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

JASON KELLAHIN (RETIRED 1991)

December 17, 2001

**HAND DELIVERED**

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

**Re: Mershon Com Well No. 2  
N/2 and N/2N/2N/2S/2 of Section 21, T22S, R23E, NMPM  
Application of Matador Operating Company  
for an unorthodox well location and simultaneous  
dedication. Eddy County, New Mexico**

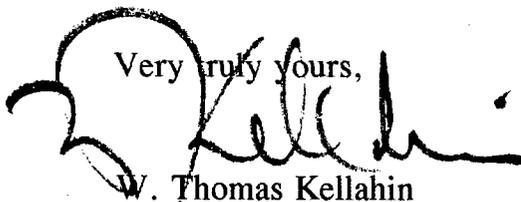
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Dear Ms. Wrotenbery:

On behalf of Matador Operating Company, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for January 10, 2002. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Matador Operating Company  
Attn: Mark Virant

**CASE 12786** Application of Matador Operating Company for an unorthodox gas well location and simultaneous dedication, Eddy County, New Mexico. Applicant seeks approval to drill and produce its Mershon Com Well No. 2 which is being drilled at an unorthodox well location 415 feet from the North line and 1201 feet from the West line (Unit D) of Section 21, Township 22 South, Range 23 East, NMPM to a total depth of approximately 8200 feet to test for gas production from the Indian Basin-Upper Pennsylvanian Gas Pool and to be simultaneously dedicated to an existing approved 360-acre non-standard proration and spacing unit consisting of the N/2 and the N/2N/2N/2S/2 of this section which is currently dedicated to the Mershon Gas Com Well No. 1 located in Unit A of this spacing unit. This unit is located approximately 23 miles west of Carlsbad, New Mexico.

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

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

CASE NO. 12786

**APPLICATION**

Comes now MATADOR OPERATING COMPANY by its attorneys, Kellahin & Kellahin seeks approval to drill and produce its Mershon Com Well No. 2 which is being drilled at an unorthodox well location 415 feet from the North line and 1201 feet from the West line (Unit D) of Section 21, Township 22 South, Range 23 East, NMPM to a total depth of approximately 8200 feet to test for gas production from the Indian Basin-Upper Pennsylvanian Gas Pool and to be simultaneously dedicated to an existing approved 360-acre non-standard proration and spacing unit consisting of the N/2 and the N/2N/2N/2S/2 of this section which is currently dedicated to the Mershon Gas Com Well No. 1 located in Unit A of this spacing unit.

In support of its application, Matador Operating Company ("Matador") states:

1. Matador has the right to drill and develop the oil and gas minerals from the surface to the base of the Indian Basin-Upper Pennsylvanian Gas Pool underlying the N/2 of Section 21, T22S, R23E, NMPM, Eddy County, New Mexico.

2. The N/2 and N/2N/2N/2S/2 of Section 21 is a currently approved 360-acres non-standard-proration and spacing unit (GPU") for the production of gas from the Upper Pennsylvanian Gas Pool. See Order R-3737-A.

3. The southern boundary of this GPU is on the current southern boundary of the Indian Basin-Upper Pennsylvanian Gas Pool which is a prorated gas pool with special rules providing for 640-acre gas spacing and proration units and standard well locations not closer than 1650 feet to the outer boundary of the unit.

4. This non-standard 360-acre GPU is currently dedicated to the Mershon Gas Com Well No. 1 located at an approved unorthodox gas well location in Unit A of Section 21 which is temporarily abandoned but which produced from the Indian Basin Upper Pennsylvanian Gas Pool.

5. This non-standard 360-acre GPU is subject to a production penalty of 43.75 % (an allowable of 65.25 % [360/640]) of the prorated allowable for this pool. **See Order R-3737-A.**

6. On October 25, 2000, the Bureau of Land Management approved an application to drill (APD") filed by Marathon Oil Company for the Mershon Gas Com Well No. 2 (API #30-015-31404) to be drilled at an unorthodox gas well location 415 feet from the north line and 1201 feet from the West line of Section 21 for gas production from the Upper Pennsylvanian Gas Pool.

7. Thereafter, on November 5, 2001, Marathon transferred operations and this approved APD to Matador.

8. As a result of an administrative oversight, Matador failed to realize that Marathon had not obtained Division approval to the unorthodox well location.

9. On December 5, 2001, Matador commenced drilling the Mershon Gas Com Well No. 2.

10. Matador considers a location in Unit D of Section 21 to be the optimum geologic location within this GPU to drill and test for Cisco gas production which is the primary objective for this well.

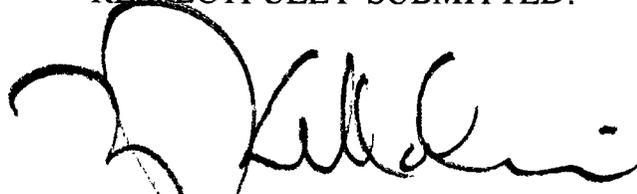
11. In addition, there are surface obstructions in Unit D of Section 21 which preclude the well from being located further to the south, but an appropriate surface location is available at an unorthodox surface location 415 feet from the North line and 1201 feet from the West line of the section.

12. The unorthodox location encroaches towards Sections 16, 17 and 20 which are currently operated by the operators/Working Interest Owners listed on Exhibit "A" attached.

NMOCD Application  
Matador Petroleum Corporation  
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13. In accordance with the Division's notice requirements, a copy of this application has been sent to the offsetting operators/working interest owners 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 10, 2002.

RESPECTFULLY SUBMITTED:



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

**EXHIBIT "A"**

Operator for Sections 16 and 17:

Chevron USA Inc.  
P. O. Box 1150  
Midland, Texas 79702-1150  
Attn: Ray Vaden

Working Interest Owners for Section 20  
(operated by Matador Petroleum Corporation)

Chevron USA Inc.  
P. O. Box 1150  
Midland, Texas 79702