

OCD ORDER PROGRESSION SHEET

YEAR 2001

| CASE NO. | ORDER NO. | HEARING DATE | DATE SIGNED | CASE MINUTES | ORDER MINUTES | DATE MAILED | TO R. C. |
|---------------------|---------------------------------|--|-----------------------------------|-----------------------------------|------------------------------------|---------------------|--------------|
| Dismissed. 12724 | R-11655 | September 6 | 9/13 | 8/10 | 9/13 | 9/13 | 9/13 |
| 12725 | R-11656 | September 6 | 9/12 | 8/10 | 9/12 | 9/12 | 9/12 |
| De Novo. 12594 | Dismissed | by Letter Dated September 14 | 9/11. | 8/10 | | | |
| De Novo. 12698 | Continued R-11636-A | to October 12. September 14 | 11/6 12/5 | 8/10 | 11/6 12/5 | 11/8 12/5 | 11/8 12/5 |
| Reopened. 12726 | R-11693 | Continued to October 18. September 20 | Continued to November 1. 11/26 | Continued to November 15. 8/10 | Continued to November 15. 11/26 | Dismissed. 11/27 | 11/27 |
| Dismissed 12727 | R-11665 | September 20 | 10/5 | 8/10 | 10/5 | 10/5 | 10/5 |
| 12728 | R-2319-A | September 20 | 10/31 | 8/10 | 10/31 | 10/31 | 10/31 |
| 12729 | R-11683 | September 20 | 10/30 | 8/10 | 10/30 | 10/31 | 10/31 |
| NPT 12730 | R-11684-A R-11684 | September 20 | 11/28 11/5 | 8/10 | 11/28 11/5 | 12/3 11/5 | 12/3 11/5 |
| Denied. 12731 | R-11700 | September 20 | 12/13 | 8/10 | 12/13 | 12/14 | 12/14 |
| 12732 | R-11662 | September 20 | 10/12 | 8/10 | 10/12 | 10/15 | 10/15 |
| Continued 12733 | to January 10, 2002. R-11710 | October 4 | 1/15 | 9/11 | 1/15 | 1/15 | 1/15 |
| 12733-A | R-11761 | January 10 | 4/15/02 | | 4/15/02 | 4/15/02 | 4/15/02 |
| Continued 12734 | to October 18. R-11775 | Continued to November 13. October 4 | 6/6/02 | 9/11 | 6/6/02 | 6/6/02 | 6/6/02 |
| Stay. 12734 | R-11775-A | | 7/26/02 | | 7/26/02 | 7/26/02 | 7/26/02 |
| Continued 12735 | to October 18. R-11694 | Continued to November 1. October 4 | 11/26 | Continued to November 15. 9/11 | Continued to November 15. 11/26 | Dismissed. 11/27 | 11/27 |
| Continued 12736 | to October 18. R-11696 | Continued to November 15. October 4 | 11/27 | Dismissed. 9/11 | 11/27 | 11/28 | 11/28 |
| 12737 | R-11678 | October 4 | 10/23 | 9/11 | 10/23 | 10/23 | 10/23 |

DOCKET: COMMISSION HEARING – FRIDAY – SEPTEMBER 14, 2001

**9:00 A.M. - OCD Hearing Room
1120 So. St. Francis
Santa Fe, New Mexico**

The Land Commissioner's designee for this hearing will be Jami Bailey.

The minutes of the May 25, 2001, Commission hearing will be adopted.

The Oil Conservation Commission may vote to close the open meeting to deliberate any De Novo cases heard at this hearing.

The annual "Commission Listens" meeting will begin at 9:00 a.m.

CASE 12567: De Novo – Continued from August 24, 2001, Commission Hearing.

