez had contacted him, but I

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know that his own attorneys had contacted him also.

Q Do you feel that Mr. Martinez' interest would have to be force pooled in order to assure him of his equitable share of the production from this pool?

A I feel, yes, he has to be forced, otherwise he will never gain anything by not being forced into it. He will not consent.

Q He owns an undivided interest in this south half as do the other persons mentioned here, so that there's no possibility of partitioning and excluding his interest from the unit?

A No, I believe it's impossible. I think that McKenna and Sommer took as a retainer one-sixth of his interest or one-third of his interest, and then he has a certain interest, and then remaining heirs of another interest. That's too complicated. I have not seen the abstract.

Q But participation, in your opinion, would not be possible?

A It would not work at all, I feel.

MR. MORRIS: That's all I have. Thank you.

MR. PORTER: Mr. Nutter.

BY MR. NUTTER:

Q Mr. Sena, you keep mentioning Serafino Martinez --

MR. SANCHEZ: No, Sam.

Q He's the one that's listed as living at Parkview and having an interest?

A That's right.



Q Now, you stated that he had expressed his view that a hundred to one hundred fifty dollar bonus was proper, is that correct?

A I believe he said he would do it on that basis, a rental on that basis, and then if they would hit that, he would still have his bonus, but if they would not hit, he would have nothing.

Q What did Southern Union actually offer him, do you know?

A No, I do not.

MR. SANCHEZ: I can tell you.

Q How much did they offer him?

A In July of 1960, some more than seven months prior to this time, they offered him twenty-five dollars an acre bonus on the 80 acres. I did not know at the time that he did not own all of it, and that the one-tenth of it was -- ten percent of it, we'll say, was still not acquired by him. It was still in the heirs, in other heirs.

Q In other words, you offered him twenty-five dollars an acre, assuming that he had a hundred percent?

A Yes.

Q Now, he agrees that the 17/30 --

A He would be entitled, with the agreement with McKenna and Sommer, to have a percent of the bonus.

MR. PORTER: What percent would that make of the total?

MR. SANCHEZ: 90 percent.

MR. PORTER: Of the bonus?



A Of the bonus.

MR. PORTER: Does anyone else have a question?

MR. SANCHEZ: Yes, I have one.

REDIRECT EXAMINATION

BY MR. SANCHEZ:

Q At the time that I spoke to him about the other interests, did I tell him that I had contacted Mr. Tom McKenna and Mr. Joseph Sommer, and that they were willing to go along with this pooling?

A Yes. You did state to them to that effect, I think he had knowledge of this also.

Q As a matter of fact, did he tell us that he had two lawyers who represented him in this matter?

A Yes, he did.

Q One was Tom McKenna, and the other was Joe Sommer?

A That's right.

MR. PORTER: Any further questions?

MR. SANCHEZ: No, that's all.

MR. PORTER: The witness may be excused.

MR. SANCHEZ: That's our recollection, if the Court please, except for this fact that I want in the record that I contacted Mr. Martinez about the middle of July of 1960; I offered him a bonus of twenty-five dollars per acre for one year's lease on the property, and told him that Southern Union Production Company would definitely drill within a year, and he turned that down for the time being. He said that he did not think he wanted to go



on, and then I found out later that there were other interests besides Somner, McKenna and Martinez, and I wrote him a letter asking him to give me the addresses of the other parties who had an interest. The letter, of course, remains unanswered. Mr. Martinez is in the room this morning.

MR. SEWA: Mr. McKenna has just walked in.

MR. PORTER: At this time we would recognize Mr. Martinez if he has something to say.

MR. MARTINEZ: The first thing --

MR. PORTER: As I understand, his daughter will interpret his statement, for the record. You may proceed.

OLIVIA CORDOVA: He wants to know why he was called here.

MR. PORTER: He's just being given an opportunity to make a statement in this case, to state his position.

OLIVIA CORDOVA: His position is, he says that Mr. Sanchez told him that they had, I don't know, some kind of deal that they could force his land.

MR. PORTER: Did he have anything further to say?

