

SPECIAL HEARING, April 28, 1952

BEFORE: Hon. Ed. Mechem, Governor

Hon. Guy Shepard, Commissioner of Public Lands

Hon. R. R. Spurrier, Member and Secretary

R E G I S T E R

Quilman B. Davis, Southern Union Gas Co., Dallas, Texas.

Truett Helms ditto Farmington , N. M.

Van Thompson ditto Dallas, Texas.

Critchell Parsons, Beaver Lodge Corporation, Dallas,
Texas.

W. O. Macey, Oil Conservation Commission, Santa Fe, N. M.

L. C. White, Oil Conservation Commission, Santa Fe., N. M.

J. O. Seth, self, Santa Fe, N. M.

Clarence E. Hinkle, Richardson & Bass, Roswell, N. M.

J. B. Lovejoy, ditto Fort Worth, Texas.

E. E. Unger, Unger Exploration Co., Midland, Texas.

Perry R. Bass, Richardson & Bass, Fort Worth, Texas.

Howard W. Jennings, self, (address not given).

MR. SPURRIER: Will you read the advertisement, Mr. White?

(Mr. White reads the notice of publication.)

MR. SPURRIER: Mr. Davis.

MR. DAVIS: Will you swear Mr. Parsons, please.

(Mr. Parsons sworn.)

MR. DAVIS: Quilman B. Davis, representing Southern Union Gas Company.

CRITCHELL PARSONS, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. DAVIS:

Q Will you please state your name, please, sir?

A My name is Critchell Parsons.

Q Who are you with, Mr. Parsons?

A Beaver Lodge Corporation, Dallas, Texas.

Q Mr. Parsons, give us a brief description of your background and education.

A I graduated from the University of New Mexico in 1932 in economics and geology. I was then at Oxford University for four years studying economics, and in the last year international petroleum operations. I was then connected with the Socony-Vacuum Oil Company in their headquarters in Cairo with responsibilities in the marketing and distribution of petroleum in the Middle Eastern countries. From 1940 and 1941 I was with the Socony-Vacuum Oil Company in New York. From 1942 until 1946 I was deputy director of the petroleum division, Foreign Economic Administration, Washington. And since 1946 I have been an independent oil operator in Dallas, Texas. And a short time ago organized the Beaver Lodge Corporation, of which I am President.

Q Are Mr. Parsons' qualifications acceptable?

MR. SPURRIER: They are.

Q Mr. Parsons, are you interested in the proposed unit, comprising part of the N $\frac{1}{2}$ of Sec. 18, T. 31N., R. 10W, San Juan County, N. M.?

A Yes. The Beaver Lodge Corporation has entered into the communitization arrangement with Southern Union and others for communitization of the N $\frac{1}{2}$ of Sec. 18.

Q I hand you a plat of that area and ask you to identify the N $\frac{1}{2}$, and particularly the proposed location of our McCoy Unit No. 1 well. Please state the location of the well.

A This is the N $\frac{1}{2}$ of Sec. 18. And the location of the well designated as the Southern Union Gas Company-Beaver Lodge Corporation McCoy Unit No. 1 is here right next to the highway from Aztec to Durango. Slightly to the west of the highway.

Q Will you give the distance from the north and east lines of the section?

A The location is 990 feet from the east line of Sec. 18 and -- is that 1,910 feet?

MR. SPURRIER: Yes.

A From the north line.

Q In the application for approval of an unorthodox location, would it be true if the well were located in compliance with

the spacing regulations of the Commission's order, it would be here in the river or so close to the river it would be impossible to conduct drilling operations?

A Yes. I visited the location Saturday, this last Saturday afternoon, and again yesterday morning, and surveyed it informally on the spot. The only location available for the well is on this small triangle site bounded by the highway to the East and the river to the North and West. And there is only really one location where the well can be placed. If it were placed in accordance with the regular spacing, the spacing rules, of the State of New Mexico, it would I believe be almost in the middle of the Animas River.

Q Now, Mr. Parsons, considering the size of the unit we are asking for an exception for to Rule 799, which is the Blanco spacing order, would you please tell the Commission what knowledge you have of the efforts of both Beaver Lodge and Southern Union to obtain a lease from Basilio Larcher?

