

DATE IN 4/17/06 SUSPENSE 5/1/06 ENGINEER WILL JONES LOGGED IN 4/18/06 TYPE DHC 3708 APP NO. PTD50610830383

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
 [DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
 [PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
 [WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
 [SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
 [EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

- [1] **TYPE OF APPLICATION** - Check Those Which Apply for [A]
 [A] Location - Spacing Unit - Simultaneous Dedication
☐ NSL ☐ NSP ☐ SD
- Check One Only for [B] or [C]
 [B] Commingling - Storage - Measurement
☒ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM
- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR
- [D] Other: Specify _____

- [2] **NOTIFICATION REQUIRED TO:** - Check Those Which Apply, or ☐ Does Not Apply
- [A] ☐ Working, Royalty or Overriding Royalty Interest Owners
- [B] ☐ Offset Operators, Leaseholders or Surface Owner
- [C] ☐ Application is One Which Requires Published Legal Notice
- [D] ☐ Notification and/or Concurrent Approval by BLM or SLO
 U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
- [E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,
- [F] ☐ Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is accurate and complete to the best of my knowledge. I also understand that no action will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Print or Type Name

Signature

Title

Date

E-mail Address

Jones, William V., EMNRD

Susane 5/7/06

From: Zimmerman, Melisa [Melisa.Zimmerman@dvn.com]
Sent: Thursday, April 20, 2006 12:18 PM
To: Jones, William V., EMNRD
Subject: RE: DHC Application: NEBU 339 Fruitland Sand Pictured Cliffs and Mesaverde

Mr. Jones,

Thank you for informing me that you do not require extra copies, I will from this point forward only send one when needed. I inadvertently left the language for the approved pools in the letter, again thank you for brining that to my attention. Lastly, you are correct the interests in the two pools are not identical. In our 2006 drilling program we will have only two more wells in our schedule with the same pools to apply for commingling. Because there will only be two more the team here feels a blanket approval is not necessary as long as there is a chance we can still receive permission to commingle these few wells. Please advise if you would suggest different.

Again thank you for the information you have provided.

Sincerely,
 Melisa Zimmerman
 Devon Energy Production Company, L.P.

From: Jones, William V., EMNRD [mailto:William.V.Jones@state.nm.us]
Sent: Wednesday, April 19, 2006 8:51 AM
To: Zimmerman, Melisa
Cc: Hayden, Steven, EMNRD
Subject: DHC Application: NEBU 339 Fruitland Sand Pictured Cliffs and Mesaverde

Hello Melissa:

Three things about this application:

Your application says that all interests are identical in both of these pools, yet you seem to have noticed all interest owners.

Why did you notice everyone, if these interests are identical? These two pools are spaced differently and therefore less likely to have identical interest owners.

Again, please note that if you will be doing many more of these commingles, Devon should apply through hearing to the Division to have blanket approval to commingle certain pools. At the time of the hearing, you notice everyone in NEBU and thereafter, notice would not be required. Otherwise, you will be required to notice everyone, everytime you commingle a well.

Your letter to the interest owners says that these pools are pre-approved for commingling. I can't find a record in Rule 303.C that these two pools are pre-approved.

Please send me a reference to which order or rule pre-approved these pools. Applications to commingle pre-approved pools should be sent to the District office instead of to Santa Fe. If these are not pre-approved, the letter to the interest owners should be modified to delete this language. (don't send additional notice in this case - just remember for the next time)

Please only send the original application to Santa Fe - **we don't need any extra copies.** Sending additional copies is just more work for you. Some of our applications such as Salt Water Disposal applications require a copy to be sent to the District office, but that is not true for Down Hole Commingling applications.

Please reply and let me know. I will hold this pending your reply.

4/24/2006

Jones, William V., EMNRD

From: Jones, William V., EMNRD
Sent: Wednesday, April 19, 2006 7:51 AM
To: 'Melissa.zimmerman@dm.com'
Cc: Hayden, Steven, EMNRD
Subject: DHC Application: NEBU 339 Fruitland Sand Pictured Cliffs and Mesaverde

Hello Melissa:

Three things about this application:

Your application says that all interests are identical in both of these pools, yet you seem to have noticed all interest owners.

Why did you notice everyone, if these interests are identical? These two pools are spaced differently and therefore less likely to have identical interest owners.

Again, please note that if you will be doing many more of these commingles, Devon should apply through hearing to the Division to have blanket approval to commingle certain pools. At the time of the hearing, you notice everyone in NEBU and thereafter, notice would not be required. Otherwise, you will be required to notice everyone, everytime you commingle a well.

