

IN THE COURT OF APPEALS FOR THE STATE OF NEW MEXICO

RAYMOND L. KYSAR, PATSY SUE KYSAR,
AND THE KYSAR FAMILY TRUST,

COPY

COURT OF APPEALS OF NEW MEXICO
ALBUQUERQUE
FILED
MAY 28 2010

Plaintiffs/Appellants,

Ct. App. No. 29756

WILLIAM KARL JOHNSON and MARY M. JOHNSON, his wife, and all of their heirs and successors, known and unknown; BP AMERICA PRODUCTION COMPANY, f/k/a AMOCO PRODUCTION COMPANY; BP; the heirs and successors of MAUDE KEYS, including, but not limited to OLIE MAE McCOY, LAURA A. TOVEY, CLARENCE RIDDLE, EUGENE RIDDLE, JOYCE (JOY) RIDDLE LEE and TOMMY RALPH RIDDLE, BEN CASE, HENRY and GEORGIA KNOWLTON; ONOFRE R. JAQUEZ and ALVINA JAQUEZ, his wife, and all of their heirs and successors, known and unknown; COLEMAN OIL & GAS, INC.; WILLIAM HOLMBERG and JOYCE HOLMBERG, his wife; SHIRLEY M. HOLMBERG, and UNKNOWN ENTITIES A-Z; JOHN DOES I-X (as yet unidentified agents, employees or contractors of BP America Production Company, BP, or Unknown Entities A-Z, who have trespassed on the Kysar Ranch); and all other persons unknown, claiming any right, title, estate, lien, easement, or interest in the real property described in the complaint adverse to plaintiffs' ownership, or any cloud on plaintiffs' title thereto.

Defendants/Appellees.

Appeal from the Eleventh Judicial District Court
County of San Juan
Case No. D-116-CV 2005-824-1
The Honorable Robert A. Aragon

REPLY BRIEF

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Oral Argument Is Requested

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Introduction: BP has filed a diversion brief, not an answer brief.

BP's "Answer Brief" does not actually answer any of the legal authorities cited by the Kysars. Instead BP spends 43 pages evading and talking around the controlling legal authorities, including *Kysar v. Amoco Prod. Co.*, 2004-NMSC-025, 135 N.M. 767, 93 P.3d 1272 ("*Kysar I*") and *Kysar v. Amoco Prod. Co.*, 379 F.3d 1150 (10th Cir. 2004) ("*Kysar II*"). In these prior decisions, the Supreme Court and the Tenth Circuit construed the very same deeds, oil and gas leases, and communitization agreements which control this case. Both decisions ruled that BP's agreements do not give BP the right to use the surface of one lease to access and develop another lease in another section, because the agreements do not grant such a right of access to adjacent tracts. In particular, this means that BP does not have the right to cross the surface of the Jaquez lease in Section 34 to access wells that drain the Keys leases in Sections 27, 28, and 22. As Justice Minzner said in *Kysar I*, at ¶ 50, if BP wishes such access, it must negotiate and pay for an agreement with the Kysars. Nevertheless, BP has made a corporate decision to disobey the rulings of the Supreme Court and the Tenth Circuit, because BP has the economic might to do so.

- I. The Kysars are entitled to a jury trial with a jury instruction that BP does not have the right to cross the Jaquez lease to access wells on the Keys lease.

In this case, the Kysars merely seek to enforce their rights as already decided by two appellate courts. As a matter of law, decided by *Kysar I* and *Kysar II*, the oil and gas agreements do not give BP the right to cross the surface of the Jaquez lease in Section 34 to reach BP's wells on the Keys leases. This issue was unequivocally decided by the Supreme Court and the Tenth Circuit when they construed all of the pertinent agreements. BP cannot use the Back Gate Road in Section 34 to reach the Keys wells for several reasons: First, as Justice Minzner stated in *Kysar I*, ¶ 10, “[t]he Jaquez lease also contained no provision allowing the mineral lessee the use of the surface to reach other tracts located outside the land covered by the lease.” Second, Justice Minzner ruled for a unanimous court that “on the second question, we conclude that a mineral rights lessee, by virtue of a communitization agreement the lessee was authorized to execute by a prior owner of the fee, does not enjoy a right of access over the surface estate of the portion of the leased area not subject to the agreement when the lease did not expressly grant this right.” *Id.* ¶ 52. In this case it is undisputed that the Jaquez land in Section 34 is not communitized with the Keys wells. Third, the Keys and

Jaquez leases both contain provisions that make such a communitization impossible. As Justice Minzner emphasized, the leases limit the extent of communitization: “Each such drilling or production unit shall not exceed 320 acres . . . and *no unit shall be created which covers and includes land in more than one Section.*” *Id.* ¶ 44 (emphasis added by Justice Minzner).