A In January, I think approximately the middle of January, we completed our deal with a Midland, Texas operator, Mr. Wayne Moore, with an acquisition of certain acreage in the Cedar Hill area, including acreage under Flatherty and McCoy leases which is going into the communitization of the N $\frac{1}{2}$ of Sec. 18. We were informed at that time Mr. Larcher's acreage wasn't under lease. And beginning in the early part of February we made attempts to negotiate with Mr. Larcher to bring his lease -- to secure an oil and gas lease from him --

so that the acreage could be included in our unit. We, on February 6, after preliminary negotiations with Southern Union Gas Company relating to this communitization project, wrote a letter to Mr. Larcher advising him of our intentions, of our intention to communitize. We addressed the letter to Mr. Larcher, Rural Route, Aztec, N. M., registered mail, return receipt requested. And it was returned to us unclaimed. Mr. Davis has the letter if you would like to enter it as an exhibit.

Q Mr. Parsons, let me ask you one other thing. Whether, without obtaining an exception to rule 799, it would prevent the drilling of a well and the operation of the remaining lands in the N $\frac{1}{2}$ of Sec. 18 for the production of oil and gas. Wouldn't it?

A Yes, sir.

MR. DAVIS: I would like to introduce in evidence as Southern Union Gas Company's Exhibit 1 the plat.

A I might say we made other attempts to approach Mr. Larcher directly and indirectly and were unsuccessful in securing any lease from him one way or the other.

MR. WHITE: At the present time you don't know his whereabouts?

A No. I presume he is in the environs of Aztec.

MR. DAVIS: The next witness will show he is still up there in that area.

Q For the prupose of identification, is this the letter you

referred to a minute ago where you notified Mr. Larcher of your intention to pool the N $\frac{1}{2}$, and asking him to come into the unit?

A It is. At that time -- although Beaver Lodge Corporation was a party and participant in the communitization, this letter was written by Tioga Petroleum Corporation, a sister company domiciled in the same office in Dallas.

MR. DAVIS: I would like to submit this as Exhibit No. 2.

MR. SPURRIER: Without objection, these exhibits will be received.

MR. DAVIS: That is all the questions I have of Mr. Parsons.

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

TRUETT HELMS, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. DAVIS:

Q Please state your name.

A Truett Helms.

Q Mr. Helms, what company are you with?

A Southern Union Gas Company

Q In what capacity are you employed by Southern Union?

A District land man.

Q Where?

A Farmington, N. M.

Q Farmington, N. M. How long have you been district land man for Southern Union Gas Company?

A Approximately six months.

Q Have you been in Farmington for most of that period?

A Yes, sir.

Q Are Mr. Helms' qualifications acceptable?

MR. SPURRIER: They are.

Q Mr. Helms, as district land man, you have had occasion to contact Mr. Basilio Larcher in connection with the -- either the leasing or pooling or getting him to pool a working interest in the proposed unit of the N $\frac{1}{2}$ of Sec. 18, have you not?

A I have.

Q What were the results of your many discussions with Mr. Larcher?

A They were all unsuccessful.

Q Did you make more than one visit out at Mr. Larcher's farm?

A I made numerous visits, about fifteen or twenty.

Q Does Mr. Larcher live on this 55 acres up in the NE $\frac{1}{4}$ of the N $\frac{1}{2}$ of Sec. 18?

A He lives on Sec. 18, yes.

Q Have you made an offer to Mr. Larcher to participate in

the drilling of the well as well as proposing a lease to Southern Union Gas Company?

A I have.

Q And have been refused on all of those -- refused on all counts.

A Yes.

MR. DAVIS: That is all the questions I have of this witness.

MR. SPURRIER: Can you tell us any more about what is reason is for not participating in this --

A I think I can. I have been to see him, like I said, 15 or 20 times. And I have pitched his hay for him, and fed his cattle and drained his radiator of his tractor, and other chores around the farm. And he thinks everybody is trying to get to him. And he won't believe anybody. We have offered him all his rights and a fair price for his lease and offered a working interest.

MR. SPURRIER: You have offered what is probably the going rate in the area for the lease?

A Yes, sir.

MR. SPURRIER: And have offered to carry him for his share of the well and to let him pay out of his share after the well is producing?

