

# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**  
Governor

**Joanna Prukop**  
Cabinet Secretary

**Mark E. Fesmire, P.E.**  
Director  
Oil Conservation Division

*ok file*

January 16, 2008

RCVD JAN 18 '08  
OIL CONS. DIV.

DIST. 3

Mr. Charlie Perrin, Supervisor  
Oil Conservation Division, District III  
1000 Rio Brazos Road  
Aztec, NM 87410

Dear Mr. Perrin:

This letter concerns Devon Energy Production Company, LP's, C-104 Request for Allowable and Authorization to Transport. Your Office has not approved Devon's C-104 Request for Allowable and Authorization to Transport due to Devon being out of compliance with Rule 19.15.1.40 NMAC ("Rule 40"). Under Rule 19.15.13.1104(A) NMAC ("Rule 1104"), the Oil Conservation Division ("OCD") must deny an operator's request for allowable or authorization to transport if the operator is out of compliance with Rule 40. Devon provided you with a report to show you that it is in compliance with Rule 40. You have asked me to review the report and determine whether Devon is in compliance with Rule 40.

Devon is currently out of compliance with Rule 40 in two ways. First, Devon does not satisfy the Rule 40 requirement that operators be in compliance with the financial assurance requirements of Rule 19.15.3.101 NMAC ("Rule 101"). Rule 101 requires operators to post a single well financial assurance for any state or fee well that has been inactive for more than two years. As of this date, OCD's on-line inactive well additional financial assurance report shows that Devon has to post financial assurance for several of its wells.

Second, the number of inactive wells that Devon has on its inactive well list exceeds the maximum number of inactive wells that Devon can have on the list under Rule 40. As of this date, OCD's on-line well list shows Devon as operator of record for 1714 wells. Rule 40 prohibits an operator with 1000 or more wells from having more than 10 inactive wells. As of this date, OCD's on-line inactive well list shows Devon as having 11 inactive wells. Devon would need to have no more than 10 wells on the inactive well list in order to be in compliance with Rule 40.

Rule 40 permits an operator whose well appears on the inactive well list to rebut the presumption that the well is an inactive well within the meaning of Rule 19.15.4.201 NMAC ("Rule 201").

In its report Devon states that it intends to bring the two following wells into injection status:

- Atoka San Andres Unit No. 101; API No. 30-015-00300
- Atoka San Andres Unit No. 133; API No. 30-015-00284

Mr. Charlie Perrin  
January 16, 2008  
Page 2 of 2

According to OCD records, Devon has filed C-103 forms (Subsequent Report of Injection Status) for these two wells. According to the C-103 forms, Devon has returned these two wells to active injection status. In its report Devon states that it intends to file C-115 reports for the wells by February 15, 2008. OCD Artesia District Office Compliance Officer Richard Inge confirmed that both wells have passed mechanical integrity tests and are ready for injection.

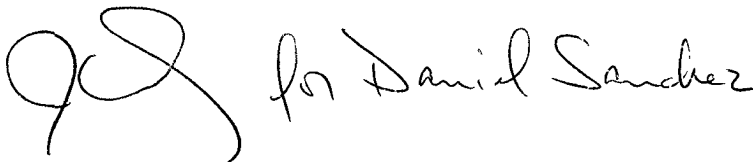
In my opinion Devon has presented sufficient evidence to rebut the presumption that at least two of its wells—Atoka San Andres Unit No. 101 and Atoka San Andres Unit No. 133—are an inactive well within the meaning of Rule 201. This would reduce the number of wells on Devon's inactive well list to 9, which would bring Devon into compliance with Rule 40 as to its inactive wells.

In conclusion, Devon has presented sufficient evidence on two of its wells to rebut the presumption that they are inactive. This would bring Devon into compliance with Rule 40 and would allow the District to approve Devon's C-104 Request for Allowable and Authorization to Transport. However, Devon is still out of compliance with Rule 40 due to Devon being out of compliance with the financial assurance requirements of Rule 101. Devon would need to come into compliance with the financial assurance requirements of Rule 101 before the District could approve Devon's C-104 Request for Allowable and Authorization to Transport.

If Devon fails to file its C-115 reports for the Atoka San Andres Unit No. 101 and Atoka San Andres Unit No. 133 by February 15, 2008, the presumption that these wells are inactive wells will return and the wells will be inactive wells for purposes of Rule 40 application. If the C-115 reports are not filed by February 15, then the OCD will pursue further enforcement action against Devon.

Please feel free to contact me should you have any questions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "for Daniel Sanchez". The signature is stylized and cursive.

Daniel Sanchez

Cc: Victoria Sanchez, Senior Regulatory Specialist  
Devon Energy Production Company, LP