Therefore, as a matter of law, the surface of the Jaquez lease cannot be used for the development of other leases in other sections. Applying this rule, the Tenth Circuit ruled that BP had no right of access across the Jaquez leases: BP did not have the right to cross the Jaquez lease to develop oil and gas outside the Jaquez leases. *Kysar II*, 379 F.3d at 1156.

BP has decided to ignore these rulings. BP attempts to distinguish the earlier cases by arguing the Sullivan Gas Com E-1 well was located on the surface of BLM land communitized with 37 acres of the Keys lease in Section 22. This distinction makes absolutely no difference under the plain rules of law laid down in *Kysar I* and *II*. Under these cases, there are two dispositive questions: Does the well develop a different lease? Is the well located in a different section? The undisputed answer to both of these questions is “Yes.” The Keys wells are located on different leases and in a different section, and

therefore BP does not have the right to use the Jaquez lease in Section 34 as an access route to those wells. As Justice Minzner stated:

If Amoco is to use [the Bridge Road or the Back Gate Road], the parties must negotiate an agreement to do so. Such an agreement may define the scope and limits of an easement, as well as the consideration for use of the road and possible present and future maintenance.

Kysar I, ¶ 50.

Despite these decisions in favor of the Kysars, BP has made a corporate decision to defy the Supreme Court and the Tenth Circuit, and to pay its lawyers rather than paying surface owners. BP has made a calculated business judgment that trespass and defiance will be cheaper than complying with the law. Unfortunately, BP's strategy has been a complete success: BP convinced the District Court not to follow *Kysar I* and *II*, and also to limit trespass damages so severely that it will always be cheaper for BP to trespass rather than pay for an easement.

It is simply inexplicable that the District Judge failed to apply the law, as already decided for him by the Supreme Court and the Tenth Circuit. On appeal, BP has presented no argument and no authority to change the law laid down by those courts.

Therefore, this Court should reverse and instruct the District Court to instruct the jury that BP does not have the right to cross the Jaquez lease in Section 34 to access wells that drain the Keys leases.

II. The jury must be instructed that BP owed a duty of good faith and fair dealing to the Kysars.

In Point 2 of their Brief in Chief, the Kysars argued that “There is a duty of good faith and fair dealing between an oil company and the surface owner. This duty obligates an oil company to produce the pertinent oil and gas leases and agreements when requested by the surface owner.” BP had argued in the District Court that it owed no duty of good faith to the Kysars. RP 349-404. On appeal, BP does not contest this point in its Answer Brief. BP has effectively conceded the issue on appeal. *See, e.g., Santa Fe Pacific Gold Corp. v. United Nuclear Corp.*, 2007-NMCA-133, ¶ 41, 143 N.M. 215, 175 P.3d 309. Of course, the existence of a duty is a matter of law, and the law is well established that the covenant of good faith and fair dealing is implied in an oil and gas lease. *See, e.g., Amoco Prod. Co. v. Heimann*, 904 F.2d 1405, 1413 (10th Cir. 1990) and the other cases in BIC at 24-26.

Therefore, this Court should instruct the District Court that BP owes a duty of good faith and fair dealing to the Kysars, and that this duty obligates

the oil company to produce all of the pertinent oil and gas documents when requested by the surface owner.

III. In assessing damages for trespass along the Back Gate Road, the jury must be instructed that it can consider the amounts that oil companies actually paid the Kysars to use that road.

Concerning damages for trespass, the District Court committed three separate reversible errors.

A. Property owners can testify about the value of their property.

On BP's motion, the Court barred the Kysars from testifying and offering their opinions about the value of their property, that is, the value of the Back Gate Road as an access route. This is plain error, because an owner of property is always allowed to offer his opinion on the value of his property.