Application of Ocean Energy Resources, Inc. for compulsory pooling and four non-standard oil and gas spacing and proration units, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1-8 of irregular Section 3, Township 16 South, Range 35 East, and in the following manner: Lots 1-8 to form a non-standard 355.80-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Morrow Gas Pool; Lots 3-6 to form a non-standard 177.21-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; Lots 3 and 4 to form a non-standard 97.21-acre oil spacing and proration unit for any formations and/or pools developed on 80-acre spacing within that vertical extent, including the Undesignated South Big Dog-Strawn Pool; and Lot 4 to form a non-standard 48.43-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated Townsend-Permo Upper Pennsylvanian Pool. The units are to be dedicated to applicant's Townsend State Com. Well No. 10, to be located at an orthodox location 800 feet from the North line and 660 feet from the West line of Section 3. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for the risk involved in drilling and completing the well. The units are located approximately 6 miles west-northwest of Lovington, New Mexico. Upon application of Yates Petroleum Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 12535: De Novo - Continued from August 24, 2001, Commission Hearing.

Application of Ocean Energy Resources, Inc. for compulsory pooling and four non-standard oil and gas spacing and proration units, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation underlying Lots 1-8 of irregular Section 3, Township 16 South, Range 35 East, and in the following manner: Lots 1-8 to form a non-standard 355.80-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, including the Undesignated North Shoe Bar-Atoka Gas Pool and Undesignated North Shoe Bar-Morrow Gas Pool; Lots 3-6 to form a non-standard 177.21-acre gas spacing and proration unit for any formations and/or pools developed on 160-acre spacing within that vertical extent; Lots 3 and 4 to form a non-standard 97.21-acre oil spacing and proration unit for

any formations and/or pools developed on 80-acre spacing within that vertical extent, including the Undesignated South Big Dog-Strawn Pool; and Lot 4 to form a non-standard 48.43-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent, including the Undesignated Townsend-Permo Upper Pennsylvanian Pool. The units are to be dedicated to applicant's Townsend State Com. Well No. 10, to be located at an orthodox location 800 feet from the North line and 660 feet from the West line of Section 3. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a charge for the risk involved in drilling and completing the well. The units are located approximately 6 miles west-northwest of Lovington, New Mexico. Upon application of Yates Petroleum Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 12590: De Novo - Continued from August 24, 2001, Commission Hearing.

Application of Yates Petroleum Corporation for compulsory pooling and a non-standard gas spacing and proration unit, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation in Lots 1 through 8 (N/2 Equivalent) of Irregular Section 3, Township 16 South, Range 35 East, to form a non-standard 355.80-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and the Undesignated North Shoe Bar-Morrow Gas Pool. Said unit is to be dedicated to Yates Daisy AFS State Well No. 2 to be drilled at a standard location 660 feet from the North and East lines of said Section 3 to a depth sufficient to test all formations from the surface to the base of the Mississippian formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of Yates Petroleum Corporation as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 6 miles west-northwest of Lovington, New Mexico. Upon application of Yates Petroleum Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 12569: De Novo - Continued from August 24, 2001, Commission Hearing.

Amended Application of Yates Petroleum Corporation for compulsory pooling and a non-standard gas spacing and proration unit, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Mississippian formation in Lots 1 through 8 (N/2 Equivalent) of Irregular Section 3, Township 16 South, Range 35 East, to form a non-standard 355.80-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated North Shoe Bar-Atoka Gas Pool and the Undesignated North Shoe Bar-Morrow Gas Pool. Said unit is to be dedicated to Yates Daisy AFS State Well No. 2 to be drilled at a standard location 660 feet from the North and East lines of said Section 3 to a depth sufficient to test all formations from the surface to the base of the Mississippian formation. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of Yates Petroleum Corporation as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 6 miles west-northwest of Lovington, New Mexico. Upon application of Yates Petroleum Corporation, this case will be heard De Novo pursuant to the provisions of Rule 1220.