MR. DAVIS: We haven't offered to let him participate in

the drilling of the well without putting up any money. We don't feel like we should drill the well and then let Mr. Larcher set back. And if we get a dry hole, he doesn't pay anything. And if we get a good producer, in 5 or 10 years come in for a 55/320 of the gas produced. We don't want to set a precedent like that. We are afraid a lot of these 40 acres where we have never been able to get an assignment or purchase a lease would want the same.

Q Mr. Helms, just one other thing. In addition to the going price, I believe we have offered Mr. Larcher the top price for that type of acreage in the area. Have other people in the area not associated with the Southern Union Gas Company attempted to get a lease from Mr. Larcher?

A Yes, sir, they have.

Q Have we not also solicited the assistance of friends of Mr. Larcher to see if they couldn't explain the reason for it?

A Yes, sir.

Q Attempting to get a lease from him. Did he not give one reason for not leasing, that he wanted an oil well and nothing else?

A That's right. When he moved into the place, somebody told him there was oil under it. Which is no difference from any other land owner. But he is firmly convinced there is.

Q In other words, he would give you a lease if you would guarantee an oil well?

A That's right.

MR. WHITE: Why don't you take him up on that?

(Off the record.)

MR. SPURRIER: Any further questions of this witness?

MR. MACEY: Mr. Helms, as I understand it, you are not asking to have Mr. Larcher forced into the unitizing, or are you?

MR. DAVIS: No, Mr. Macey, we are not asking the Commission to force unitization of the $N\frac{1}{2}$. We feel like if we get an exception from Rule 799 or R-110 to permit drilling of this Mesaverde well on 267.76 acres, that if and when proration does come into effect, it will be reduced to $267.76/320$ of the allowable. What we would ask is if Mr. Larcher would like to come in and drill a well on this 55 acres, that he would be permitted to do so, but would receive only $55/320$ of the allowable.

MR. SPURRIER: Have you got a witness to explain how the Commission would prorate the allowable? We don't have any proration in that country. In the meantime, how do you propose to set it up so that drainage doesn't occur?

MR. DAVIS: I don't know. We can't set it up unless we cut the well back. And, incidentally, Mr. Larcher has had every opportunity to participate in it. And if he wants to come in and drill a well to offset the drainage, it will be perfectly all right.

A He has told me he don't want any part of that, don't care about it.

MR. WHITE: Suppose at a later date he would like to come in and form an agreement and get his prorata share. Are you agreeable to that?

MR. DAVIS: Yes. Because we would be interested, if and when proration does come in, be interested in getting a full allowable from the unit. But the thing that is bothering me is not the taking in or prorating production. Now we are aware, and I feel sure everyone else is aware, of these small 40-acre tracts that would give us considerable difficulty down the line in trying to prorate, leaving those 40 acres out or carrying those 40-acre tracts.

MR. WHITE: Why is it you can't drill a well in the middle of the Animas river?

(Off the record.)

MR. DAVIS: Any other questions of Mr. Helms?

MR. SPURRIER: You may be excused, Mr. Helms.

(Witness excused.)

VAN THOMPSON, having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. DAVIS:

Q Will you state your name, please?

A Van Thompson.

Q You have testified before the Commission before, Mr. Thompson?

A Several times, yes, sir.

MR. DAVIS: Are his qualifications acceptable?

MR. SPURRIER: They are.

Q Mr. Thompson, a question was asked why the well could not be drilled, I presume on an orthodox location rather than unorthodox, which would be at in the approximate center of the Animas River.

A At the present time the water is about 10 to 15 feet deep out there. It would be just impossible to get the equipment in and drill in the river bed. And furthermore, after it was drilled we couldn't operate it. Couldn't take care of it.

Q Actually is the present proposed location only about 50 to 60 feet outside the 200 foot tolerance permitted by the Blanco rules?

A It is only 60 feet out of the permitted location. The only country it could drain would be the land to the south, which is the gas company's acreage. And we intend to unitize the S $\frac{1}{2}$, and there will be another well drilled in the SE $\frac{1}{4}$. So that the two wells in the overall will drain the section as they are supposed to do.

MR. SPURRIER: You mean SW $\frac{1}{4}$, don't you?

A Southwest, yes, sir. You see, it isn't unorthodox to the east from the east line. It is just 60 feet further south than the rules allow.

MR. SPURRIER: Perhaps Mr. Thompson can answer my question. Without gas proration or any allowable out there, how can the Commission allocate the gas so that so that it isn't gas in Mr. Larcher's 55 acres?

