

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:

APPLICATION OF MEWBOURNE OIL COMPANY  
FOR COMPULSORY POOLING, LEA COUNTY,  
NEW MEXICO.

Case No. 14,112

VERIFIED STATEMENT OF STEVEN J. SMITH

Steven J. Smith, being duly sworn upon his oath, deposes and states:

1. I am a landman for Mewbourne Oil Company, and have personal knowledge of the matters stated herein.

2. Pursuant to Division Rule 1210.A(1), the following information is submitted in support of the compulsory pooling application filed herein:

(a) No opposition is expected because the working interest owners being pooled have been contacted regarding the proposed well, and have simply not decided whether to join in the well or farm out their interests.

(b) A plat outlining the spacing unit being pooled, and marking the location of the subject well, is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the base of the Bone Spring formation to the base of the Morrow formation underlying all of Section 20, Township 20 South, Range 36 East, NMPM, to form a standard 640-acre gas spacing and proration unit for any and all formations or pools developed on 640-acre spacing within that vertical extent, including the North Osudo-Morrow Gas Pool.

The units are to be dedicated to the proposed Paloma "20" State Com. Well No. 1 (API No. 30-025-38625, f/k/a the Paloma "20" State Com. Well No. 2), to be drilled at an orthodox location in the SE/4SE/4 of Section 20. The well is expected to be a gas well.

(c) The party being pooled, its working interest in the well units, and its last known addresses:

Chevron U.S.A. Inc.  
P.O. Box 36366  
Houston, Texas 77236

1.001174%

Oil Conservation Division  
Case No. \_\_\_\_\_  
Exhibit No. **1**



District I  
 1625 N. French Dr., Hobbs, NM 8824  
 Phone:(505) 393-6161 Fax:(505) 393-0100

District II  
 1301 W. Grand Ave., Artesia, NM 88210  
 Phone:(505) 748-1283 Fax:(505) 748-9720

District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 Phone:(505) 334-6178 Fax:(505) 334-6170

District IV  
 1220 S. St Francis Dr., Santa Fe, NM 87505  
 Phone:(505) 476-3470 Fax:(505) 476-3462

**State of New Mexico**  
**Energy, Minerals and Natural Resources**  
**Oil Conservation Division**  
**1220 S. St Francis Dr.**  
**Santa Fe, NM 87505**

Form C-102  
 Permit 65372

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

|                               |   |  |
|-------------------------------|---|--|
| 1. API Number<br>30-025-38625 | 2. Pool Code<br>82160                   | 3. Pool Name<br>OSUDO, MORROW, NORTH (GAS) |
| 4. Property Code<br>36647     | 5. Property Name<br>PALOMA 20 STATE COM |  |
| 7. OGRID No.<br>14744         | 8. Operator Name<br>MEWBOURNE OIL CO    | 6. Well No.<br>002                         |
|                               |   | 9. Elevation<br>3622                       |

**10. Surface Location**

| UL - Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| P        | 20      | 20S      | 36E   |         | 660       | S        | 660       | E        | LEA    |

**11. Bottom Hole Location If Different From Surface**

| UL - Lot                      | Section | Township            | Range | Lot Idn                | Feet From | N/S Line      | Feet From | E/W Line | County |
|-------------------------------|---------|---------------------|-------|------------------------|-----------|---------------|-----------|----------|--------|
| 12. Dedicated Acres<br>640.00 |         | 13. Joint or Infill |       | 14. Consolidation Code |           | 15. Order No. |           |          |        |

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

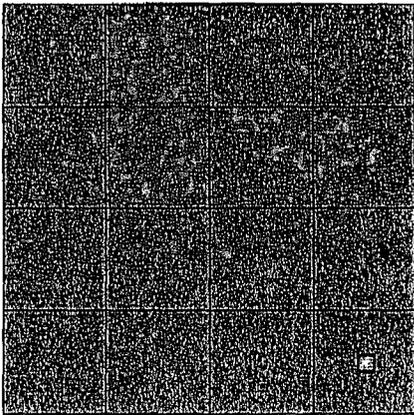
|  |  |
|--|--|
|  | <p style="text-align: center;"><b>OPERATOR CERTIFICATION</b></p> <p><i>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location(s) or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.</i></p> <p>E-Signed By: Monty Whetstone<br/>       Title: Vice President Operations<br/>       Date: 12/5/2007</p> <hr/> <p style="text-align: center;"><b>SURVEYOR CERTIFICATION</b></p> <p><i>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</i></p> <p>Surveyed By: Gary Jones<br/>       Date of Survey: 11/30/2007<br/>       Certificate Number: 7977</p> |
|--|--|

