

MEWBOURNE OIL COMPANY

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August 10, 2004

Via Fax (505) 476-3462 and First Class Mail

Oil Conservation Division
1220 So. St. Francis Drive
Santa Fe, New Mexico 87505
Attn: Mr. David R. Catanach
Hearing Examiner

RECEIVED

AUG 13 2004

Oil Conservation Division
1220 S. Saint Francis Drive
Santa Fe, NM 87505

Re: Case No. 13305
Exception to Rule 104.C(2)(c)
MOC's Esperanza "19" Federal Com. #2 Well
N/2 of Section 19, T21S, R27E
Eddy County, New Mexico

Dear Mr. Catanach:

As requested by you at the OCD hearing on August 5, 2004 regarding the captioned well, the following is a breakdown of the ownership in the captioned spacing unit comprising 314.84 acres:

WI% Ownership:

Esperanza "19" Federal Com. #2 Well
Mewbourne Oil Company - Operator

Ownership as to operating rights from the surface through the base of the Morrow formation, Save and Except ownership in the Strawn formation:

Mewbourne Oil Company	38.11462%
Wynn-Crosby 2000, Ltd ✓	19.25740%
Devon Energy Production Company, L.P. ✓	18.37208%
Redfern Enterprises, Inc. ✓	17.83677%
Jetta Operating Company ✓	3.85148%
CAPMAC Eighty-Two Limited Partnership	<u>2.56765%</u>
	100.00000%

Ownership as to operating rights as to the Strawn formation only:

Mewbourne Oil Company	38.11462%
Devon Energy Production Company, L.P. ✓	18.37214%
Redfern Enterprises, Inc. ✓	17.83678%
Yates Drilling Company	8.54246%
Estate of Lillie M. Yates	3.71420%
Sharbo Oil Ltd. Co.	3.71420%

→MYCO Industries, Inc.	3.71420%
→Sacramento Partners Limited Partnership	1.85711%
→Wynn-Crosby 2000, Ltd. ✓	1.42930%
→Abo Petroleum Corporation	.74283%
→John A. Yates, Jr.	.37143%
→John A. Yates, Jr. Trustee of Trust "Q"	.37143%
→Peyton Yates	.37143%
→Judy H. Yates	.37143%
→Jetta Operating Company ✓	.28590%
→CAPMAC Eighty-Two Limited Partnership	<u>.19054%</u>
	100.00000%

RGD Federal Com. #1 Well

→Wynn-Crosby 2000, Ltd. - Operator ✓

Ownership as to operating rights from the surface through base of the Morrow formation, Save and Except the Strawn formation:

→Wynn-Crosby 2000, Ltd. ✓	61.220932%
→Devon Energy Production Company, L.P. ✓	18.37209%
→Jetta Operating Company and ✓	
→CAPMAC Eighty-Two Limited Partnership	<u>20.406978%</u>
	100.000000%

Ownership as to operating rights as to the Strawn formation only:

Marathon Oil Company	38.11461%
→Devon Energy Production Company, L.P. ✓	18.37208%
→Redfern Enterprises, Inc. ✓	17.83677%
→Yates Drilling Company	8.541170%
→Sharbro Oil Ltd. Company	3.714520%
→Lillie M. Yates Estate	3.714510%
→MYCO Industries, Inc.	3.713210%
→Claremont Corporation ✓	1.905740%
→Sacramento Partners Limited Partnership	1.857920%
→Abo Petroleum Corporation	0.743150%
→Judy H. Yates	0.371590%
→Peyton Yates	0.371580%
→John A. Yates, Jr.	0.371575%
→Trust "Q" u/w/o Peggy A. Yates	<u>0.371575%</u>
	100.000000%

Pioneer Federal Com. #1 Well

→ Vernon E. Faulconer, Inc. - Operator

Ownership as to operating rights from the surface through the base of the Morrow formation:

