

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 2, 1999

VIA FACSIMILE

Mr. David R. Catanach
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Rand L. Carroll, Esq.
Division Attorney
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: **REQUEST FOR CONTINUANCE**
NMOCD Case 12222
Application of Mewbourne Oil Company
for Compulsory Pooling, Eddy County, New Mexico

Gentlemen:

On behalf of Matador Petroleum Corporation ("Matador"), please find our Reply to Mewbourne Oil Company's ("Mewbourne") Response in Opposition to Matador's Motion to Dismiss.

As set for in our Reply, we request that the Division continue this case pending a determination by the Bureau of Land Management concerning the conflicting letters it has issued concerning the appropriate orientation of this spacing unit.

Very truly yours,



W. Thomas Kellahin

cc: James Bruce, Esq., Attorney for applicant
Matador Petroleum Corporation
Attn: Barry Osborne, Esq.

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

**IN THE MATTER OF THE APPLICATION
OF MEWBOURNE OIL COMPANY
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO**

CASE NO. 12222

**MATADOR PETROLEUM CORPORATION'S
REPLY TO MEWBOURNE'S RESPONSE TO MOTION TO DISMISS**

Comes now MATADOR PETROLEUM CORPORATION ("Matador"), by its attorneys, Kellahin and Kellahin, and submit the following in reply to Mewbourne's response to Matador's motion to dismiss:

RELEVANT FACTS

(1) By letter dated March 31, 1999, and in response to a unilateral request from Mewbourne, the BLM indicated it would look favorably upon communitizing the E/2 of this section for a spacing unit.

(2) By letter dated July 30, 1999, to the Bureau of Land Management, Matador set forth the facts of this case and requested the BLM's concurrence with Matador's geologic opinion that Mewbourne's request to communitize the E/2 of this section be denied. **See Exhibit "A"**

(3) In response, on July 30, 1999, the BLM, without reference to its March 31, 1999 letter to Mewbourne, advised Matador that communitization will be allowed only when the federal lease cannot be independently developed as a single spacing unit. **See Exhibit "B"**

(4) On August 2, 1999, Matador filed a request with the BLM for a review of this matter by the BLM with an opportunity to Matador to submit its geologic opinions to the BLM concerning whether the BLM, after a review of both parties' geology, will grant an exception to 43 CFR Section 3105.2-2 for an E/2 spacing unit. **See Exhibit "C"**



W. Thomas Kellahin

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2285

SANTA FE, NEW MEXICO 87504-2285

TELEPHONE (505) 982-4288
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)

July 29, 1999

VIA FACSIMILE
(505) 627-0276

Bureau of Land Management
Roswell District Office
1717 W. 2nd Street
Roswell, New Mexico 88202
attn: Amando Lopez

Re: NMOCD Case 12222
Application of Mewbourne Oil Company
for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Lopez:

The purpose of this letter is to request your assistance in having the appropriate BLM-authorized officer issue a letter, pursuant to 43 C.F.R. 3105.2-2, to Mr. David R. Catanach of the New Mexico Oil Conservation Division concerning the referenced compulsory pooling application which is currently set for hearing on August 5, 1999.

I represent Matador Petroleum Corporation ("Matador") who has obtained a term assignment from Phillips Petroleum Company for Federal Lease NM-0275360 which covers Lots 3, 4, E/2SW/4 and SE/4 (S/2 equivalent) of Section 18, T23S, R27E, NMPM, Eddy County, New Mexico. (See enclosure 1) Today, Matador will file an APD for its proposed Drag C Well No. 1, a Morrow well to be drilled 1980 feet FSL and 660 feet FEL of this section and dedicated to a standard 317.46-acre spacing unit consisting of the S/2 equivalent of this section. (to be supplied)



Bureau of Land Management
July 29, 1999
-Page 2-

The Mewbourne Oil Company's ("Mewbourne") compulsory pooling application is an attempt by Mewbourne to consolidate portions of two separate federal leases for a spacing unit consisting of the E/2 of this section. (See enclosure 2) Mewbourne has obtained a farmout from Texas Independent Exploration for Federal Lease NM-0540701-A which covers Lots 1, 2, E/2NW/4 and NE/4 (N/2 equivalent) of this section but is attempting to have the Division issue a compulsory pooling order consolidating the E/2 of this section into a standard 320-acre spacing unit for a Morrow gas well. If successful, Mewbourne will be able to extend two separate Federal leases with a single Morrow well.

The problem with Mewbourne's application is that it violates Federal regulations regarding communitization of federal leases for drilling which provide:

"3105.2-2 Purpose.