EXHIBIT     A

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(432) 682-3715  
FAX (432) 685-4170

February 18, 2008

Via Email and Certified Mail-Return Receipt No. 7894

Chevron U.S.A. Inc.  
Attn: Ms. Stephanie Magers  
P.O. Box 36366  
Houston, Texas 77236-6366

Re: Proposed Morrow Test  
Paloma "20" State COM #2  
660' FSL & 660' FEL,  
Section 20, T-20-S, R-36-E  
Lea County, New Mexico  
**Paloma Prospect**

Ladies and Gentlemen:

Mewbourne Oil Company ("Mewbourne") hereby proposes drilling an 11,600' Morrow test at a location 660' FSL & 660' FEL of Section 20, T-20-S, R-36-E, Lea County, New Mexico to be called the Paloma "20" State COM #2 well. We also propose that a 640 acre working interest be formed to accommodate the Osudo North Morrow pool rules and that the enclosed Joint Operating Agreement (JOA) be entered into to govern operations in said working interest unit.

Chevron U.S.A. Inc. ("Chevron") appears to own a 4.0076979% contractual interest in State of New Mexico Lease A-1375 insofar as it covers the N/2SW/4 and SE/4SW/4 and State of New Mexico Lease B-3114 insofar as it covers the SW/4SW/4 of said Section 20 by virtue of that certain Operating Agreement dated October 10, 1967 between Jake L. Hamon as Operator and Pan American Petroleum Corporation, et al, as non-operators. Assuming our information is correct, Chevron would have a 1.001174% interest in the proposed well and working interest unit.

Should you choose to participate in the well as proposed, please so indicate by executing and returning one of the enclosed AFE well cost estimates along with the enclosed extra set of signature pages to the JOA. If you choose not to participate, Mewbourne would consider trading for your interest under mutually acceptable terms.

Feel free to call me if you have any questions or would like to discuss this proposal in greater detail. My phone number is (432) 682-3715.

Sincerely,

EXHIBIT

**B**

MEWBOURNE OIL COMPANY



Steven J. Smith  
Senior Landman

Enclosure

**MEWBOURNE OIL COMPANY  
AUTHORIZATION FOR EXPENDITURE**

Prospect: Paloma Well Name & No: Paloma 20 State Com #1  
 Field: \_\_\_\_\_ Location: 680' FSL & 680' FEL  
 Section: 20 Block: \_\_\_\_\_ Survey: \_\_\_\_\_ Township: 20S Range: 36E  
 County: Lea ST: NM Proposed Depth: 11,600'