OLIVIA CORDOVA: Why do they want to go in and drill without his consent?

MR. PORTER: Do you want to answer that, Mr. Morris?

MR. MORRIS: In answer to your question, Mr. Martinez, there is a law in the State of New Mexico where, under proper circumstances, the land of one person may be pooled with the lands of another to form what we call a standard unit.

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OLIVIA CORDOVA: He says he's willing to lease his place if he gets paid for it. He's willing to let anybody go in there.

MR. MORRIS: We are here today to determine whether this is a proper instance for the application of this law of forced pooling. I cannot tell you at this time what the decision of this Commission will be.

OLIVIA CORDOVA: He says he wants to get paid for his, for going into his property and for all the trips he's made.

MR. MORRIS: Mr. Martinez, how much did Mr. Sanchez and Southern Union Production Company offer you per acre for your land?

OLIVIA CORDOVA: He says he was never offered anything.

MR. MORRIS: Never offered anything?

OLIVIA CORDOVA: Anything by Mr. Sanchez.

MR. MORRIS: How about by Southern Union?

OLIVIA CORDOVA: By Southern Union, no.

MR. MORRIS: We are going to take the case under advisement, and we won't rule on it right away. Does Mr. Martinez have anything further he would like to say at this time?

OLIVIA CORDOVA: That's all. Je just wants to be respected.

MR. SANCHEZ: I have a question to ask him.

MR. PORTER: Mr. Sanchez would like to ask you a question.

MR. SANCHEZ: Do you remember I was there in July of 1960

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last summer at your place?

OLIVIA CORDOVA: Yes.

MR. SANCHEZ: At that time I offered you some money for a lease?

OLIVIA CORDOVA: He says that you didn't offer him anything.

MR. SANCHEZ: I'm not talking about this last time that we went there. In July?

OLIVIA CORDOVA: He said that you never had made him an offer.

MR. SANCHEZ: Don't you recollect that I offered twenty-five dollars per acre bonus?

OLIVIA CORDOVA: He said that he had never offered anything.

MR. MORRIS: Let me interrupt here. I think for purposes of proper procedure, I would like to call Mr. Martinez as a witness and ask him one question. At first, I thought he was going to make a statement. I would like to call him and ask him to answer one question. Would you explain this to him? Explain that I want to swear him in as a witness.

OLIVIA CORDOVA: He says he told you what happened.

MR. SANCHEZ: At this time I want every statement that Mr. Martinez makes to be put under oath. He just has been making a statement here.

MR. MORRIS: Mr. Martinez, I want to call you as a witness and swear you in so that your testimony will be a part of the record of this case. We cannot consider anything that is said here

for purposes of decision in this case unless Mr. Martinez is put under oath, and then his testimony is put into the record; otherwise, we can't consider what he says as part of the testimony of this case. Will you just explain that one fact to him?

OLIVIA CORDOVA: Okay, he says.

MR. PORTER: Is he willing to be sworn?

OLIVIA CORDOVA: Yes.

(Witness sworn)

JOSE MARIA MARTINEZ,

called as a witness, having been first duly sworn on oath, testified as follows:

The following proceedings were interpreted from English to Spanish and from Spanish to English by Olivia Cordova.

DIRECT EXAMINATION

BY MR. MORRIS:

Q Mr. Martinez, Mr. Sanchez and Mr. Sena have both testified that they approached you in 1960, in the year 1960.

MR. SANCHEZ: No -- that's right. Mr. Sena and I were there on March 20, 1961. I was there in July of 1960.

Q Mr. Sanchez was there in July of 1960, and that Mr. Sanchez and Mr. Sena were there in March of 1961.

A He says that this last time Mr. Sena was with him on March.

Q At that time, when they were at your home, did they make you an offer of any price per acre to lease your land in question here today?

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A No. All he said, that there was a law that could force him if he didn't want to.

Q No offer was made to lease the land?

A No, just the royalties of the well.

Q And an offer was made to buy the royalty interest at that time, to lease the land and pay you so much for your royalty?