MR. DAVIS: Mr. Spurrier, does not the rule of the Blanco field contemplate there can be exceptions notwithstanding proration?

MR. SPURRIER: If you cannot get your entire unit together.

MR. DAVIS: That leads to forced pooling. You can't ask for forced pooling.

MR. SPURRIER: If the Commission were allocating gas, yes. But we are not. How do you propose to do it in the meantime? You are asking the Commission to allocate to that 267.76/320.

A We think until you have measurements set up the well will be produced just like any other well as a full unit. We have done everything we can to get this land in and we just can't help it. When you do set up proration, which I am sure we will have in the next two or three years, then it will be allocated on that basis. I do not believe that man will suffer any drainage in the meantime.

MR. SPURRIER: Of course, if he takes upon himself to pursue that drainage amount, that is between you and Mr. Larcher.

A That's right.

MR. SPURRIER: But I am just trying to clear the record.

Q Mr. Thompson, to complete the record, do we not have a

drilling commitment for this N $\frac{1}{2}$ of Sec. 18?

A That's right. We have to have a well started by April 30 or Beaver Lodge Corporation will lose the lease on the McCoy tract.

Q The McCoy as well as the Flatherty tract?

A That's right.

Q In other words, both leases have a commitment to commence drilling a well on the N $\frac{1}{2}$ of Sec. 18 before April 18 or May 3?

MR. SPURRIER: Any other questions of this witness?

A I would like to make one other statement. We have had some similar conditions like that down in the Kutz-Canyon area. And the way it was handled finally, in one case El Paso Natural acquired the lease, in the other case Stanolind acquired them; so we sold the interest in the well that was already producing based upon its value at the time we sold it to them. And not upon the cost of drilling it, but what the well was actually worth. So if some day in the future somebody did acquire that lease or wanted to buy into the well, I know as far as our company is concerned, they would not have any objection.

MR. SPURRIER: Any further questions? If not, the witness may be excused.

MR. PARSONS resumed the stand for further direct examination.

BY MR. DAVIS:

A About the Flatherty and McCoy lease, I would like to make

one statement about our leases in the Cedar Hill area. The terms of the agreement.

MR. SPURRIER: All right.

A We acquired approximately 2,000 acres of lease by assignment from Wayne Moore of Midland, Texas, and there is included a lease from Flatherty and McCoy in Sec. 18. The McCoy lease is the site for the proposed well. The overall deal depended upon a drilling commitment, predicated upon a drilling commitment, in either the Flatherty or McCoy leases to commence March 1. We got a sixty day extension from Flatherty and McCoy. And it is therefore necessary that Beaver Lodge and Southern Union be actually drilling a well on the agreed site by May 1.

Q Or otherwise the leases will --

A Or otherwise do not only the Faltherly and McCoy leases terminate, but all the leases on approximately 1,800 acres.

Q In other words, the contract governing the remaining acreage will also terminate?

A That is correct.

Q We are primarily interested in the provisions of the lease here which provide that the lease will terminate unless a well is commenced on the N $\frac{1}{2}$ of 18 by May 1?

A There was a provision also that the well be drilled on the Flatherty lease. We finally got a waiver on that because it would be impossible under the pattern rule to drill in the

NW $\frac{1}{4}$. The other question I wanted to ask. When a proportion allowable is set for Mesaverde gas along the line, is it correct in this case if the Larcher acreage has not been included to make a full 320-acre unit? That in all probability if the production allowable is a million feet a day, we will say, it would be cut proportionately to the acreage in the unit?

MR. SPURRIER: I think so.

A Is that correct? That is all I have.

MR. DAVIS: Any questions of the witness?

MR. SPURRIER: Any further questions of this witness. If not, the witness may be excused. Do you have any more witnesses?

MR. DAVIS: That is all the witnesses we have.

MR. SPURRIER: If there are no further witnesses, that completes Case 367, which we will take under advisement for this morning. The next case on the docket is 365.

STATE OF NEW MEXICO

ss

COUNTY OF BERNALILLO

I HEREBY CERTIFY That the foregoing is a true record of the matters therein contained.

DONE at Albuquerque, N . M., May 2, 1952,


Notary Public

My Commission Expires: 8-4-52