

**MEWBOURNE OIL COMPANY**

P.O. BOX 7698  
TYLER, TEXAS 75711  
903 - 561-2900  
FAX 903 - 561-1870

August 20, 2003

BY FAX

Mr. Bryan Arrant  
New Mexico Oil Conservation Division, District II  
1301 W. Grand Ave.  
Artesia, NM 88210

RE: Overproduction  
Fren 8 Federal #2 and Fren 8 Federal #3 wells  
Sec 08 T18S R31E  
Eddy Co., NM

Dear Mr. Arrant:

Mewbourne Oil Company (MOC) has received your letter concerning the overproduction in the proration unit located in the NE/4 of Section 8 T18S-R31E Eddy Co., NM with respect to the Shugart Strawn Pool. This proration unit has two wells producing from the Strawn which share the 160 acre allowable that the OCD established in the Temporary Special Pool rules. Those two wells are the Fren 8 Federal #2 (very high productivity) and the Fren 8 Federal #3 (moderate productivity).

The proration unit is under temporary pool rules that provide for 1120 bpd oil allowable and 4000 scf/stb limiting gas-oil ratio (GOR). Therefore, the equivalent gas allowable is 4480 Mscfpd. These rules went into effect October 28, 2002 and since then the Fren 8 #2 has had to be significantly curtailed to meet the unit's allowable.

Attached is a summary table showing the production and allowables from November, 2002 through July, 2003 (estimated). Also shown are the cumulative allowable positions over time.

It should be noted that in no month has MOC exceeded the "5 day" permissive monthly tolerance for allowable oil production. Therefore, MOC is in compliance with respect to Rule 502.C. The cause for the overproduction of this proration unit was an oversight in MOC's monitoring of the gas allowable on a cumulative basis.

All wells in this pool (3 MOC wells, 2 Gruy wells and 1 Heyco well) are now producing at GORs above 4000. This is the natural GOR trend for Strawn reservoirs with this volatile oil reservoir fluid. The Fren 8 #2 is the only well and the NE/4 of Section 8 is the only proration unit that can produce the top allowable of 1120 bopd and is therefore the only proration unit that is GOR-limited as to its allowable.



Mr. Bryan Arrant

Page 2

August 20, 2003

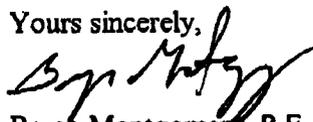
The attached table shows that the Fren 8 #2 proration unit was under its cumulative gas allowable until June, 2003. Prior to that time, the increasing producing GOR for the Fren 8 #2 was making up the cumulative gas allowable underage that had occurred from November, 2002 through May, 2003. At the end of June, 2003 the Fren 8 #2 proration unit was 1% and 2% over-produced respectively as to its oil and gas allowables.

As has been stated above, MOC has consistently produced the Fren 8 #2 at significantly curtailed rates with respect to the well's ability to produce against pipeline conditions. As of July 31, 2003, MOC is overproduced only approximately 1% as to the cumulative oil allowable (305,760 cumulative bbls allowable; 309,386 cumulative bbls produced; 3,626 cumulative bbls over-produced). Cumulative overproduction as to the gas allowable is approximately 8% (1,223,040 cumulative Mscf allowable; 1,317,025 cumulative Mscf produced; 93,985 cumulative Mscf over-produced).

Prior to receiving your letter, MOC began further curtailment procedures beginning on August 6, 2003. Today we are reducing the production from this proration unit to one-half the gas allowable (2,240 Mscfpd) in order to return the unit to a balanced production position. We project that this production rate will result in an oil rate of approximately 400 – 500 bopd. It is our further projection that these rates will result in this proration unit coming into balance as to the oil allowable by August 21, 2003 (tomorrow) and as to the gas allowable by October 10, 2003.

If you require any additional information or wish to discuss this matter, please contact me at (903) 561-2900.

Yours sincerely,



Bryan Montgomery, P.E.

Manager, Evaluation &amp; Reservoir Engineering

Enclosure

cc: Tim Gum - Artesia NMOCD  
Gruy Petroleum Management Company  
Hobbs  
Midland

Attachment to letter dated August 20, 2003

Production for NE/4 Sec 8 18S-31E (Shugart Strawn Pool)

<u>Fren 8-2</u>			<u>Fren 8-3</u>			<u>Total 8-2 &amp; 8-3</u>		
	<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>		<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>	<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>	<u>GOR</u>
			8/31/2002	1251	2538	1251	2538	2.028777
9/30/2002	21543	58733	9/30/2002	6222	19528	27765	78261	2.818693
10/31/2002	11196	30076	10/31/2002	8401	29701	19597	59777	3.050314
11/30/2002	26435	65805	11/30/2002	7742	26727	34177	92532	2.707435
12/31/2002	25049	65963	12/31/2002	7399	27419	32448	93382	2.877897
1/31/2003	31436	90756	1/31/2003	7210	32009	38646	122765	3.176655
2/28/2003	25772	88003	2/28/2003	5957	31285	31729	119288	3.759589
3/31/2003	33801	137453	3/31/2003	5963	33065	39764	170518	4.288251
4/30/2003	30606	146349	4/30/2003	4881	31010	35487	177359	4.997858
5/31/2003	24137	122884	5/31/2003	3928	25017	28065	147901	5.269945
6/30/2003	29774	157059	6/30/2003	4293	30221	34067	187280	5.497402
7/31/2003 est	31948	175000	7/31/2003 est	3055	31000	35003	206000	5.885210

<u>Cumulative starting 11/2002</u>			<u>Allowable</u>			<u>Cum Allowable Starting 11/2002</u>		
<u>Total 8-2 &amp; 8-3</u>			<u>(1120 bopd &amp; 4480 Mcfpd)</u>			<u>(1120 bopd &amp; 4480 Mcfpd)</u>		
	<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>		<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>	<u>Oil (Bbls)</u>	<u>Gas (MCF)</u>	
9/30/2002			Testing Period					
10/31/2002			Testing Period					
11/30/2002	34177	92532	Testing Period	33600	134400	33600	134400	
12/31/2002	66625	185914		34720	138880	68320	273280	
1/31/2003	105271	308679		34720	138880	103040	412160	
2/28/2003	137000	427967		31360	125440	134400	537600	
3/31/2003	176764	598485		34720	138880	169120	676480	
4/30/2003	212251	775844		33600	134400	202720	810880	
5/31/2003	240316	923745		34720	138880	237440	949760	
6/30/2003	274383	1111025		33600	134400	271040	1084160	
7/31/2003 est	309386	1317025		34720	138880	305760	1223040	