— Vernon E. Faulconer, Inc.	38.114610%
—Devon Energy Production Company, L.P. ✓	18.372080%
—Redfern Enterprises, Inc. ✓	17.836770%
—Yates Drilling Company	8.541170%
—Sharbro Oil Limited Company	3.714520%
—Lillie M. Yates Estate	3.714510%
—MYCO Industries, Inc.	3.713210%
—Claremont Corporation ✓	1.905740%
—Sacramento Partners Limited Partnership	1.857920%
—Abo Petroleum Corporation	0.743150%
—Judy H. Yates	0.371590%
—Peyton Yates	0.371580%
—John A. Yates, Jr.	0.371575%
—Trust "Q" u/w/o Peggy A. Yates	<u>0.371575%</u>
	100.000000%

In reference to the above, all operations in the captioned well are governed by the terms of an Operating Agreement dated January 20, 1984 which agreement was submitted as Exhibit No. 4 in the referenced Case No. 13305. The Operator for each of the referenced wells has assumed the designation of successive Operator by virtue of the various voluntary trade agreements effecting the captioned land since 1984. Mewbourne's application for an exception to Rule 104C(2)(c) is necessary from a practical standpoint in that the ownership in the different formations referenced above as well as the ownership in each respective wellbore is not common notwithstanding the fact that there are three (3) separate Operators appointed under the terms of Article V.B. on Page 4 of the referenced Operating Agreement. Each of the referenced Operators as to the above referenced wells are successor operators to TXO Production Corporation under the terms of various voluntary trade agreements. Accordingly, it would be greatly appreciated if the NMOCD would approve Mewbourne's application to allow each Operator referenced above to physically operate and be the NMOCD designated Operator for their respective wellbores. As stated in testimony at the referenced hearing, no joint interest owner in the respective referenced wellbores oppose Mewbourne's application as applied for.

Under the terms of a Farmout Agreement dated September 22, 2003 by and between Vernon E. Faulconer, Inc. (Faulconer) as Farmor and Mewbourne Oil Company (Mewbourne) as Farmee, Faulconer farmed all of its interest out to Mewbourne covering its interest outside of the wellbore and production therefrom of its Pioneer Federal Com. #1 Well. Such agreement covered all of Section 19 and the adjoining N/2 of Section 30, T21S, R27E, Eddy County, New Mexico. To date, Mewbourne has drilled and completed its Esperanza "19" Federal Com. #1 Well as a Morrow gas well which is located at an approved non-standard location 1980' FSL & 393' FEL (Order NSL-4963 dated November 25, 2003) and has commenced operations on its Esperanza "19" Federal Com. #2 Well under a continuous development provision to keep the referenced Farmout Agreement in effect. Under the terms of the referenced Farmout Agreement, Mewbourne will be the designated Operator of record in compliance with the rules and regulations of the NMOCD in the event Mewbourne's Esperanza "19" Federal Com. #2 Well is completed in the Strawn or Atoka formations. However, Faulconer will continue to physically operate its well.

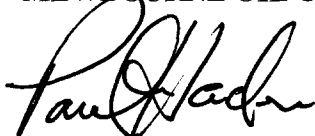
Oil Conservation Division
Case No. 13305
MOC's Esperanza "19" Federal Com. #2 Well
August 10, 2004
Page 4 of 4

Regarding the above, it would be greatly appreciated on behalf of Mewbourne, Wynn-Crosby and Vernon Faulconer if the NMOCD would approve Mewbourne's application as applied for to allow each respective Operator to physically operate and to be the NMOCD designated Operator for reporting functions as to each of their respective wellbores.

Should you have any further questions or concerns regarding Mewbourne's application as applied for in this matter, please call me or Mr. Carr.

Sincerely yours,

MEWBOURNE OIL COMPANY

A handwritten signature in black ink, appearing to read "D. Paul Haden". The signature is written in a cursive, flowing style.

D. Paul Haden
Senior Landman

DPH/gb

xc: Holland & Hart, LLP
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
Attn: Mr. William F. Carr