

- (f) a well at the proposed unorthodox gas well location will provide Matador the opportunity to recover the remaining gas reserves underlying the subject proration unit.

(7) Kerr-McGee is the operator of the affected offset acreage in Section 17, and Chevron Texaco is the operator of the affected offset acreage in Section 16, both in Township 22 South, Range 23 East, NMPM.

(8) As part of a settlement with Kerr-McGee and Chevron Texaco, Matador has agreed that a production penalty of 59.3% (40.7% allowable) should be imposed on the Mershon Gas Com No. 2.

(9) The proposed production penalty, which was calculated utilizing a productive acreage factor and a well encroachment factor, is to be applied against a standard 640-acre non-marginal gas allowable for the Indian Basin-Upper Pennsylvanian Gas Pool.

(10) The proposed production penalty is reasonable, will protect the correlative rights of Kerr-McGee and Chevron Texaco, and should be adopted for the Mershon Gas Com No. 2.

(11) Approval of Matador's application, subject to a production penalty of 59.3%, will provide Matador the opportunity to recover additional gas reserves from Section 21, and is, accordingly, necessary to prevent waste. Such approval will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Matador Operating Company for approval of an unorthodox gas well location for its Mershon Gas Com No. 2 (API No. 30-015-31404) located 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, Eddy County, New Mexico, Indian Basin-Upper Pennsylvanian Gas Pool, is hereby approved. This well shall be dedicated to an existing 360-acre non-standard gas spacing and proration unit comprising the N/2 and the N/2 N/2 N/2 S/2 of Section 21.

(2) The Mershon Gas Com No. 2 is hereby assessed a production penalty of 59.3% (40.7% allowable) in the Indian Basin-Upper Pennsylvanian Gas Pool. The well shall not be allowed to produce in excess of 40.7% of a standard 640-acre non-marginal gas allowable in the Indian Basin-Upper Pennsylvanian Gas Pool.