Your letter to the interest owners says that these pools are pre-approved for commingling. I can't find a record in Rule 303.C that these two pools are pre-approved.

Please send me a reference to which order or rule pre-approved these pools. Applications to commingle pre-approved pools should be sent to the District office instead of to Santa Fe. If these are not pre-approved, the letter to the interest owners should be modified to delete this language. (don't send additional notice in this case - just remember for the next time)

Please only send the original application to Santa Fe - **we don't need any extra copies.** Sending additional copies is just more work for you. Some of our applications such as Salt Water Disposal applications require a copy to be sent to the District office, but that is not true for Down Hole Commingle applications.

Please reply and let me know. I will hold this pending your reply.

Regards,

William V. Jones

Engineering Bureau

Oil Conservation Division

Santa Fe

4/19/2006

District I
1625 N. French Drive, Hobbs, NM 88240

District II
1301 W. Grand Avenue, Artesia, NM 88210

District III
1000 Rio Brazos Road, Aztec, NM 87410

District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-107A
Revised June 10, 2003

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, New Mexico 87505

APPLICATION TYPE
____ Single Well
____ Establish Pre-Approved Pools
EXISTING WELLBORE
____ Yes ____ No

APPLICATION FOR DOWNHOLE COMMINGLING

2006 APR 17 PM 1 00

DHC-3706

Devon Energy Production Company, L.P. PO Box 6459, Navajo Dam, NM 87419
Operator Address

NEBU 339 P, Sec. 26, T31N, R7W San Juan
Lease Well No. Unit Letter-Section-Township-Range County

OGRID No. 6137 Property Code 19641 API No. 30-045-33339 Lease Type: Federal X State Fee

DATA ELEMENT	UPPER ZONE	INTERMEDIATE ZONE	LOWER ZONE
Pool Name	S Los Pinos Frt/Sd Pictured Cliffs		Blanco Mesaverde
Pool Code	80690		72319
Top and Bottom of Pay Section (Perforated or Open-Hole Interval)	3,550' - 3695'		4,076' - 6,156'
Method of Production (Flowing or Artificial Lift)	Flowing		Artificial Lift
Bottomhole Pressure (Note: Pressure data will not be required if the bottom perforation in the lower zone is within 150% of the depth of the top perforation in the upper zone)			
Oil Gravity or Gas BTU (Degree API or Gas BTU)			
Producing, Shut-In or New Zone	Producing		Producing
Date and Oil/Gas/Water Rates of Last Production. (Note: For new zones with no production history, applicant shall be required to attach production estimates and supporting data.)	Date: 12-8-05 Rates: 5509 MCF	Date: Rates:	Date: 11-19-05 Rates: 1048 MCF
Fixed Allocation Percentage (Note: If allocation is based upon something other than current or past production, supporting data or explanation will be required.)	Oil Gas % %	Oil Gas % %	Oil Gas % %

ADDITIONAL DATA

Are all working, royalty and overriding royalty interests identical in all commingled zones?
If not, have all working, royalty and overriding royalty interest owners been notified by certified mail?

Yes X No X
Yes X No

Are all produced fluids from all commingled zones compatible with each other?

Yes No X

Will commingling decrease the value of production?

Yes No

If this well is on, or communitized with, state or federal lands, has either the Commissioner of Public Lands or the United States Bureau of Land Management been notified in writing of this application?

Yes X No

NMOCD Reference Case No. applicable to this well: _____

Attachments:

- C-102 for each zone to be commingled showing its spacing unit and acreage dedication.
- Production curve for each zone for at least one year. (If not available, attach explanation.)
- For zones with no production history, estimated production rates and supporting data.
- Data to support allocation method or formula.

Notification list of working, royalty and overriding royalty interests for uncommon interest cases.
Any additional statements, data or documents required to support commingling.

PRE-APPROVED POOLS

If application is to establish Pre-Approved Pools, the following additional information will be required:

List of other orders approving downhole commingling within the proposed Pre-Approved Pools

List of all operators within the proposed Pre-Approved Pools

Proof that all operators within the proposed Pre-Approved Pools were provided notice of this application.