CASE 12594: De Novo

Application of Matador Petroleum Corporation for compulsory pooling and an unorthodox subsurface well location, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 20, Township 22South, Range 23 East, and in the following manner: all of Section 20 to form a standard 640-acre gas spacing and proration unit for any and all formations and/or pools developed on 640-acre gas spacing within this vertical extent including but not limited to the Indian Basin-Upper Pennsylvanian Gas Pool; and the E/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 including but not limited to the Indian Basin-Upper Pennsylvanian Associated Pool. The units are to be dedicated to its proposed I. B. Federal Com Well No. 1 to be drilled commencing at an unorthodox surface well location 660 feet from the North line and 1146 feet from the East line (Unit A) of Section 20 and terminating within an area not closer than 660 feet from the North and East lines (Unit A) of this Section being an unorthodox subsurface location at the top of the Cisco formation at approximately 7700 feet within the Indian Basin-Upper Pennsylvanian Gas Pool. Applicant intends to test all formations from the surface to the base of the Cisco formation. 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 this spacing unit and this well and a charge for risk involved in this well. These units are located approximately 23 miles west of Carlsbad, New Mexico. Upon the application of Chevron U.S.A. Production Company, this case will be heard De Novo pursuant to the provisions of Rule 1220.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 5, 2001

Mr. Thomas Kellahin
Kellahin & Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

William F. Carr
Holland & Hart, LLC and Campbell & Carr
P.O. Box 2208
Santa Fe, New Mexico 87504

Re: Case No. 12594, Application of Matador Petroleum Corporation for Compulsory Pooling and an Unorthodox Subsurface Well Location, Eddy County, New Mexico

Gentlemen,

The Commission members have requested that copies of each exhibit which is to be offered during the *de novo* hearing of this matter be provided to the Commission Secretary no later than one week prior to the date set for hearing in this matter. As the matter is now set for hearing on September 14, exhibits should be submitted to Florene Davidson no later than Friday, September 7. If an agreed continuance results in the matter being set in a subsequent month (and due to Mr. Carr's illness, this seems certain), exhibits should be submitted no later than one week prior to the re-scheduled hearing.

It would also helpful if you could provide a more detailed statement of your positions in the pre-hearing statement than is customary.

The Commission members believe that review of detailed pre-hearing statements and the documentary evidence to be offered will permit them to be better prepared for the issues and testimony. As always, if you have any questions, please do not hesitate to give me a call at 476-3451.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen C. Ross".

Stephen C. Ross
Assistant General Counsel



TRANSMITTAL COVER SHEET

OIL CONSERVATION DIVISION
1220 S. ST. FRANCIS DRIVE
SANTA FE, NM 87505
(505) 476-3440
(505)476-3462 (Fax)

PLEASE DELIVER THIS FAX:

TO: ~~XXXXXXXXXXXX~~ Jim Bruce

FROM: Steve Ross

DATE: 9-5

PAGES: 2

SUBJECT: Mexbowne

IF YOU HAVE TROUBLE RECEIVING THIS FAX, PLEASE CALL THE OFFICE NUMBER ABOVE.

Ross, Stephen

To: Wrotenbery, Lori
Subject: Application of Matador

Lori,

As you recall, this case is docketed de novo before the Commission. It is an appeal from Division Order R-11589, which pooled interests of Chevron (and others) to Matador's IB Federal Com Well No. 1, formed a 640 acre and a 320 acre spacing unit and approved an unorthodox well location (with a production penalty).

The Order also provided it would become of no force and effect if the well were not commenced on or before September 1. As you recall, the de novo was filed when Florene was sick, and was not advertised in time for the August meeting. The case is now scheduled to be heard at the September meeting - *after* Order R-11589 terminates on its face.

You also recall that Bill Carr (Chevron) wrote us and asked that we NOT extend the deadline and, if requested to do so, that we should "reopen" the Division case "concerning Matador's proposal to drill a well." No further reasoning is supplied.