A He was offered the royalties of the pool, but no lease, no bonus for a lease.

Q No bonus?

A And that all they wanted was 40 acres of the property.

Q Did they offer to lease your undivided interest in the south half, southwest quarter of Section 2, which is in question here today?

A He says that although no bonus was offered, they did want to make him come to some understanding with them.

Q They offered to lease but not to give a bonus, is that correct?

A That's right. Well, I guess give him just the royalties, no bonus what he wanted.

MR. SANCHEZ: I understand a little Spanish myself. The statement which Mr. Martinez says, he said that Mr. Sena and I approached him on the proposition of the pooling, and that if he didn't pool, I told him that we could force pool the property. That's correct, that's what he said. There wasn't anything about royalty or anything else at that time.

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A Yes.

Q (By Mr. Morris) This conversation that we have been talking about was in March of 1961, is that correct?

A He says that took place in March, and that if he wasn't willing, the law would go in and drill anyway, and if they would drill, they could drill a well on the other side and drain his place.

Q Was any offer made at the meeting between Mr. Sanchez and yourself in July of 1960 to lease your land?

A He told him he had somebody with him that would drill a well and --

MR. SANCHEZ: That the man that was with him would drill the well, is what he was testifying, with me.

A -- that he would let him think it over, whatever he thought.

Q (By Mr. Morris) Was an offer to lease made at that time?

A He said no offer to lease was made.

MR. SANCHEZ: Ask him again.

MR. NUTTER: In July?

A He didn't tell him anything that would be paid him for the lease, any bonus would be given him. He just told him he had somebody that would drill a well, and that if he would be willing to think it over --

MR. NUTTER: That was in July, is that correct?

A That was in July, when Mr. Sanchez was there alone.

MR. MORRIS: I have no further questions of this witness.

MR. PORTER: Mr. Sanchez, do you have a question of the witness?

MR. SANCHEZ: Yes.

CROSS-EXAMINATION

BY MR. SANCHEZ:

Q Mr. Martinez, don't you remember that I offered you twenty-five dollars per acre bonus for a one year lease?

A That they would drill before the year.

Q Before the end of the year?

A Before the end of the year.

Q Don't you recollect that I offered you twenty-five dollars per acre bonus for that one year lease?

A That you offered him the opportunity to have a well drilled, but not any bonus.

Q And he further testified that I had a man there present who would drill?

A Yes, and that if he didn't want you to go in there, that he could drill himself.

Q And that if he didn't want me to go in there, that he could drill himself?

A Yes.

Q Now, with regard to the conversation, with regard to the drilling of your land, that would drain your land, did I tell you



that the people that I represented were going to drill a well to drain your land?

MR. SANCHEZ: Okey, that's fine.

MR. MORRIS: I want an interpretation of this.

MR. SANCHEZ: He's saying correctly now.

A Not in July you didn't tell him about the draining, but in March when you and Mr. Sens were there, you then told him that if he didn't agree, they could still make a well on the land that Southern Union has, and drain his land.

Q (By Mr. Sanchez) No, he didn't say that himself. What he said was that if he didn't drill, someone might drill and drain his land. I didn't say Southern Union or somebody else. It's what he testified just now.

A No. No.

MR. SANCHEZ: That's right.

MR. PORTER: Will you interpret what he just said, please?

A That Mr. Sanchez didn't specifically say that Southern Union would drill a well, but that they would drill a well, somebody would, anybody, and they could drain his land.

MR. PORTER: Would you now give us your name, for the record, as interpreter in this case?

INTERPRETER: Olivia Cordova.

MR. PORTER: Olivia Cordova. Thank you very much.

MR. SANCHEZ: You are his daughter?



A Yes.

MR. PORTER: No further questions here?

MR. SANCHEZ: Yes, I want to ask some questions here to clear up the situation.

CROSS-EXAMINATION (Continued)

BY MR. SANCHEZ:

Q I didn't tell you that the man in the car was a driller in July, did I?

A He doesn't know if you said. He can't testify to that.

MR. SANCHEZ: All right. That's all that I have from him.