Bottomhole pressure data.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

SIGNATURE M.S. Zimmer TITLE Senior Operations Technician DATE 4-9-06

TYPE OR PRINT NAME Melisa Zimmerman TELEPHONE NO. (405) 552-7917

E-MAIL ADDRESS melisa.zimmerman@dvn.com

ATTACHMENTS TO APPLICATION TO DOWNHOLE COMMINGLE

The following information is being provided as supporting data for application to down hole commingle production from the following well:

Well: NEBU 339
Location: SE SE, Sec. 26, T31N, R7W
San Juan County, New Mexico

1. The pools to be commingled are the Pictured Cliffs (71599) and the Blanco Mesaverde (72319).
2. The subject well is presently completed in both zones flowing and measured separately. The perforated interval in the Pictured Cliffs pool being 3,574'-3,705'. The perforated interval in the Blanco-Mesaverde pool being 4,585'-5,760'.
3. Commingling will not reduce the value of the total remaining production in this well. Produced waters from both the Blanco-Mesaverde and the Pictured Cliffs have been found to be compatible, with no evidence of scaling problems on tubules, or of precipitate fill in the well bore. The increased volume of gas flowing up the tubing will facilitate the well's ability to unload itself, thus increasing production and reducing potential operational problems.
4. Notice has been sent to all interest owners in the spacing unit by certified mail (return receipt) of Devon Energy's intent to down hole commingle production. A copy of this notice and a list of all working interest owners are attached.
5. A copy of this notice of intent to down hole commingle has been sent to the Bureau of Land Management.

Method of Allocation

Devon Energy recommends the following procedure to allocate downhole commingled production between the Blanco-Mesaverde and the Fruitland Pictured Cliffs pools within the Northeast Blanco Unit:

- The Mesaverde and Fruitland Pictured Cliffs formations will be completed simultaneously.
- A single 2-3/8" tubing string will be run in the well, with a packer isolating the two horizons.
- The Mesaverde completion will be produced up the tubing string.
- The Fruitland Pictured Cliffs completion will be produced up the 2-3/8" x 4-1/2" annulus.
- Production from each zone will be measured separately using a 3 phase metering device prior to flowing through a mutual production separator. Total well stream gas will be measured using a conventional orifice plate meter tube located downstream of the production separator.
- The completions will be flow tested separately for approximately 90 days to establish a stabilized rate and trend.
- Following the testing period the packer will be removed and the two pools will be downhole commingled. Total well production will flow through common surface facilities and total produced gas will be measured.
- Production will be allocated between the Mesa Verde and Fruitland Pictured Cliffs intervals by applying the variable percentage schedule to the daily total well production.

The Variable Percentage Schedule was derived using Mesa Verde and Fruitland Pictured Cliffs production type curves. These type curves were generated by normalizing production data from surrounding wells. The variable percentage schedule is required due to the dissimilar decline trends exhibited by the Mesa Verde and Fruitland Pictured Cliffs. Figure 1 depicts a typical Mesa Verde – Fruitland Pictured Cliffs production allocation. The actual percentages will vary from well to well, depending on well productivity.