After we received this letter, I asked Bill Carr about it, since it didn't really make sense to me. Bill said he didn't know what it meant either, but that he was in active negotiations with Tom Kellahin (Matador) and the case would go away "by (last) Wednesday."

Today, I received a letter from Mr. Kellahin dated August 24 asking you for an extension of time until December 1 to commence the well. Tom points out the obvious --- that failure to grant an extension will in effect nullify his de novo application and force the parties to do this all over again. He acknowledges the pending settlement negotiations, but points out that they cannot be completed by September 1.

Order R-11589 provides that you (the Director) may grant an extension of time from the September 1 requirement "for good cause shown." It seems to me that the failure to get this advertised in time for the August meeting on account of Florene's illness, given the September 1 deadline, is "good cause." Should I ghost write a letter for you granting the extension request? What do you think of all this?

Stephen C. Ross
Assistant General Counsel
NM Energy, Minerals and Natural Resources Department
Oil Conservation Commission
1220 S. Saint Francis
Santa Fe, New Mexico 87505
Office: (505) 476-3451
Fax: (505) 476-3462



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

August 30, 2001

Lori Wrotenbery

Director

Oil Conservation Division

James Bruce

Attorney at Law

P.O. Box 1056

Santa Fe, New Mexico 87504

Michael H. Feldewert

Holland & Hart and Campbell & Carr

P.O. Box 2208

Santa Fe, New Mexico 87504

Re: Case No. 12698, *de novo*
In the Matter of the Application of Mewbourne Oil Company for Compulsory
Pooling, Eddy County, New Mexico

Dear Counsel,

I am in receipt of Mr. Bruce's letter of August 29, 2001 requesting that this matter be docketed for hearing on September 14, 2001. Mr. Bruce points out that his client has rig availability problems and if the case were heard during the October docket his client would be adversely affected.

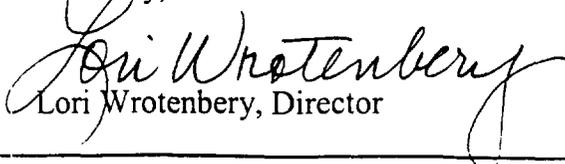
I also understand that Mr. Feldewert objects to the case being heard on that date.

Though the *de novo* case was not filed until after the usual deadline for the September docket, it is nevertheless possible to advertise the case and hear it in September.

While I try to be sensitive to the scheduling needs of litigants and attorneys who appear before this body, in this case the equities seem to weigh in favor of Mewbourne's request --- because of the potential for prejudice. Moreover, the Commission and the Division are mindful that they best serve the interests of the industry and the state by hearing and deciding cases promptly.

I find Mr. Bruce's request supported by good cause. Mr. Bruce's request is granted and this matter will be docketed for hearing before the Commission on September 14, 2001.

Sincerely,


Lori Wrotenbery, Director



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

August 30, 2001

Lori Wrotenbery
Director
Oil Conservation Division

Mr. Thomas Kellahin
Kellahin and Kellahin
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

Re: Case No. 12594
Application of Matador
Petroleum Corporation for
Compulsory Pooling and an
Unorthodox Subsurface
Well Location, Eddy
County, New Mexico

Dear Mr. Kellahin:

I received your letter asking me to extend the time for Matador Petroleum Corporation to commence the well at issue in this case until December 1, 2001 on the grounds that failure to do so would render the existing order a nullity and delay final resolution of this matter. I also received a letter from William F. Carr, representing Chevron USA Inc., objecting to any such extension. I find that your request is supported by good cause and hereby grant the requested extension.

In accordance with the provisions of Division Order No. R-11589, Matador Petroleum Corporation is hereby granted an extension of time until December 1, 2001, in which to commence drilling the well pooled by this order.

Sincerely,


LORI WROTENBERY
Division Director

fd/

cc: William F. Carr
Case No. 12594
OCD - Artesia

OIL CONSERVATION DIV.