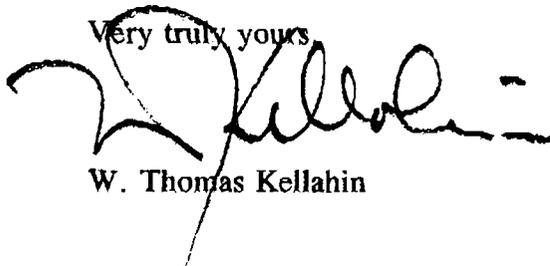
When a lease or a portion thereof **cannot** be independently developed and operated in conformity with an established well-spacing or well development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest." (emphasis added).

Here, the S/2 of Section 18 is covered entirely by one federal lease which can be independently developed in conformity with the established 320-acre well spacing program.

In addition, it is Matador's geologic opinion that both the S/2 and N/2 of Section 18 can each be independently developed in conformity with the Division established well spacing patterns with wells located in the SE/4 and in the NE/4.

Should you concur with my request, I would appreciate you transmitting your letter to Mr. Catanach via facsimile. His facsimile number is 505-827-1389. My facsimile number is 505-982-2047. Please call me if you have any questions or need additional information.

Very truly yours



W. Thomas Kellahin

cfx: Matador Petroleum Corporation
Barry Osborne, Esq.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019

IN REPLY REFER TO:
3160 (3105.2-2)

JUL 30 1999

Kellahin and Kellahin
Attention: W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Re: NMOCD Case 12222
Application of Mewbourne Oil Company
for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Kellahin

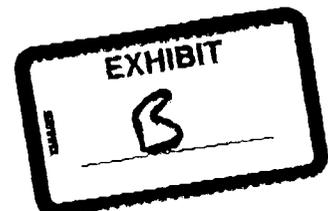
By letter dated July 29, 1999, you requested our interpretation of Federal Regulation 43 CFR 3105.2-2 as it pertains to the pending NMOCD Case 12222 before Examiner Mr. David R. Catanach of the New Mexico Oil Conservation Division.

Federal Regulation 43 CFR 3105.2-3 concerning communitizations or drilling agreements states the following:

3105.2-2 Purpose

When a lease or a portion thereof cannot be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

As stated in the regulation the objective of communitization is to provide for the development of separate tracts which cannot be independently developed or operated in conformity with well spacing patterns established in the area. As a general guideline communitization will not be authorized when a single Federal lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West spacing) pattern established by State order.



2

In certain instances the Bureau of Land Management will approve a communitization even though the lease can be independently developed in conforms with state established spacing if adequate engineering and /or geological data is presented to indicate that communitizing two or more leases or unleased Federal acreage will result in more efficient drainage of an area.

If you have any questions concerning this matter please call Armando A. Lopez (505)627-0248.

Sincerely Yours,



Lary D. Bray
Acting Assistant Field Manager,
Lands and Minerals Division

cc:
New Mexico Oil Conservation Division
Attn: Mr David R. Catanach
2040 S. Pacheco
Santa Fe, New Mexico 87505

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 2, 1999

VIA FACSIMILE
(505) 627-0276

Bureau of Land Management
Roswell District Office
1717 W. 2nd Street
Roswell, New Mexico 88202
attn: Amando Lopez

Re: NMOCD Case 12222
Application of Mewbourne Oil Company
for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Lopez:

On July 29, 1999, I requested the your assistance in having the appropriate BLM-authorized officer issue a letter, pursuant to 43 C.F.R. 3105.2-2, to Mr. David R. Catanach of the New Mexico Oil Conservation Division concerning the referenced compulsory pooling application which is currently set for hearing on August 5, 1999.

I represent Matador Petroleum Corporation ("Matador") and I outlined for you the factual situation and advised that it was Matador's geologic opinion that both the S/2 and N/2 of Section 18, T23S, R27E, NMPM, Eddy County, New Mexico can each be independently developed in conformity with the Division established well spacing patterns with wells located in the SE/4 and in the NE/4.

In response I have received the BLM's letter dated July 30, 1999 advising that communitization will be allowed only when the federal lease cannot be independently developed as a single spacing unit. This letter did not answer the question of whether Mewbourne would be granted an exception from this regulation.

Today, I learned from Mewbourne, that by letter dated March 31, 1999, the BLM indicated it had reviewed Mewbourne's geology and was inclined to favor communitization of the E/2 of this section. See enclosure "A"



Bureau of Land Management
August 2, 1999
-Page 2-

The purpose of this letter is to request from the BLM an opportunity to submit Matador's geologic evidence in support of its contrary position, to review and comment upon the Mewbourne geology and to ask the BLM to make a final decision on this issue.

We have asked the Division to continue the compulsory pooling case pending a decision by the BLM as to how the BLM wants its leases developed.

Very truly yours,

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

W. Thomas Kellahin

- cfx: Matador Petroleum Corporation
Barry Osborne, Esq.
- cfx: Oil Conservation Division
Attn: David R. Catanach
- cfx: Mewbourne Oil Company
Attn: James Bruce, Esq.