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January 11, 2002

Via Facsimile

Mr. David R. Catanach
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

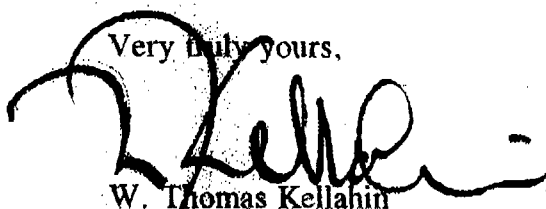
Re: NMOCD Case 12786
Application of Matador Operating Company
for an unorthodox gas well location
Eddy County, New Mexico

Dear Mr. Catanach:

On behalf of Matador Operating Company, this morning, I discussed with you their desire for an expedited order in order to satisfy the terms of the letter agreement with Chevron which was introduced as Exhibit 4 at the hearing yesterday.

Please find enclosed a proposed order for consideration in this case.

Very truly yours,



W. Thomas Kellahin

cc: Matador Operating Company
Attn: Mark Virant

**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. 12786
Order No. R-**

**APPLICATION OF MATADOR OPERATING COMPANY
FOR AN UNORTHODOX GAS WELL LOCATION AND
FOR SIMULTANEOUS DEDICATION,
EDDY COUNTY, NEW MEXICO**

**MATADOR OPERATING COMPANY'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 10, 2002 at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of January, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

NMOCD Case No. 12786**Order No. R-****Page 2**

(2) The applicant, Matador Operating Company ("Matador"), seeks approval to complete and produce its Mershon Gas Com Well No. 2 (API No. 30-015-31404) which has been drilled at an unorthodox gas well location 415 feet from the North line and 1201 feet from the West line (Unit D) Section 21, Township 22 South, Range 23 East, NMPM, Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico.

(3) Applicant proposes to dedicate the Mershon Gas Com Well No. 2 to an existing 360-acre non-standard gas proration and spacing unit approved by Division Order R-3737-A and consisting of the N/2 and the N/2N/2N/2S/2 of Section 21 currently dedicated to the Mershon Gas Com Well No. 1 (API No. _____) located at an unorthodox gas well location in Unit A of this Section.

(4) Applicant had requested to simultaneously dedicate both the Mershon Gas Com Well No. 2 and the Mershon Gas Com Well No. 1 to this existing 360-acre non-standard gas proration and spacing unit

(5) At the hearing, Matador withdrew its request for simultaneous dedication because the Mershon Gas Com Well No. 2 is the replacement well for the Mershon Gas Com Well No. 1 which will not be produced in this pool.

(6) This 360-acre non-standard proration and spacing unit is located within the Indian Basin-Upper Pennsylvanian (Prorated) Gas Pool and is therefore subject to the *"General Rules and Regulations For the Prorated Gas Pools of New Mexico/Special Rules and Regulations For the Indian Basin-Upper Pennsylvanian Gas Pool"*, as promulgated by Division Order R-8170, as amended, which require standard 640-acre proration units with wells to be located no closer than 1650 feet from the outer boundary of the section nor closer than 330 feet from any internal governmental quarter-quarter section line or subdivision inner boundary.

(7) Matador presented geologic data which demonstrates that:

(a) the Mershon Gas Com Well No. 1 has drained a small area and is substantially depleted and cannot recover the remaining reserves in this spacing unit;

(b) water encroachment from the east will ultimately adversely affect production in this spacing unit;

(c) the Mershon Gas Com Well No. 2 is a "replacement" well and has been drilled at an unorthodox location in order to gain sufficient structural

NMOCD Case No. 12786**Order No. R-****Page 3**

position and reservoir thickness in its spacing unit to attempt to recover any remaining recoverable gas reserves underlying this spacing unit and thereby protect correlative rights;

(d) topographical problems in Section 21 has required this well to be located as proposed in order to minimize surface disturbance and to conform to BLM topographical requirements;

(8) Matador presented testimony which demonstrates that:

(a) Matador, Kerr-McGee and Chevron Texaco have entered into a production limitation agreement with Chevron Texaco and Kerr-McGee as the offset operators in Section 16 and 17 towards whom this well encroaches.

(b) as part of a settlement with Chevron and Kerr-McGee, Matador has agreed to an allowable factor of 0.407 (being a 59.3 % penalty).

(c) Matador, based upon its geologic interpretation concluded there were 360 productive acres in this spacing unit, and calculated a 0.56.17 acreage factor based upon the following penalty method which consistent with the method used in penalizing other unorthodox well locations in this pool and which is calculated by averaging the following two factors:

(i) Productive Acreage Factor for Section 21:

360 acres of 640 acre = 56.15 % of allowable; and

(ii) Distance Ratio Factor:

415 feet / 1650 feet = 25.15 % of allowable

56.15 + 25.15 divided by 2 = 40.7 % (allowable)

(9) The above penalty formula method and the stipulated 0.407 allowable factor are appropriate in this case and will provide a reasonable restriction to protect correlative rights of offsetting operators but is sufficient to afford the applicant the opportunity to protect its correlative right to recover its share of remaining recoverable gas underlying its spacing unit before that gas is swept from its unit.

NMOCD Case No. 12786

Order No. R-

Page 4

(10) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in this pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Matador Operating Company's application to complete and produce its Merston Gas Com Well No. 2 (API No. 30-015-31404) which has been drilled at an unorthodox gas well location 415 feet from the North line and 1201 feet from the West line (Unit D) Section 21, Township 22 South, Range 23 East, NMPM Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico is hereby approved.

(2) This well shall be dedicated to an existing 360-acre non-standard gas proration and spacing unit comprising the N/2 and the N/2N/2N/2S/2 of Section 21, which is presently dedicated to the Merston Gas Com Well No. 1. (API _____) located in Unit A of Section 21.

PROVIDED HOWEVER THAT:

(3) This 360-acre nonstandard proration and spacing unit shall be assigned, for gas allowable purposes, an allowable factor of 0.407 in the Indian Basin-Upper Pennsylvanian Gas Pool.

(4) The Merston Gas Com Well No. 2 is authorized as a replacement well for the Merston Gas Com Well No. 1 which shall no be produced in this pool.

(5) Jurisdiction is hereby 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director