KELLAHIN AND KELLAHIN
ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2265
SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

August 24, 2001

HAND DELIVERED

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

Re: Request of Matador Petroleum Corporation
for Extension of Date for Commencement of Well
Pursuant to Compulsory Pooling Order R-11589
Case 12594 (IB Federal Com Well No. 1)
Section 20, T22S, R23E, NMPM
Eddy County, New Mexico

Dear Ms. Wrotenbery:

On behalf of Matador Petroleum Corporation and in accordance with the provisions of the referenced order (copy enclosed), I am requesting an extension of the commencement date for this well to December 1, 2001 and in support state:

- (1) The order was entered effective May 29, 2001 and provides that this well shall be commenced on or before September 1, 2001;
- (2) On June 29, 2001, Chevron USA Inc. ("Chevron") filed an application for a DeNovo hearing;
- (3) Chevron's DeNovo application has not yet been heard by the Commission and will not be heard prior to September 1, 2001;
- (4) By letter dated August 13, 2001, Chevron requested that the Division not grant any extension of the commencement date;

Oil Conservation Division
August 24, 2001
-Page 2-

(5) Matador contends that Chevron's request is unreasonable because it will cause Matador's pooling order to expire and allow Chevron to prevail without a hearing before the Commission;

(6) Matador has proposed to Chevron a settlement of Chevron's concerns about this compulsory pooling order and is awaiting a response from Chevron;

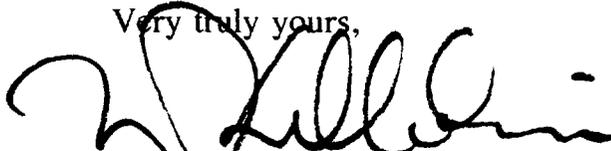
(7) Whether this matter must be decided by the Commission or can be resolved by the parties, such a decision or resolution cannot take place until after September 1, 2001;

(8) An extension of the commencement date until December 1, 2001 will maintain the status quo;

(9) If the commencement date is not extended, then Matador, through no fault of its own, will have to file a new compulsory pooling case which only serves to unnecessarily delay a final resolution of this matter.

Should you grant this extension, I have enclosed for your consideration a proposed letter which will authorize the requested extension. Should you decide to deny this request, I would appreciate being advised immediately so that Matador can timely file to re-instate this pooling order which will otherwise expire.

Very truly yours,



W. Thomas Kellahin

cc: David Brooks, Esq.
Attorney for the Division
David R. Catanach (NMOCD Hearing Examiner)
William F. Carr, Esq.
Attorney for Chevron USA Inc.
Matador Petroleum Corporation
Attn: Mark Virant

HOLLAND & HART LLP
AND
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
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August 13, 2001

VIA HAND DELIVERY

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12594: Application of Matador Petroleum Corporation for Compulsory Pooling and an Unorthodox Subsurface Well Location, Eddy County, New Mexico.

Dear Ms. Wrotenbery:

By Order No. R-11589 the Division granted the application of Matador Petroleum Corporation in the above-referenced case pooling the interest of Chevron USA Inc. in certain spacing units in Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico. On June 27, 2001, Chevron filed its Application for Hearing De Novo in this case. No hearing has been scheduled on this application.

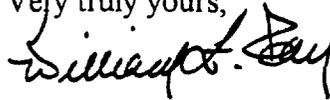
Order No. R-11589 named Matador operator of the subject spacing units and the well to be drilled thereon. Ordering Paragraph (3) of this order provides that "In the event the operator does not commence drilling the well on or before September 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown."

Chevron requests that no time extension of Order No. R-11589 be granted pursuant to Ordering Paragraph (3), and, should Matador request an extension of this pooling order, Chevron further requests that the case be reopened for additional hearing concerning Matador's proposal to drill a well on these spacing units.

Letter to Lori Wrotenbery
August 13, 2001
Page 2

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style with a large initial "W".