See UJI 13-716 and UJI 13-717 NMRA; *Richardson v. Rutherford*, 109 N.M. 495, 787 P.2d 414 (1990); *Tres Ladrones, Inc. v. Fitch*, 1999-NMCA-076, ¶ 18, 127 N.M. 437, 982 P.2d 488. In its Answer Brief BP has been unable to cite any authority to the contrary. BP has been unable to find any reported case in which a court has barred the owners of property from testifying about its value, as the District Court did in this case.

- B. The jury can consider the amounts that the Kysars have been paid for use of the Back Gate Road as an access route to gas wells.**

BP convinced the District Court to bar any evidence about the amounts that the Kysars had already been paid for use of the Back Gate Road. The Kysars have already been paid more than \$1,150,000 by oil companies for use of the Back Gate Road, but the district judge refused to let the jury consider these facts at all. This is error, because the amounts actually paid for the property in question are the most probative evidence of value. The weight of this evidence is for the jury to decide, and the judge invaded the province of the jury by deciding that this evidence could be given no weight whatsoever in the jury's consideration of damages. UJI 13-2003 NMRA, Committee Commentary ("it is for the jury . . . to determine the weight to be given"); UJI 13-2005 NMRA (jury is sole judge of facts).

- C. Diminution in property value is not the sole and exclusive measure of damage for trespass. Damages can also be measured by the trespasser's gain.**

In its Answer Brief, BP has been unable to cite any New Mexico authority which holds that permanent diminution in property value is the only possible measure of damages for trespass. To the contrary, the law in New Mexico and other jurisdictions recognizes that there are alternative measures for trespass damages, depending upon the facts of a particular case.

Diminution in value, that is damage to the property is one measure, but not the only one. Trespass damages may also be valued by the gain to the trespasser, rather than the loss to the property owner. This is analogous to the law of contracts, where damages for breach of contract may be measured by plaintiffs' loss or defendants' gain.

In its Answer Brief, BP misrepresents the record. BP asserts that "the Kysars' claim is for trespass and not for assumpsit Plaintiffs' Complaint does not state a claim for assumpsit" This is a deliberate deception by BP: Of course the Kysars did not plead assumpsit, an ancient and now abolished form of action. Instead Count VIII (RP 15-16) of the Kysars' complaint asserted a cause of action for unjust enrichment, a modern analogue to assumpsit. Unjust enrichment is measured by the defendants' gains rather than the plaintiffs' losses.

Most importantly BP never addresses the most important point raised by the Kysars. *If a surface owner is limited to trespass damages measured only by the before-and-after diminished value of the property, then it will always pay for BP and other oil companies to trespass. See BIC 33-39.* In virtually every instance, the oil company's profits from an oil well are far greater than the before-and-after value of the surface property. If BP succeeds in its argument,

then the economics will always encourage an oil company to trespass. In the vast majority of cases, the surface owner does not have the resources to sue an oil company. And even if the oil company is forced to pay damages, the District Court's inadequate damages will be much smaller than the profits for trespass. In this case BP's expert was prepared to opine that the value of the Back Gate Road was \$50,000 or less, even though BP and Coleman had already paid more than \$1,150,000 for the right to use the Back Gate Road to reach certain wells. Unless the District Court is reversed, every oil company will have an overwhelming economic incentive to trespass, rather than paying for access. As a practical matter, BP's measure of damages completely nullifies Justice Minzner's holding that BP must negotiate with the surface owner and pay for access.

Third, it must be remembered that oil and gas leases are temporary, not permanent. An oil and gas lease might last years or decades, but at some point it comes to an end, and the property is supposed to be restored. Therefore it makes no sense to measure a temporary taking by the permanent damage to property. For a temporary taking or trespass, rental value is a better measure of damages. *Primetime Hospitality, Inc. v. City of Albuquerque*, 2009-NMSC-011, ¶¶ 19-22, 146 N.M. 1, 206 P.3d 112 and 2007-NMCA-129, ¶ 15, 142 N.M.

