

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 112786 Exhibit No. 4
Submitted By:
Matador Operating Company
Hearing Date: January 10, 2002



Chevron U.S.A. Production Company
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R. M. Vaden
Senior Land Representative
Permian Basin Land Division

September 6, 2001

Matador Petroleum Corporation
Attention: Mr. Mark Virant
Suite 150, Pecan Creek
8340 Meadow Road
Dallas, Texas 75231-3751

Re: **THIS LETTER AGREEMENT - Matador's proposed I B Federal Com Well No. 1**
and the NMOCD Case 12594 as well as the related NMOCD Order R-11589
Indian Basin - Eddy County, New Mexico
Township 22 South, Range 23 East, N.M.P.M.
Section 20: N/2 (Chevron lease # 201967 / NMNM-045272)

Dear Mark:

Your draft letter agreement dated August 20, 2001 is very much appreciated since it opens the door for a negotiated and agreed upon processes for drilling the captioned Matador I B Federal Com Well No. 1 on the above referenced Chevron lease.

The general terms you presented, as expressly captured below with the incorporation of certain changes desired by both Chevron and Matador, are agreed to and acceptable by Chevron for a term of seven (7) months. The effective date of this agreement will be September 1, 2001 and the expiration date will be 8:00 am on April 1, 2002. It is understood that both parties desire 30 days of production history from the Mershon Gas Com No. 2 Well prior to drilling the I B Federal Com Well No. 1. Any extensions of the term of this letter agreement must be agreed to by both Chevron and Matador to become effective.

In addition to the above, the following terms and conditions shall represent the basis of this agreement:

1. The captioned NMOCD Case and Order states (#21) that, "If the operator of the pooled units fails to commence drilling the well to which the units are dedicated on or before September 1, 2001, or if all parties to this forced pooling reach voluntary

agreement subsequent to the entry of this order, this order should become of no effect." Since it was the intent of the OCD's order that the captioned well be drilled within 120 days of the order, and since the intent of this letter agreement is to provide a voluntary agreement for drilling the captioned well, it is Chevron's request that no extension be granted to the order and that the order expire on its own terms as of September 1, 2001.

2. Matador has stated that it has worked out an agreement with Marathon Oil Company to drill the Mershon Gas Com No. 2 Well in the NW/4 of Section 21, T-22-S, R-23-E, N.M.P.M., Eddy County on Marathon's lease. Matador has further stated that it desires to drill the Mershon Gas Com No. 2 well prior to attempting to drill the I B Federal Com Well No. 1 on Chevron's lease. It is hereby agreed by Chevron that during the term of this agreement Matador shall be allowed to drill the Mershon Gas Com No. 2 Well prior to commencing the I B Federal Com Well No. 1 with the stated conditions that:
 - A. Chevron will be provided copies of all daily drill reports, test data, and logs (including digital data) run by Matador on the Mershon Gas Com No. 2 Well.
 - B. Chevron shall have a period from the receipt of the logs of the Mershon Gas Com No.2 Well to fifteen (15) days prior to commencement of the drilling of the I B Federal Com Well No.1 in which to notify Matador that it elects to either farmout its interest or join in the drilling of the I B Federal Well # 1 on Chevron's lease under a communitization agreement covering all of Section 20, T-22-S, R-23-E, N.M.P.M., Eddy County, New Mexico. Should Chevron elect to participate in drilling the I B Federal Com Well No.1 it is understood that Chevron would join in drilling of the well on a 50-50 basis and that Chevron would be given the opportunity to review and possibly alter the casing program for the well, to take over the well (at salvage value) and to assume future P&A costs for the well should the well result in a dry hole.
 - C. Should Chevron elect to join in drilling of the I B Federal Com Well No.1, Matador and Chevron will enter into a joint operating agreement, limited in depth to the Upper Penn or Cisco formation. The Morrow Formation is excluded and not to be considered a part of the Upper Penn or Cisco formation. The JOA will be essentially the same as the operating agreement recently agreed to by Matador and Chevron for drilling and operations of the Laura State "13" Com # 1 well.
 - D. Should Chevron elect not to participate in drilling the I B Federal Com Well No.1 in the N/2 of Section 20, Chevron will farmout its interest delivering a 75% NRI to Matador. The farmout agreement will include the terms and conditions contained in Chevron's standard farmout agreement form, and will be restricted in depths to the Upper Penn or Cisco Formation. Chevron will retain a non-convertible overriding royalty interest equal to the difference between existing

burdens and twenty-five percent (25%) for the I B Federal Com Well No.1. The initial test well under the farmout agreement (I B Federal Com No.1 Well) will be commenced within ninety days from the effective date of the farmout agreement. The Farmout agreement will be substantially in the same form as that certain Farmout Agreement dated May 15, 2001 by and between Chevron and Matador for the South Monument Area of Lea County, New Mexico, being Chevron LIS agreement #040419 covering the S/2 of Section 19, T-20-S, R-37-E, N.M.P.M., Lea County, New Mexico.

Please indicate your acceptance of the above terms by signing in the appropriate space below. You may retain one copy of this agreement for your files. Please return the other fully executed copy of this letter agreement to my attention at your earliest convenience.

Should you have any questions or need additional information, please contact me at (915) 687-7745

Sincerely



Ray M. Vaden, CPL, ESA

AGREED TO AND ACCEPTED this 6th day of September 2001.

Matador Petroleum Corporation

By: M. Vaden RLM

Title: Permian Land-Mgr