Q (By Mr. Sanchez) Just a minute. Did I tell you that Mr. McKenna and Mr. Sommer were willing to go in on this agreement?

A Yes, you told him that they would go into the agreement.

Q When I first went into your home, you told me that Mr. McKenna and Mr. Sommer represented you in this deal -- no, no, when I first went into your home this last time?

A Yes. They were the lawyers that cleared up the land.

MR. PORTER: What was his last statement, please?

A They were the lawyers that cleared up his land from the state business.

MR. PORTER: All right, Mr. Sanchez.



Q (By Mr. Sanchez) You further told me that they represented you in this matter, didn't you?

A He just meant that they were his lawyers for the tax deal, but not --

MR. PORTER: Just a minute, please. Would you begin now, and give us his last statement?

INTERPRETER: That Mr. McKenna and Mr. Sommer were his lawyers when he was clearing up his land from the tax, but not for this.

MR. MORRIS: Not for what?

INTERPRETER: Not for the drilling business.

MR. MORRIS: Nothing to do with this forced pooling?

INTERPRETER: No, he doesn't have anybody representing him now.

MR. PORTER: Does that conclude your questioning, Mr. Sanchez?

MR. SANCHEZ: Yes. I want to make a further statement. Put me under oath, if you desire. I will make a statement of the attorney, the truth of which, I assure you, that it will be truthful. I went to Mr. Martinez' house in the middle of July of 1960. Mr. Whitlow had told me that Mr. Hoover, an oil and gas man here in Santa Fe and Mr. Wright had contacted Mr. Martinez one way or another for an oil and gas lease on the property, and he asked me to go up there and try to get an oil and gas lease from him. I went up on the following day and took Mr. -- a fellow by the name of Colonel

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Williams with me. He knows nothing about drilling. He went as a companion to me. As a matter of fact, we went fishing. We stopped at his place, and I definitely offered him a bonus of twenty-five dollars per acre, and told him that we would take a lease for one year, and that we would drill for one year. It wasn't any five year proposition; and his wife was there when the offer was made. I told him at the time that the property could be drained if wells were -- if he didn't agree to take a bonus or something like that, he was in danger of having his property drained through wells around him. That was the subject of the conversation in 1960. He definitely didn't turn me down. He said that he would consider the proposition, although someone else was offering him seventy-five an acre for a longer period. That, I don't know if it's correct or not, but he told me that himself. Now, this last time, going back to the July proposition, I came back to Santa Fe, and I wrote him a letter and found out that there were other people who had ten percent interest in the property which he had not acquired, and it was not McKenna and Sommer. I wrote him a letter telling him that these other people have a ten percent interest in the property and to give me their names and addresses, and he would not give me the names and addresses of these other parties. This last time we went up there, I explained to him what we were up there for, trying to form a pool just like Mr. Sena testified, and he said that the only way that anyone could get in there would be by paying him one hundred, one hundred fifty dollars an acre on the property;



otherwise, no one could go in there, no one would get his consent. He definitely and emphatically said he wasn't interested and wouldn't agree to any pooling at all, and the only way he would ever agree would be to pay that much bonus on the acreage. That's exactly what happened.

MR. NUTTER: One question, Mr. Sanchez.

MR. SANCHEZ: Yes.

MR. NUTTER: When the offer was made to pay him the twenty-five dollars for the one year lease, was that on behalf of the applicant here today?

MR. SANCHEZ: Yes.

MR. NUTTER: That was on behalf of Southern Union Production Company?

MR. SANCHEZ: Yes. Since that time Southern Union Gas Company has transferred the lease to Southern Union Production Company, but it was made by the party who at that time owned the lease in the north half of the Section.

(Witness excused)

MR. SANCHEZ: I would like to recall Mr. Whitlow.

D. W. WHITLOW,

recalled as a witness, having been previously duly sworn, testified as follows:

REDIRECT EXAMINATION

BY MR. SANCHEZ:

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Q Mr. Whitlow, I show you a carbon copy of a letter dated April 3rd, 1959, addressed to Mr. Wright with reference to obtaining a lease on this property.