663, 168 P.3d 1087. In this case, the value of an oil and gas easement is best measured by the money that Coleman Oil and BP have paid for that easement. BP claims that these values must be ignored, because excluding this evidence will allow BP to continue trespassing on the cheap. BP's argument is facially absurd: BP has already paid \$400,000 for an easement on the Back Gate Road to one well, but BP claims that the total value of the Road is around \$50,000, for access to multiple wells.

Therefore, this Court should reverse the District Court and hold that (a) the Kysars can testify about the value of their property; (b) they can present evidence of the amounts they have actually been paid for use of the Back Gate Road; and (c) that diminished value of the property is not the sole and exclusive measure of damages for trespass.

IV. The jury must be allowed to decide whether BP obtained the Kysars' consent through fraud, concealment, mistake, or duress.

BP filed a motion in *limine* to prevent the Kysars from offering evidence showing that BP obtained their consent to use the Back Gate Road through fraud and misrepresentation. The District Court granted BP's motion without explanation. RP 1979.

On appeal, BP attempts to justify this ruling by falsely asserting that the Kysars never raised fraud and misrepresentation in their complaint. Once

again, BP has misrepresented the record below. The complaint states at paragraph 27:

Amoco (BP's predecessor in interest) knowingly made false representations about its supposed right to cross the Kysar Ranch which tended to and actually did deceive and mislead the Kysars in connection with BP's production and purchase of coal seam gas from the wells located on the Kysars' land.

RP 7.

In addition, paragraphs 62 and 64 (RP 14) also specifically describe BP's "hide the ball tactics" in refusing to provide the Kysars with the relevant documents.

So BP's Answer Brief misrepresents the record, but it does not contest the law cited by the Kysars. When a landowner gives permission due to misrepresentations (whether fraudulent or merely mistaken) by the party who enters his land, the permission is legally ineffective, and the landowner may collect trespass damages for the invasion of his property rights. *See* Restatement (Second) of Torts §§ 173, 174, 892A, and 892B (1965 & 1979), discussed in Point 3 of the Kysars' Brief in Chief.

Therefore, the District Court's ruling should be reversed, with instructions that the Kysars are allowed to present evidence that their consent

to use the Back Gate Road was obtained by fraud, misrepresentation, concealment, mistake, or duress.

V. New Mexico does not recognize easement by estoppel.

In Point 6 of their Brief in Chief, the Kysars pointed out that New Mexico does not recognize the doctrine of easement by estoppel. Recognizing easement by estoppel would nullify the statute of frauds and the cases cited by Justice Minzner in *Kysar I*. *Inter alia*, Justice Minzner relied upon NMSA 1978, § 47-1-5 (Laws 1851-52); *Cox v. Hanlen*, 1998-NMCA-015, ¶ 26, 124 N.M. 529, 953 P.2d 294; and *Ritter-Walker Co. v. Bell*, 46 N.M. 125, 126, 123 P.2d 381, 382 (1942). For other precedent against easement by estoppel, see *Luevano v. Maestas*, 117 N.M. 580, 874 P.2d 788 (Ct. App. 1994); *Luchetti v. Bandler*, 108 N.M. 682, 777 P.2d 1326 (Ct. App. 1989); *Algermissen v. Sutin*, 2003-NMSC-001, ¶ 12, 133 N.M. 50, 61 P.3d 176 (permissive use does not create an easement).

In its Answer Brief, BP effectively concedes this issue. BP does not attempt to argue that New Mexico recognizes easement by estoppel, or that New Mexico would depart from the long-established case law to create a new type of easement under the circumstances of this case.

Therefore, this Court should instruct the District Court that BP's use of the Back Gate Road with the Kysars' permission does not create an easement in favor of BP.

VI. The Kysars must be allowed to testify about the agreements with BP in 2000, 2001, 2004, and 2005.

During the course of their dealings with BP, the Kysars have had five separate agreements with BP on specific limited issues. In every instance, BP has argued after the fact that the Kysars signed away all of their rights.

In 2000, the Kysars signed the Prairie Dog Agreement (RP 1230-32), which deals with the specific claims that the Kysars had raised, like prairie dogs, weeds, etc. This was not a general release of all claims, past or future, against BP, and BP never acted as though it was until six years later. RP 1225-29; 1307-84. Without hearing any evidence, the District Court agreed with BP, and barred the Kysars from testifying about it.

