

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

**IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
DIVISION FOR THE PURPOSE OF  
CONSIDERING:**

**CASE NO. 12786**

**APPLICATION OF MATADOR OPERATING COMPANY  
FOR AN UNORTHODOX GAS WELL LOCATION AND  
SIMULTANEOUS DEDICATION,  
EDDY COUNTY, NEW MEXICO**

**STIPULATED PENALTY**

Comes now Matador Operating Company ("Matador"), by and through its attorney, W. Thomas Kellahin of Kellahin & Kellahin; Chevron Texaco by and through its attorney, William F. Carr of Holland & Hart and Kerr McGee Oil & Gas Onshore, LLC ("Kerr-McGee") by its attorney James Bruce and stipulate as follows:

- (1) That Matador is the applicant before the New Mexico Oil Conservation Division in the referenced case and seeks approval of an unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool which is 415 feet from the North line and 1201 feet from the and West line (Unit D) of Section 21, T22S, R23E, NMPM, Eddy County, New Mexico;
- (2) That Chevron Texaco is the operator of Sections 16 and 17, T22S, R23E, in the Indian Basin-Upper Pennsylvanian Gas Pool;
- (3) Kerr-McGee is a working interest owner in Section 17, T22S, R23E;
- (4) That Matador's unorthodox location encroaches towards Section 16 and 17;

(5) In order to protect the correlative rights of Chevron Texaco, Kerr-McGee and the interest owners in Sections 16 and 17 and at the same time to prevent waste by providing for the drilling of the Matador's well as requested, the parties stipulate and agree that Matador shall request from the Oil Conservation Division a penalty so that the producing allowable for the penalized well shall be 40.7% of a full unpenalized allowable for this pool (59.3% PENALTY) which is calculated by averaging two factors as follows:

(a) Productive acreage Method  
in Section 21:  
 $360/640 = 56.15\%$  of allowable

(b) Ratio of Distance:  
 $415/1650 = 25.15\%$  of allowable

(6) That Chevron Texaco and Kerr-McGee shall withdraw any protest in this case provided that the Division order entered in this case shall not have an allowable greater than the stipulated 40.7% allowable.

(7) This stipulation is consistent with letter agreements between the parties which will be introduced at the hearing.

(8) This stipulation shall be made a part of the record in the Examiner's hearing of this matter.

This stipulation is executed this 9 day of January, 2002 by the respective attorneys of record for the parties indicated on behalf of said parties.

FOR MATADOR OPERATING COMPANY

BY 

W. Thomas Kellahin, Esq.

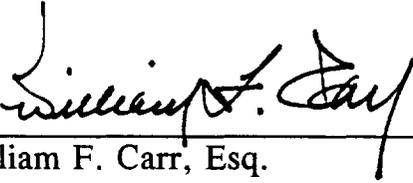
Kellahin & Kellahin

P. O. Box 2265

Santa Fe, New Mexico 87504

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Stipulated Penalty  
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FOR CHEVRON TEXACO

BY 

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FOR KERR-MCGEE OIL & GAS ONSHORE LLC

BY \_\_\_\_\_  
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