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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

December 7, 1998

HAND DELIVERED

12/11/98

OIL CONSERVATION DIV.
98 DEC - 8 PM 12:10

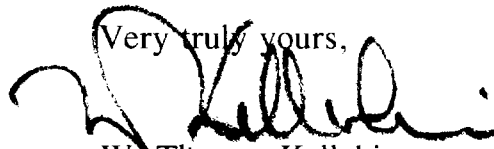
Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

**Re: Shugart Deep Federal "31" Well No. 1
S/2 Section 31, T18S, R31E, NMPM
Application of Matador Petroleum Corporation
for Compulsory Pooling
Eddy County, New Mexico**

Dear Ms. Wrotenbery:

On behalf of Matador Petroleum Corporation, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for **January 7, 1998**. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Matador Petroleum Corporation
Attn: Mona Ables

1.2115

CASE ____: Application of Matador Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the surface to the base of the Morrow formation underlying Section 31, T18S, R31E, NMPM, Eddy County, New Mexico, in the following manner: the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within this vertical extent, which presently may include but is not necessarily limited to the North Shugart-Morrow Gas Pool and the SW/4 to form a standard 160-acre gas proration and spacing unit for any and all formations and/or pools spaced on 160-acre gas spacing within this vertical extent. This unit(s) is to be dedicated to its proposed Shugart Deep Federal "31" Com Well No. 1 to be drilled and completed at a standard gas well location in Unit K of this Section. Also to be considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of the applicant as the operator of the well and a charge for risk involved in this well. This unit is located approximately 9 miles southeast of Loco Hills, New Mexico.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF MATADOR PETROLEUM CORPORATION
FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO.**

CASE NO. 12115

A P P L I C A T I O N

Comes now MATADOR PETROLEUM CORPORATION by its attorneys, Kellahin & Kellahin, and in accordance with NMSA 1978 Section 70-2-17(c) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the top of the surface to the base of the Morrow formation underlying Section 31, T18S, R31E, NMPM, Eddy County, New Mexico, in the following manner: the S/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within this vertical extent which presently may include but is not necessarily limited to the North Shugart-Morrow Gas Pool and the SW/4 to form a standard 160-acre gas proration and spacing unit for any and all formations and/or pools spaced on 160-acre gas spacing within this vertical extent. This unit(s) is to be dedicated to its proposed Shugart Deep Federal "31" Com Well No. 1 to be drilled and completed at a standard gas well location in Unit K of this Section. Also to be considered will be the costs of drilling and completing this well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of the applicant as the operator of the well and a charge for risk involved in this well.

In support of its application, Matador Petroleum Corporation ("Matador") states:

1. Matador has the right to drill and develop the oil and gas minerals from the surface to the base of the Morrow formation underlying the S/2 of Section 31, T18S, R31E, NMPM, Eddy County, New Mexico.

2. Matador proposes to form a standard 320-acre gas proration and spacing unit consisting of the S/2 of this section for any and all formations and/or pools spaced on 320-acre gas spacing and the SW/4 to form a standard 160-acre gas proration and spacing unit for any and all formations and/or pools spaced on 160-acre gas spacing.

3. This unit is located within one-mile of the current boundaries of the North Shugart-Morrow Gas Pool.

4. Matador has proposed this well and its spacing unit to the working interest owners in the spacing unit as identified on Exhibit "A."

5. Despite its good faith efforts, Matador has been unable to obtain a written voluntary agreement from all of the parties listed on Exhibit "A".

6. Pursuant to NMSA 1978 Section 70-2-17(c) and in order to obtain its just and equitable share of potential production underlying this spacing unit, the applicant needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

7. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" and of the applicant's request for a hearing of this matter before the Division on the Examiner's docket now scheduled for January 7, 1999.

WHEREFORE, Matador Petroleum Corporation, as applicant, requests that this application be set for hearing on January 7, 1999 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for the drilling of this well at a standard well location upon terms and conditions which include:

(1) Matador Petroleum Corporation be named operator;

(2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;

- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;
- (4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

EXHIBIT "A"

Penwell Energy, Inc.
1100 ARCO Building
600 N. Marienfeld, Street
Midland, Texas 79701
Attn: Mark Wheeler

Santa Fe Energy Resources, Inc.
550 W. Texas, Suite 1330
Midland, Texas 79701
Attn: Steve Smith

Roger T. Elliott
415 West Wall, Suite 1106
Midland, Texas 79701

Hollyhock Corp.
415 West Wall, Suite 1106
Midland, Texas 79701

Louis Dreyfus Natural Gas Corp.
1400 Quail Springs Parkway, Suite 600
Oklahoma City, OK 73134-2600
Attn: Joe Hammond

Cannon Exploration Co.
3608 SCR 1184
Midland, Texas 79706