

MATADOR PETROLEUM CORPORATION

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Mark Virant
Permian Division Land Manager

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January 8, 2002

VIA FACSIMILE

Mr. Scott Ingram
Chevron USA Production Company
15 Smith Road
Midland, Texas 79705

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 112786 Exhibit No. — 7
Submitted By:
Matador Operating Company
Hearing Date: January 10, 2002

Re: Request for Waiver - Unorthodox Location
Mershon Gas Com No. 2 Well
Surface Location: 1201' FWL and 415' FNL
Section 21, T22S-R23E
Indian Basin Upper Pennsylvanian Gas Pool
Eddy County, New Mexico

Dear Scott:

Chevron USA Production Company ("Chevron") will waive its objection to the unorthodox well location for the captioned well subject to the following:

1. Matador Operating Company ("Matador") shall not object to an unorthodox well location for a well located no closer than 415' FSL and 1201' FWL of Section 16, T22S-R23E, Eddy County, New Mexico and proposed or drilled to the Indian Basin - Upper Pennsylvanian Pool by Chevron in Section 16, T22S-R23E, Eddy County, New Mexico.

It is agreed that the penalty for producing allowable in a Chevron well as aforementioned shall be calculated in the same manner as for the Mershon Gas Com No. 2 Well, which is by averaging the Productive Acreage Method and the Ratio of Distance (See Stipulated Penalty Agreement for Case No. 12786 attached hereto as Exhibit "A").

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2. It is agreed that the producing allowable for the Merahon Gas Com No. 2 Well shall be 40.7% of a full unpenalized allowable for the Upper Pennsylvanian Pool (59.3% penalty).

If the foregoing is acceptable, please execute and date this letter in the spaces provided below and return one executed copy to the undersigned.

Sincerely,

MATADOR OPERATING COMPANY



Mark A. Virant

MAV:ja
Attachment

AGREED TO AND ACCEPTED, THIS 9th DAY OF JANUARY, 2002.

CHEVRON USA PRODUCTION COMPANY

By: Scott M. Ingram

Title: CARLSBAD TECHNICAL TEAM LEADER