| DESCRIPTION   |   | Cost To<br>Casing Point<br>AFE NO. | Completion<br>Cost<br>AFE NO. |
|---|---|------------------------------------|-------------------------------|
| <b>INTANGIBLE COST 180</b>  |   |                                    |                               |
| 300   | Permits and Surveys   | \$1,500                            | \$1,500                       |
| 301   | Location, Roads and Site Preparation includes cleanup             | \$100,000                          | \$2,000                       |
| 302   | Footage or Turnkey Drilling                                       |                                    |                               |
| 303   | Day Work  | \$604,200                          | \$31,800                      |
| 304   | Fuel  | \$75,000                           | \$1,000                       |
| 305   | Completion / Workover Rig   |                                    | \$20,000                      |
| 306   | Mud and Chemicals   | \$100,000                          | \$2,000                       |
| 307   | Cementing   | \$75,000                           | \$80,000                      |
| 308   | Logging, Wireline and Coring Services                             | \$50,000                           | \$22,000                      |
| 309   | Casing, Tubing & Snubbing Services                                | \$15,000                           | \$12,000                      |
| 310   | Mud Logging   | \$25,000                           |                               |
| 311   | Testing   | \$1,500                            | \$5,000                       |
| 312   | Treating 70Q Binary + 70K IP                                      |                                    | \$225,000                     |
| 313   | Water & Other   | \$60,000                           | \$1,000                       |
| 314   | Bits 1-17 1/2", 1-12 1/4", 4- 8 3/4"                              | \$65,000                           |                               |
| 315   | Inspection & Repair Services                                      | \$12,000                           | \$1,000                       |
| 316   | Misc. Air and Pumping Services                                    | \$10,000                           | \$1,500                       |
| 320   | Rig Mobilization & Transportation                                 | \$85,000                           | \$2,500                       |
| 321   | Welding and Construction  | \$4,000                            | \$5,500                       |
| 322   | Engineering & Contract Supervision                                | \$30,000                           | \$2,000                       |
| 330   | Equipment Rental  | \$40,000                           | \$3,500                       |
| 334   | Well / Lease Legal  | \$10,000                           | \$2,500                       |
| 335   | Well / Lease Insurance  | \$8,100                            |                               |
| 350   | Intangible Supplies   | \$500                              | \$500                         |
| 355   | Damages   | \$10,000                           |                               |
| 360   | Pipeline and Electrical ROW and Easements                         |                                    | \$8,000                       |
| 367   | Pipeline Interconnect   |                                    |                               |
| 375   | Company Supervision   | \$28,000                           | \$10,000                      |
| 380   | Overhead Fixed Rate   | \$9,000                            | \$8,000                       |
| 398   | Well Abandonment  | \$15,000                           | (\$15,000)                    |
| 399   | Contingencies 10% / 10%   | \$143,400                          | \$40,900                      |
| <b>Total Intangibles</b>  |   | <b>\$1,577,200</b>                 | <b>\$450,200</b>              |
| <b>TANGIBLE COST 181</b>  |   |                                    |                               |
| 797   | Conductor Casing 40' of 20" (included in location cost)           |                                    |                               |
| 797   | Surface Casing 600' 13-3/8" 54.5# K55 ST&C @ \$37.38/ft           | \$22,800                           |                               |
| 797   | Intermediate Casing 5300' 9-5/8" 40# HCK55/N80 LT&C @ \$30.85/ft  | \$163,500                          |                               |
| 797   | Intermediate Casing   |                                    |                               |
| 797   | Production Casing 11,600' 5-1/2" 17# HCP110/N80 LT&C @ \$15.75/ft |                                    | \$181,200                     |
| 798   | Tubing 11,200' 2-7/8" 6.5# P110 EUE 8rd @ \$6.42/ft               |                                    | \$71,900                      |
| 860   | Drilling Head   | \$10,000                           |                               |
| 870   | Tubing Head & Upper Section                                       |                                    | \$15,000                      |
| 875   | Sucker Rods   |                                    |                               |
| 880   | Packer Pump & Subsurface Equipment                                |                                    | \$10,000                      |
| 884   | Artificial Lift Systems   |                                    |                               |
| 885   | Pumping Unit  |                                    |                               |
| 886   | Surface Pumps & Prime Movers                                      |                                    |                               |
| 890   | Tanks - Steel   |                                    | \$16,000                      |
| 891   | Tanks - Other   |                                    | \$6,500                       |
| 895   | Separation Equipment  |                                    | \$25,000                      |
| 896   | Gas Treating Equipment  |                                    |                               |
| 898   | Metering Equipment  |                                    | \$6,000                       |
| 900   | Line Pipe - Gas Gathering and Transportation                      |                                    | \$25,000                      |
| 901   | Line Pipe - Production  |                                    | \$1,500                       |
| 906   | Miscellaneous Fittings, Valves & Accessories                      |                                    | \$15,000                      |
| 909   | Electrical Installations  |                                    |                               |
| 910   | Production Equipment Installation                                 |                                    | \$20,000                      |
| 920   | Pipeline Construction   |                                    | \$25,000                      |
| Prepared by: <u>F. Lathan</u> Date Prepared: <u>12/3/2007</u> Total Tangibles                 |   | <b>\$198,300</b>                   | <b>\$418,100</b>              |
| Company Approval: <u>M. White</u> Date Approved: <u>12/4/2007</u> SUBTOTAL                    |   | <b>\$1,773,500</b>                 | <b>\$868,300</b>              |
| Joint Owner Interest: <u>1.001174%</u> Joint Owner Amount: <u>\$26,449.01</u> TOTAL WELL COST |   | <b>\$2,641,800</b>                 |                               |

Joint Owner: Chevron USA Inc. Joint Owner Approval: \_\_\_\_\_

Operator has secured Operator's Extra Expense Insurance covering costs of well control, clean up, and redrilling, as estimated in Line Item 335. Non-operator may elect not to be covered by this Operator's Extra Expense Insurance only by signing below. The undersigned elects not to be covered by Operator's Extra Expense Insurance for their well.

By: \_\_\_\_\_ Name: \_\_\_\_\_

EXHIBIT