In 2003, the Kysars signed a gathering line agreement. RP 1336-39. BP later argued that this agreement also waived all of the Kysars rights. RP 1329.

In 2004, the Kysars and BP reached an memo agreement with the mediator to settle access to the Sullivan Gas Com E-1 well for \$400,000. Thereafter, BP made the false claim that the Kysars had granted blanket access across their ranch in exchange for the \$400,000. The Kysars refused to accept

the money on those terms, so BP ultimately agreed that the \$400,000 was only for the easement to that one well.

In 2005, the Kysars and BP signed the formal settlement on the Sullivan Gas Com E-1 well access. RP 1340-53. At paragraph 6 it specifically recited that the Kysars grant “a limited purpose easement across the Kysar Ranch . . . for access . . . at the Sullivan Gas Com E-1 Well Site . . . and for no other purpose.” RP 1341. Nevertheless, BP later argued that the 2005 agreement could not be shown to the jury. RP 2003-04.

In 2009, the Kysars and BP reached a stipulation explicitly preserving the Kysars’ rights to challenge the Court’s rulings on appeal. RP 1968-72. But after the fact BP now argues that the Kysars signed away their rights to appeal.

In short, there is ample evidence that would lead a jury to find that BP has repeatedly violated its duties of good faith and fair dealing by entering into agreements and then changing its position after the fact to argue that land owners have signed away all of their rights. The evidence will show that this is standard operating procedure with BP. Whenever the Kysars sign an agreement with BP to resolve an issue, BP’s internal and external lawyers will construe the agreement as a blanket release of the Kysars’ rights, no matter what the agreement says.

Unfortunately, the District Court barred the Kysars from presenting evidence about the 2000 and 2005 agreements. This is plain legal error, because these documents do not release all claims against BP, and because such blanket releases are disfavored and considered ambiguous as a matter of law. *Hansen v. Ford Motor Co.*, 120 N.M. 203, 211, 900 P.2d 952, 960 (1995). Furthermore, BP's own course of conduct and testimony shows that it did not regard these agreements as giving BP blanket access across the entire Kysar Ranch. For example, the evidence will show that from 2000 to 2006, BP never acted as though the Kysars had signed a blanket release. BIC 41-42. If the intent of the contracting parties is ambiguous, then it is for the jury to weigh the facts.

Once again, the District Judge invaded the role of the jury, because he accepted BP's assertions at face value and barred the Kysars from presenting their side of the story.

VII. On appeal, BP is trying to escape its own stipulation and stipulated order, whereby BP explicitly stipulated that the Kysars could challenge the District Court rulings on appeal.

On appeal, BP does a complete about-face – it repudiates its agreement with the Kysars. In its Answer Brief, BP claims that the Kysars waived all of their objections, even though BP stipulated, and the District Court ordered,

that the Kysars preserved all of their rights to challenge the Court's rulings.

Yet again, BP does not consider itself to be bound by its own agreements or by judicial rulings.

In the District Court, BP stipulated as follows:

This stipulation is without prejudice to either party's rights to challenge the court's aforementioned decisions and rulings on appeal.

RP 1972.

Furthermore, the District Court also entered an order preserving the Kysars' rights to challenge the Court's rulings:

3. In light of the Court's decisions and evidentiary rulings to date, the parties stipulated that a reasonable jury would not have a legally sufficient evidentiary basis to find for Plaintiffs on any of the claims raised by Plaintiffs' complaint. In so stipulating, each party reserved the right to challenge the Court's aforementioned decisions and rulings on appeal.

4. In light of the parties' stipulation, which is well taken, the Court determines that the claims raised by Plaintiffs' complaint, insofar as they pertained to BP America Production Company, should be dismissed and finds that BP America Production Company is entitled to judgment as a matter of law.

RP 1969.

To escape its own agreement after the fact, BP mischaracterizes the pertinent New Mexico authorities. First, the District Court's dismissal was not

a judgment by consent. *Gallup Trading Co. v. Michaels*, 86 N.M. 304, 523 P.2d 548 (1974). *Gallup Trading Co.* defines a judgment by consent as follows:

“A judgment by consent is in effect an admission by the parties that the decree is a just determination of their rights on the real facts of the case had they been found.”