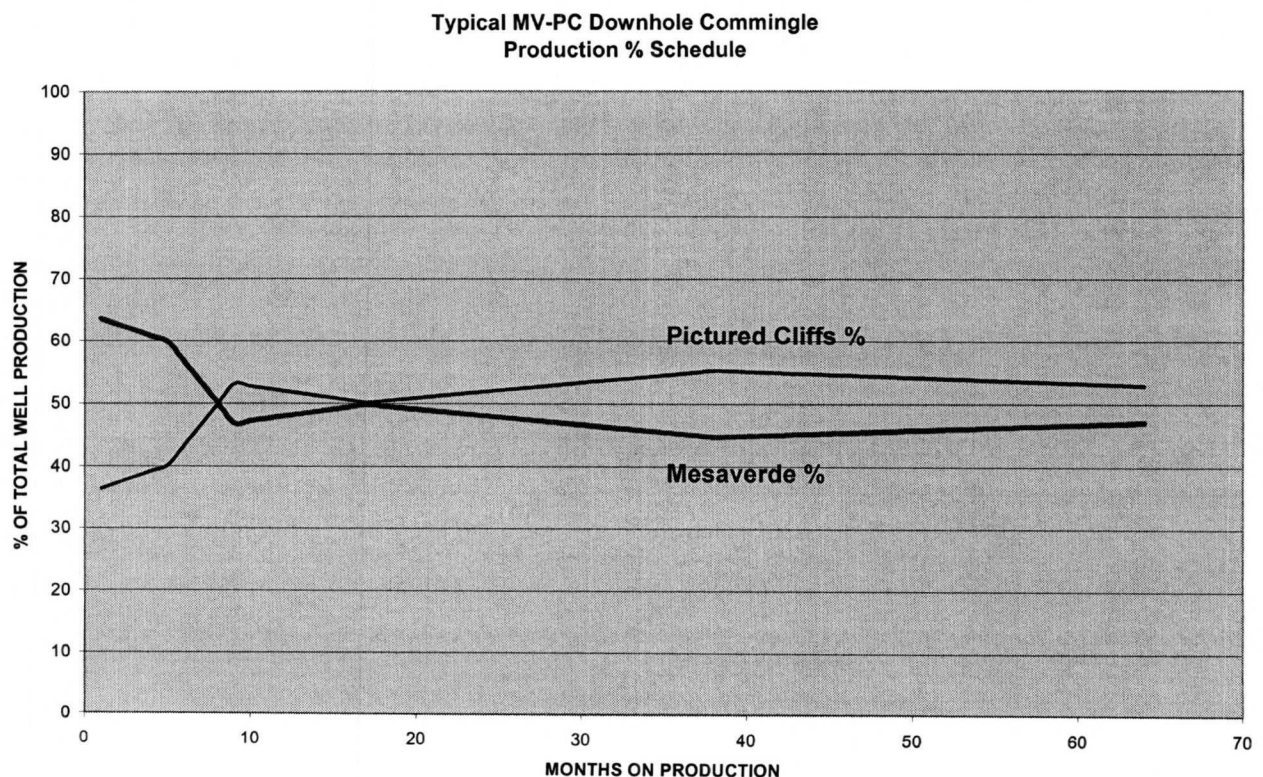


Figure 1

The Fruitland Pictured Cliffs type curve was generated from normalized production of 15 offsetting Fruitland Pictured Cliffs producers. The Fruitland Pictured Cliffs type curve clearly defines the decline rate for the life of a well. Comparison of this type curve with the production schedule obtained by using flow test data demonstrates the reliability of this method for projecting production. (See Figure 2) The curve covers a five year period with a variance in cumulative normalized production of only 0.8%.

