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JASON KELLAHIN (RETIRED 1991)

January 29, 2001

HAND DELIVERED

Ms. Lori Wrotenbery, Director
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, New Mexico 87504

**Re: IB Federal Com Well No. 1
Section 20, T22S, R23E, NMPM
Application of Matador Petroleum Corporation
for Compulsory Pooling and an unorthodox
subsurface well location
Eddy County, New Mexico**

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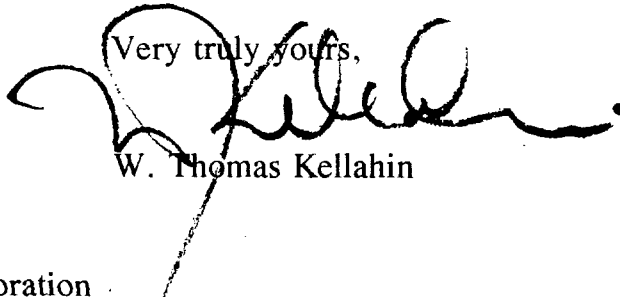
OIL CONSERVATION DIV.

Case 12594

Dear Ms. Wrotenbery:

On behalf of Matador Petroleum Corporation, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for February 22, 2001. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,


W. Thomas Kellahin

cc: Matador Petroleum Corporation
Attn: Mark Virant

CASE ¹²⁵⁹⁴12594: 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, T22S, R23E, NMPM, Eddy County, New Mexico, and in the following manner: all of section 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. 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 PETROLEUM CORPORATION
FOR COMPULSORY POOLING AND AN
UNORTHODOX SUBSURFACE WELL LOCATION
EDDY COUNTY, NEW MEXICO.**

CASE NO. 12599

A P P L I C A T I O N

Comes now MATADOR PETROLEUM CORPORATION by its attorneys, Kellahin & Kellahin, and in accordance with NMSA 1978 Section 70-2-17(c) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 20, T22S, R23E, NMPM, Eddy County, New Mexico, and in the following manner: all of section 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.

In support of its application, Matador Petroleum Corporation ("Matador") states:

1. Matador has the right to drill and develop the oil and gas minerals from the surface to the base of the Morrow formation underlying the S/2 of Section 20, T22S, R23E, NMPM, Eddy County, New Mexico.
2. Matador proposes to form either (a) a standard 640-acre gas proration and spacing unit consisting of all of this section for any and all formations and/or pools spaced on 640-acre gas spacing or (ii) a standard 320-acre gas proration and spacing unit consisting of the E/2 of this section for any and all formations and/or pools spaced on 320-acre gas spacing.
3. Matador considers the proposed location of 660 feet from the north and East lines of Section 20 to be the optimum geologic location within the section to drill and test for Cisco gas production which is the primary objective for this well.
4. There are surface obstructions which preclude locating the well 660 feet from the North and East lines of the section but an appropriate surface location is available at an unorthodox surface location 660 feet from the North line and 1146 feet from the East line of the section.
5. Matador proposes to drill the well directionally from the proposed surface location to the proposed subsurface location and will file the appropriate application with the OCD-Artesia in accordance with Division General Rule 111.
6. Section 20 is immediately adjacent to the current southern boundary of the Indian Basin-Upper Pennsylvanian Gas Pool which provides for 640-acre gas spacing and proration units and standard well locations not closer than 1650 feet to the outer boundary of the unit. If the well is subject the rules for this pool, then the subsurface location will be unorthodox.
7. Matador has proposed this well and its spacing unit to the working interest owners in the spacing unit as identified on Exhibit "A."
8. Despite its good faith efforts, Matador has been unable to obtain a written voluntary agreement from all of the parties listed on Exhibit "A".
9. The unorthodox subsurface location encroaches towards Sections 16, 17 and 21 which are currently operated by the operators listed on Exhibit "B" attached.

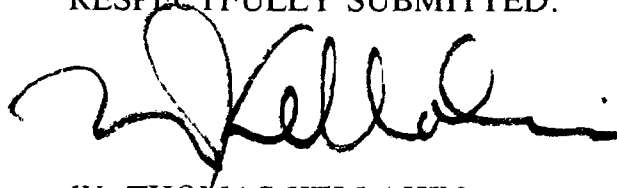
10. Pursuant to NMSA 1978 Section 70-2-17(c) and in order to obtain its just and equitable share of potential production underlying the spacing units, the applicant needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

11. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" and to the offsetting operators listed on Exhibit "B" and of the applicant's request for a hearing of this matter before the Division on the Examiner's docket now scheduled for February 22, 2001.

WHEREFORE, Matador Petroleum Corporation, as applicant, requests that this application be set for hearing on February 22, 2001 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in this spacing unit for the drilling of this well at an unorthodox subsurface well location upon terms and conditions which include:

- (1) Matador Petroleum Corporation be named operator of this spacing unit;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;
- (4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN
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Santa Fe, New Mexico 87501
(505) 982-4285

EXHIBIT "A"

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

EXHIBIT "B"

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

Kerr McGee Corporation
1666 N. Chase Drive
Houston, Texas 77060
Attn: David R. Christian

Marathon Oil Company
P. O. Box 511
Midland, Texas 79701
Attn: Mr. Thomas C. Lowry, Esq.