86 N.M. at 305, 523 P.2d at 549 (quoting *Shaw v. Spelke*, 147 A.2d 675, 677 (Conn. 1929)).

The Kysars certainly did not admit that the District Court’s rulings were “a just determination of their rights.” Furthermore, the District Court’s exclusion of key evidence made it impossible to decide the Kysars’ rights “on the real facts of the case had they been found” by a jury.

Second, in *Rancho del Villacito Condominiums, Inc. v. Weisfeld*, 121 N.M. 52, 908 P.2d 745 (1995), our Supreme Court made it clear that it would recognize a lack of consent exception in a proper case. The Court quoted with approval the analysis of the Iowa Supreme Court in *Hense v. G.D. Searle & Co.*, 452 N.W.2d 440 (Ia. 1990), where the Iowa Supreme Court adopted a lack of consent exception. The Iowa Supreme Court adopted a rule to allow review of a consent judgment when “the plaintiffs’ consent is not truly voluntary when viewed in light of prior rulings which had precluded recovery.

. . . On balance, we think the ‘lack of consent’ exception to the rule of nonreviewability, rather than a strict appellate waiver rule, better reflects Iowa’s general preference for considering cases on their merits.” *Id.* at 444.

In the present case, the Court, BP and the Kysars all agreed that the Court’s rulings made it impossible for the jury to find in favor of the Kysars. See first sentence of paragraph 3 of the Stipulated Order quoted above. Moreover, the record shows that the Kysars repeatedly made it clear that they did not consent to any of the Court’s rulings. *See Bond v. A.H. Belo Corp.*, 602 S.W.2d 105, 108 (Tex. App. 1980) (a party’s respectful obedience to firm and repeated rulings denying recovery of certain damages and disallowing proof thereof did not constitute consent to judgment).

Other courts have followed the sensible approach of *Gallup*, *Hense*, and *Rancho del Villacito*, that “judgment by consent” means actual consent by the parties that the judgment is correct. In *Norgart v. The Upjohn Co.*, 21 Cal. 4th 383, 981 P.2d 79 (1999), the California Supreme Court has insightfully explained that a “consent judgment” means “a judgment entered by a court under the authority of, and in accordance with, the contractual agreement of the parties, intended to settle their dispute fully and finally.” 21 Cal. 4th at

400, 981 P.2d at 90 (citations omitted). The rule that a consent judgment cannot be reviewed is

“limited to cases wherein it does not appear from the record that the consent was given only *pro forma* to facilitate an appeal, and with the understanding on both sides that the party did not thereby intend to abandon his right to be heard on the appeal in opposition to the judgment or order. In other words, we will construe the stipulation according to the intention and understanding of the parties at the time, and will give effect to it accordingly.”

21 Cal. 4th at 401, 981 P.2d at 90 (quoting *Mechem v. McKay*, 37 Cal. 154, 158-59 (1869)).

“Although a consent . . . judgment is not normally appealable, an exception is recognized when ‘consent was merely given to facilitate an appeal following adverse determination of a critical issue.’” . . . “it is ‘wasteful of trial court time’ to require the plaintiff to undergo a probably unsuccessful . . . trial merely to obtain an appealable judgment.”

21 Cal. 4th at 400, 981 P.2d at 90 (citations omitted).

CONCLUSION

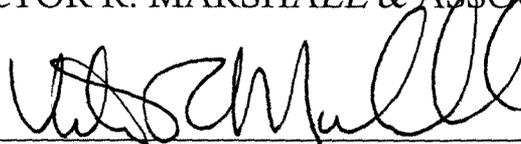
For the reasons stated, this Court should reverse the District Court and remand this case for further proceedings with instructions as set forth above.

REQUEST FOR ORAL ARGUMENT

This case warrants oral argument because BP has managed to nullify the rulings in *Kysar I* and *Kysar II*. Furthermore, if the District Court's rulings are left intact, BP and other oil companies will have every economic reason to trespass rather than pay surface owners for access across their land.

Respectfully submitted,

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I hereby certify that a true and correct copy of the foregoing was mailed to Bradford C. Berge, Esq., Holland & Hart, 110 North Guadalupe, Suite 1, Santa Fe, New Mexico 87501 this 28th day of May, 2010.