William F. Carr
Attorney for Chevron U.S.A., Inc.

cc: W. Thomas Kellahin (Hand-Delivered)
Jim Bruce (by facsimile)
Scott Ingram, Chevron (by facsimile)
Ray Vaden, Chevron (by facsimile)

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. 12594
ORDER NO. R-11589

APPLICATION OF MATADOR PETROLEUM CORPORATION FOR
COMPULSORY POOLING AND AN UNORTHODOX SUBSURFACE WELL
LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 22, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 29th day of May, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Matador Petroleum Corporation ("Matador"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying all of Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, in the following manner:

all of Section 20 forming a standard 640-acre gas spacing and proration unit for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool; and

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320-acres within this vertical extent which presently include but are not necessarily limited to the Undesignated Southwest Indian Basin-Morrow Gas Pool.

These units are to be dedicated to the applicant's proposed IB Federal Com Well No. 1 to be directionally drilled from an unorthodox surface location 660 feet from the North line and 1146 feet from the East line (Unit A) of Section 20, and terminating within an area no closer than 660 feet from the North and East lines (Unit A) of Section 20, being an unorthodox subsurface location at the top of the Cisco formation at a depth of approximately 7,700 feet within the Indian Basin-Upper Pennsylvanian Gas Pool.

(3) Chevron USA Inc. (Chevron), an offset operator and interest owner in the proposed units, and Kerr-McGee Oil & Gas Onshore LLC (Kerr-McGee), an offset operator, appeared at the hearing through legal counsel.

(4) The applicant has the right to drill and proposes to drill its IB Federal Com Well No. 1 at the unorthodox subsurface location described above.

(5) There are interest owners in the proposed units that have not agreed to pool their interests.

(6) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the units.

(7) Matador should be designated the operator of the subject well and units.

(8) The IB Federal Com Well No. 1 is located within one mile of the Indian Basin-Upper Pennsylvanian Gas Pool and is therefore subject to the special rules for this pool.

(9) The Indian Basin-Upper Pennsylvanian Gas Pool is currently classified as a prorated gas pool governed by the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*" as contained within Division Order No. R-8170, as amended, which require standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet to the outer boundary of the section nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(10) Matador presented evidence that demonstrates:

- (a) the primary objective in the IB Federal Com Well No. 1 is the Cisco interval of the Upper Pennsylvanian formation;
- (b) the proposed directional drilling is necessary due to surface obstructions, namely the presence of Dunnaway Draw;
- (c) moving the well to the north and east of a standard well location in Section 20 places the well a greater distance away from the dolomite/limestone transition area within the Cisco formation;
- (d) a well at the proposed unorthodox subsurface location should be structurally higher within the Cisco reservoir than a well drilled at a standard location in the NE/4 of Section 20; and
- (e) a well at the proposed unorthodox subsurface location should encounter a greater amount of dolomite pay within the Cisco reservoir than a well drilled at a standard well location within the NE/4 of Section 20.

(11) Approval of the proposed unorthodox subsurface location will enable the applicant to produce its just and equitable share of the gas within the Indian Basin-Upper Pennsylvanian Gas Pool.

(12) In accordance with the provisions of Division Rule 111.C., the applicant should be required to conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the bottomhole location of the well is in compliance with the terms of this order.

(13) Matador testified that it has reached an agreement with Kerr McGee and Marathon Oil Company that the IB Federal Com Well No. 1 should be assessed a production penalty of 58.5% in the Indian Basin-Upper Pennsylvanian Gas Pool.

(14) In order to effectively limit production from the well and protect correlative rights, an acreage factor of 0.415 should be assigned to the 640-acre unit in the Indian Basin-Upper Pennsylvanian Gas Pool.

(15) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(16) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in drilling the well.

(17) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(18) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. The operator should be authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(20) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(21) If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before September 1, 2001, or if all the parties to this forced pooling reach voluntary agreement subsequent to the entry of this order, this order should become of no effect.