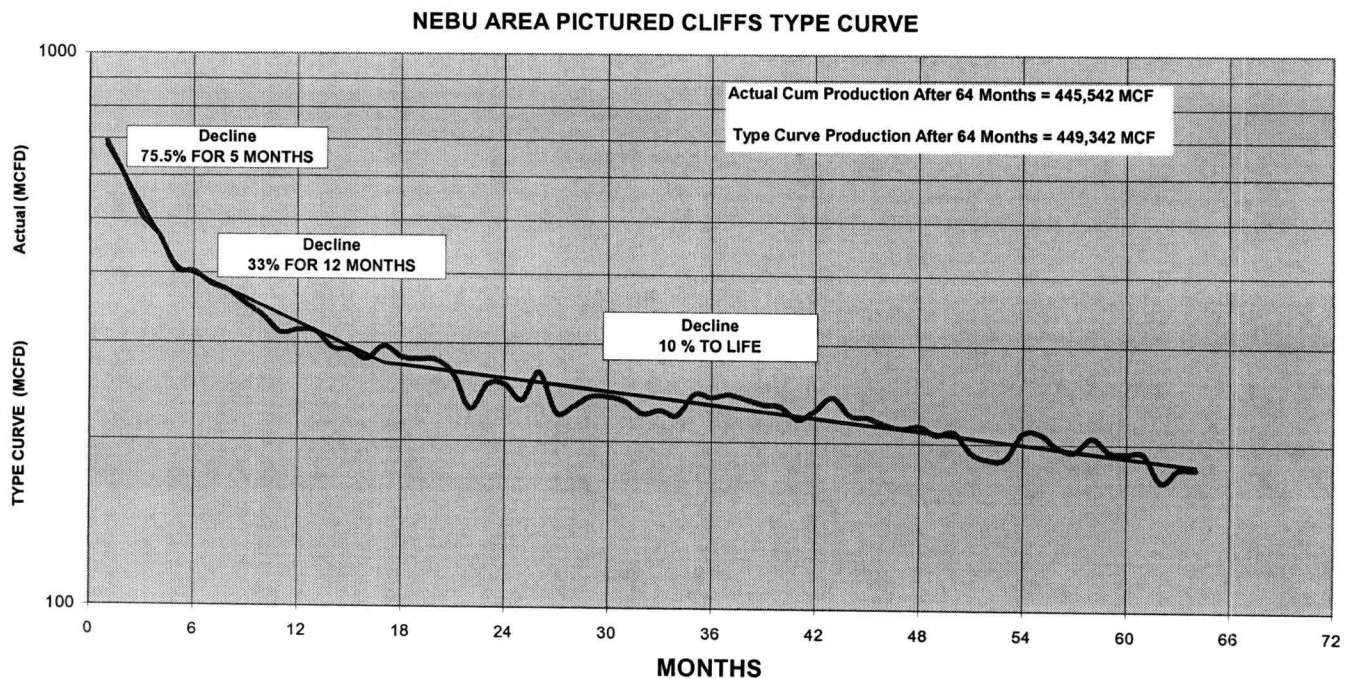


Figure 2

The Blanco – Mesa Verde type curve was generated from normalized production of 12 offsetting Blanco-Mesaverde producers. Comparisons of this type curve with the production schedule obtained by using flow test data demonstrates the reliability of this method for projecting production. (See Figure 3) The curve covers a five year period with a variance in cumulative vs normalized production of only 1.1%.

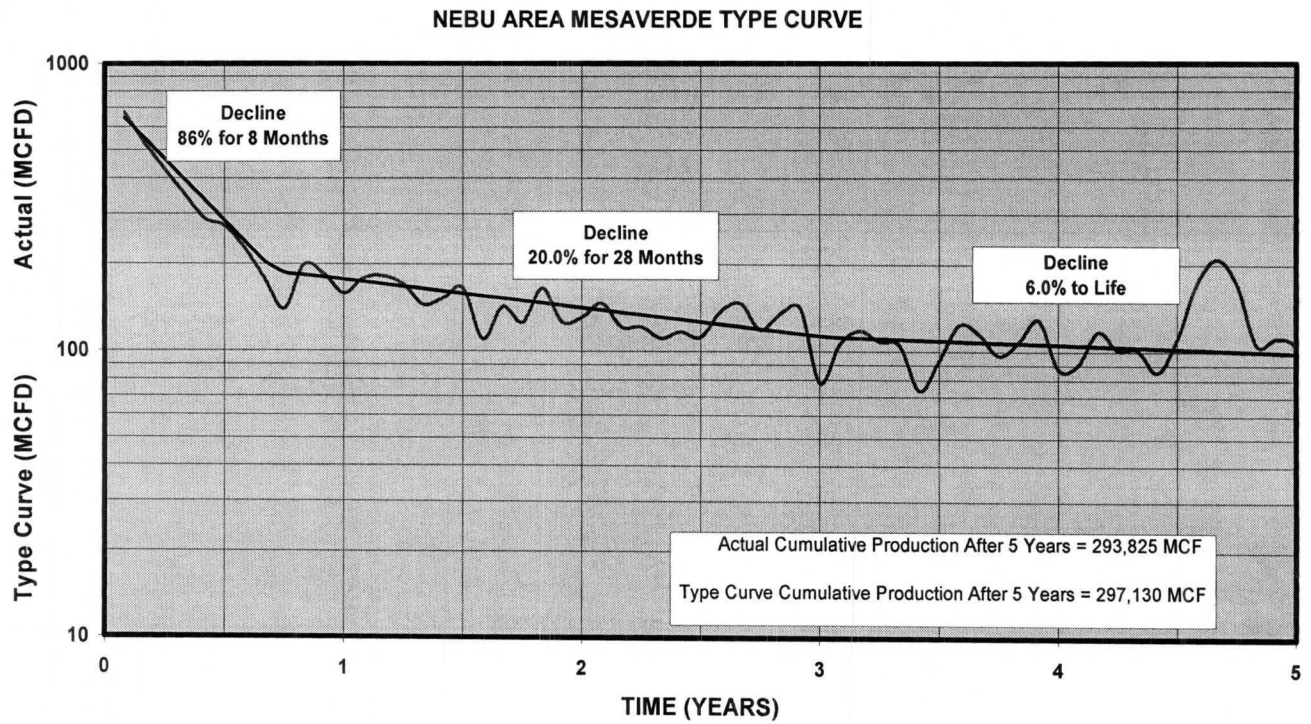


Figure 3



ENERGY PRODUCTION COMPANY, L.P.

