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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 30, 2001

HAND DELIVERED

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

Case 12717

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OIL CONSERVATION DIV

**Re: Wapiti "32" State Com Well No. 2
W/2 Section 32, T18S, R34E, NMPM
Application of Matador E & P Company, Inc.
for Compulsory Pooling
Lea County, New Mexico**

Dear Ms. Wrotenbery:

On behalf of Matador E & P Company, Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for August 23, 2001. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,


W. Thomas Kellahin

cc: Matador E & P Company, Inc.
Attn: Barry Osborne, Esq.

CASE 12717: Application of Matador E & P Company, Inc. for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the top of the surface to the base of the Morrow formation underlying W/2 Section 32, T18S, R34E, NMPM, Lea County, New Mexico, 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 West La Rico Morrow Gas Pool. This unit is to be dedicated to its proposed Wapiti "32" State Com Well No. 2 to be drilled and completed at a standard gas well location in Unit N of this Section. 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 Matador Exploration Corporation as the operator of this spacing unit and this well and a charge for risk involved in this well. This unit is located approximately 8-1/2 miles southeast of Buckeye, New Mexico.

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

**IN THE MATTER OF THE APPLICATION
OF MATADOR E & P COMPANY, INC.
FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO.**

CASE NO. 12717

A P P L I C A T I O N

Comes now MATADOR E & P COMPANY, INC. 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 top of the surface to the base of the Morrow formation underlying W/2 Section 32, T18S, R34E, NMPM, Lea County, New Mexico, 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 West La Rico Morrow Gas Pool. This unit is to be dedicated to its proposed Wapiti "32" State Com Well No. 2 to be drilled and completed at a standard gas well location in Unit N of this Section. 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 Matador Petroleum Corporation 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 E & P Company, Inc. ("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 NW/4 of Section 32, T18S, R34E, NMPM, Eddy County, New Mexico.
2. Matador proposes to form a standard 320-acre gas proration and spacing unit consisting of the W/2 of this section for any and all formations and/or pools spaced on 320-acre gas spacing.
3. Matador, with 50% of the working interest in this spacing unit, has proposed this well and its spacing unit to the working interest owners in the spacing unit as identified on Exhibit "A."

4. Despite its good faith efforts, Matador has been unable to obtain a written voluntary agreement from all of the parties listed on Exhibit "A".

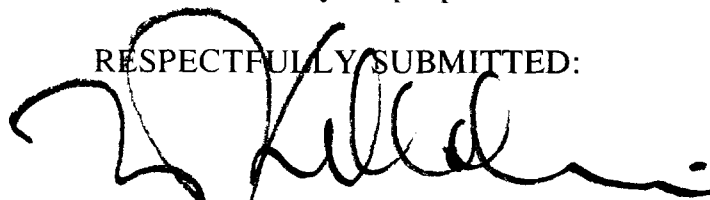
5. Pursuant to NMSA 1978 Section 70-2-17.C and in order to obtain its just and equitable share of potential production underlying this spacing unit, the applicant needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and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

6. 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 of the applicant's request for a hearing of this matter before the Division on the Examiner's docket now scheduled for August 23, 2001

WHEREFORE, Matador E & P Company, Inc., as applicant, requests that this application be set for hearing on August 23, 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 a standard 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:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name and address.

W. THOMAS KELLAHIN
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