(22) The operator of the well and units should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Petroleum Corporation, all uncommitted mineral interests from the surface to the base of the Morrow formation underlying all of Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

all of Section 20 forming a standard 640-acre gas spacing and proration unit for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool; and

the E/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320-acres within this vertical extent which presently include but are not necessarily limited to the Undesignated Southwest Indian Basin-Morrow Gas Pool.

These units shall be dedicated to the applicant's proposed IB Federal Com Well No. 1 to be directionally drilled from an unorthodox surface location 660 feet from the North line and 1146 feet from the East line (Unit A) of Section 20, and terminating at an unorthodox bottomhole location for the Undesignated Indian Basin-Upper Pennsylvanian Gas Pool, also hereby approved, within an area no closer than 660 feet from the North and East lines (Unit A) of Section 20, **provided however**, in order to protect correlative rights, the 640-acre unit is hereby assigned an acreage factor of 0.415 in the Indian Basin-Upper Pennsylvanian Gas Pool.

(2) The operator of the units shall commence drilling the proposed well on or before September 1, 2001, and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(3) In the event the operator does not commence drilling the well on or before September 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown.

(4) Should the well not be drilled to completion or be abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Matador Petroleum Corporation is hereby designated the operator of the subject well and units.

(6) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the units an itemized schedule of estimated well costs.

(7) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(8) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the well. If no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(9) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(10) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(11) The operator shall distribute the costs and charges withheld from production to the parties who advanced the well costs.

(12) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing. The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(13) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order.

(14) Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(15) All proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the compulsory pooling provisions of this order shall thereafter be of no further effect.

(17) The operator of the well and units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(18) In accordance with the provisions of Division Rule 111.C., the applicant shall conduct a directional survey on the well during or upon completion of directional drilling operations in order to ascertain that the bottomhole location of the well is in compliance with the terms of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

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AND
CAMPBELL & CARR
ATTORNEYS AT LAW

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August 13, 2001

VIA HAND DELIVERY

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12594: Application of Matador Petroleum Corporation for Compulsory Pooling and an Unorthodox Subsurface Well Location, Eddy County, New Mexico.

OIL CONSERVATION DIV
01 AUG 14 AM 09:17

Dear Ms. Wrotenbery:

By Order No. R-11589 the Division granted the application of Matador Petroleum Corporation in the above-referenced case pooling the interest of Chevron USA Inc. in certain spacing units in Section 20, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico. On June 27, 2001, Chevron filed its Application for Hearing De Novo in this case. No hearing has been scheduled on this application.

Order No. R-11589 named Matador operator of the subject spacing units and the well to be drilled thereon. Ordering Paragraph (3) of this order provides that "In the event the operator does not commence drilling the well on or before September 1, 2001, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause shown."

Chevron requests that no time extension of Order No. R-11589 be granted pursuant to Ordering Paragraph (3), and, should Matador request an extension of this pooling order, Chevron further requests that the case be reopened for additional hearing concerning Matador's proposal to drill a well on these spacing units.

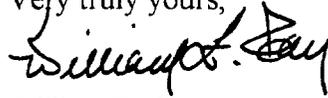
What? Does he want to reopen the hearing or appeal to the Commission?

What? I thought it was continued at the request of the parties. Why isn't it on the docket for next week?

Letter to Lori Wrotenbery
August 13, 2001
Page 2

Your attention to this request is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style with a large, stylized initial "W".

William F. Carr
Attorney for Chevron U.S.A., Inc.

cc: W. Thomas Kellahin (Hand-Delivered)
Jim Bruce (by facsimile)
Scott Ingram, Chevron (by facsimile)
Ray Vaden, Chevron (by facsimile)

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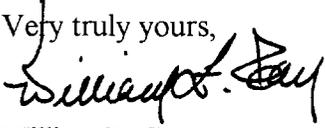
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Attorney for Chevron U.S.A., Inc.

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