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: (405) 235-3611
Facsimile: (405) 552-4667

March 21, 2006

IN RE: Permit to Down-hole Commingle
NEBU #339, API # 30-045-33339
SE SE 1,140' FSL & 1,045' FEL
Sec. 26, T31N, R7W
San Juan County, New Mexico

VIA CERTIFIED MAIL

To all Working Interest Owners:

In accordance with the New Mexico Oil Conservation Division Rule 303.C governing down hole commingling, you are hereby notified that Devon Energy Production Company, L.P., as operator of the above-captioned well, intends to down-hole commingle production from the Pictured Cliffs and Blanco Mesaverde pools. These pools are pre-approved for commingling by the State of New Mexico Oil Conservation Division of the Energy, Minerals and Natural Resources Department. As such Devon Energy is required to submit application to the OCD on form C-103 (Sundry Notice) of our intent to commingle the two zones.

The Pictured Cliffs and Blanco-Mesaverde will be completed and tested simultaneously to establish a production potential. The production from the Pictured Cliffs and the Blanco-Mesaverde will be allocated on a production trend based formula which has been approved by the NMOCD. A "Method of Allocation" explanation has been enclosed with this notice.

Please direct inquiries regarding this matter to the undersigned at (405) 552-7917

Sincerely,
DEVON ENERGY PRODUCTION COMPANY, L.P.

Melisa Zimmerman
Senior Operations Technician

**NORTHEAST BLANCO UNIT – PC 339
WORKING INTEREST OWNERS**

John Larson
BP America Production Company
P.O. Box 3092
Houston, TX 77253-3092

Burlington Resources Oil & Gas Co.
P. O. Box 4289
Farmington, New Mexico 87499-4289
Attn: Cheryl

ConocoPhillips Company
WL3-5058
P. O. Box 2197
Houston, Texas 77252-2197
Attn: Todd L. Thornburgh

NOTE:

Devon Energy, B&N Co., and BN Non-Coal
REQUIRES NO NOTIFICATION; THEREFORE NOT LISTED ABOVE

**NORTHEAST BLANCO UNIT – MV 339
WORKING INTEREST OWNERS**

Dawn Howell
Burlington Resources Oil & Gas Co.
P.O. Box 4289
Farmington, NM 87499-4289

John Larson
BP America Production Company
P.O. Box 3092
Houston, TX 77253-3092

Todd L. Thornburgh
ConocoPhillips Company
600 North Dairy Ashford (77079-6651)
WL3-5058
P.O. Box 2197
Houston, TX 77252-2197

Castle, Inc.
502 Keystone Drive
Warrendale, PA 15086

T.H. McElvain Oil & Gas Ltd. Partnership
McElvain Oil & Gas Properties, Inc., GP
1050 17th Street, Suite 1800
Denver, CO 80265

NOJV Manager
Four Star Oil & Gas Company
P.O. Box 36366
Houston, TX 77236

Jane P. Ladouceur
109 Longford
San Antonio, TX 78209

Charles E. Kelly, PH.D.
895 Technology Blvd., Suite 201
Bozeman, MT 59718-6855

Robert E. Zimmerman, Jr.
1616 S. Voss, Suite 875
Houston, TX 77057

Charles W. Gay
c/o James M. Raymond, AIF
P.O. Box 291445
Kerrville, TX 78029-1445

Bryan Basham
Diverse Energy Investments
1001 McKinney, Suite 520
Houston, TX 77002

Lorrayn Gay Hacker
c/o James M. Raymond, AIF
P.O. Box 291445
Kerrville, TX 78029-1445

James M. Raymond, Trustee
Maydell Miller Mast Trust
P.O. Box 291445
Kerrville, TX 78029-1445

James M. Raymond
J & M Raymond, Ltd.
Raymond & Sons I, LLC, GP
P.O. Box 291445
Kerrville, TX 78029-1445

Susanna Phillips Kelly
P.O. Box 147
Cameron, MT 59720

Susanna P. Kelly, Jr.
8383 Chapman Road
Bozeman, MT 59715

Andrew B. Kelly, Jr.
2575 Sunset Drive
Atlanta, GA 30345

Ken McPhee
Wiser Oil Company
c/o Forest Oil Corp.
1600 Broadway, Suite 220
Denver, CO 80202

George Cox
XTO Energy Corp.
810 Houston Street
Fort Worth, TX 76102

McAfee Oil & Gas LLC
103 W. Boyd, Suite A
Norman, OK 73069

Kona, Ltd
16800 Imperial Valley Dr., Suite 270
Houston, TX 77060

NOTE:

Devon Energy, BN, and B&N Co
REQUIRE NO NOTIFICATION;
THEREFORE NOT LISTED ABOVE