A Yes, sir.

Q Will you take it out of the files?

A All right.

(Whereupon, Southern Union Production Company's Exhibit No. 3 was marked for identification)

Q Now, with reference to the paper marked Exhibit 3, Mr. Whitlow, was that letter sent out to Mr. Wright?

A Yes.

Q Did he acknowledge receipt of the letter?

A Yes.

Q Did he advise you whether or not he had contacted Mr. Martinez?

A Yes, he had. The situation that brought this about, actually, that lease was to expire in September of 1959. We made our first offer in April of '59 to Mr. Martinez through Mr. Wright, and I think Leo Shutes went up with him. That's jumping a little bit; that was my understanding back two or three years ago. Then, we got the two year extension on the lease. There is also correspondence in here that we have talked to Mr. McKenna and Mr. Sommer as early as 1959 on this, and in that a definite offer of twenty-five dollars per acre was made, and the leases were to be drafted in on us. At that time Mr. Sanchez said that we were under the

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impression he had all of it. That's been the theory we had gone on from the beginning. We then had a letter from Sommer and McKenna explaining how they got their third interest.

CROSS-EXAMINATION

BY MR. PORTER:

Q This is addressed to Mr. Hoover Wright of the Federal Abstract Company, Santa Fe?

A Yes.

Q Does the letter mention that a lease bonus was being offered?

A At the top of the second page, yes, sir. Twenty-five dollars is drafted in. So, I mean this is not something that we haven't been working on, actually, over a period of two years.

Q This is a letter that was signed by yourself?

A Yes, sir, it is. Much to my regret, Mr. White has correspondence at his office with Mr. Martinez being turned down, or possibly the heirs, I haven't seen it. He also needed an interpreter, and I understand Mr. Shutes went up.

MR. PORTER: Do you have any questions, Mr. Nutter?

MR. NUTTER: No, sir.

MR. PORTER: You may be excused.

(Witness excused)

MR. SANCHEZ: For the record, I'll say this, that I did not contact any of the other heirs since Mr. Martinez would not agree, and he held the majority interest. To me, there was no



necessity of trying to get the lease from the other heirs.

MR. PORTER: The other heirs were the holders of the ten percent interest?

MR. SANCHEZ: That's right. That concludes what I want to submit, except I believe I have already said that Southern Union Gas Company is now asking in connection with expenses of the well a twenty-five percent increase over the amount actually spent.

MR. PORTER: You wish to have this letter from Mr. Whitlow to Mr. Wright admitted in evidence?

MR. SANCHEZ: Yes.

MR. PORTER: Without objection, the letter will be admitted to the record.

(Whereupon, Southern Union Production Company's Exhibit No. 3 was received in evidence)

MR. PORTER: Does anyone else have anything further? Mr. McKenna.

MR. MCKENNA: Just a brief statement. May I have the letter made a part of the record? The only point I want to make is that McKenna and Sommer believe the statute is clear, that all that can be recovered is a cost of expenditures for the drilling of the well, and I believe Mr. Sanchez has indicated just now and did indicate personally that he was asking for one hundred twenty-five dollars. I would just like to call to the attention of the Commission that my opinion of the law is explicit, that the expenditures are limited to actual cost. In the letter I have



indicated the statute involved. That is the only statement I care to make.

MR. PORTER: Let the record show that the letter addressed to the Oil Conservation Commission under date of April 19, 1961, from Thomas S. McKenna, relative to Case No. 2249, has been made a part of the record. If nothing further, it will be offered to Mr. Morris.

MR. MORRIS: Mr. Examiner, I have a letter from Mr. Amadito Valdez, Chicago, Illinois, with reference to this case, stating that he is, in effect, the owner of an undivided interest in the south half of the southwest quarter of Section 2 in question, and he wishes to inform the Commission that he does not agree to force pooling of the interests in this unit.

MR. PORTER: Anything else to be offered in the case? The case will be taken under advisement, and we will have a ten-minute recess.

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