



Devon. 04

File 10/27

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
BETTY RIVERA
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

December 15, 2002

Devon Energy Production Company, L. P.
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

Attention: Ken Gray

RE: *Administrative application for Devon Energy Production Company, L. P.'s proposed Bad Axe "23" Federal Com. Well No. 1 to be drilled at an unorthodox gas well location within the Indian Basin-Upper Pennsylvanian Gas Pool (33685) 660 feet from the North line and 2110 feet from the West line (Unit C) of Section 23, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.*

Dear Mr. Gray:

Reference is made to your application (*administration application reference No. pKRV0-233730283*) filed with the New Mexico Oil Conservation Division ("Division") on December 2, 2002. The Division recognizes Devon Energy Production Company, L. P.'s ("Devon") concern about potential drainage within the Cisco/Canyon interval on the boundary common to both the Indian Basin-Upper Pennsylvanian Gas Pool and South Dagger Draw-Upper Pennsylvanian Associated Pool (33685) where the two pools are governed under two different sets of spacing and well location rules:

- (i) 320-acre spacing with wells to be no closer than 660 feet to the outer boundary of such unit for the South Dagger Draw-Upper Pennsylvanian Associated Pool as set forth by special pool rules promulgated by Division Order No. R-5353, as amended; and
- (ii) 640-acre spacing with wells to be no closer than 1650-feet to the outer boundary of such unit for the Indian Basin-Upper Pennsylvanian Gas Pool as set forth by special pool rules promulgated by Division Order No. R-8170, as amended.

However, from your application it appears that Devon's main reason for the justification for this unorthodox Upper-Pennsylvanian well location is to accommodate the deeper Indian Basin-Morrow Gas Pool (78960) Morrow gas production that this well, which pool is governed by the "Special Rules and Regulations for the Indian Basin-Morrow Gas Pool," as promulgated by Division Orders No. R-8170-O-1/R-2441-B, issued in Case No. 11512 and dated July 31, 1996, and R-8170-O-2/R-2441-C, dated August 15, 1996, which includes provisions: (i) for 640-acre spacing; (ii) requiring wells to be located no closer than 660 feet to the outer boundary of a unit nor closer than 330 feet to any

governmental quarter-quarter section or subdivision inner boundary; (iii) that allows for one infill well per 640-acre unit; and (iv) that confines these special pool rules to those lands that are within the pool's horizontal limits. The Division's records indicate that Marathon Oil Company's Indian Basin Gas Com. Well No. 1 (API No. 30-015-00037), located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 23 is currently producing from the Indian Basin-Morrow Gas Pool and is therefore holding all of Section 23, being a standard 640-acre gas spacing unit for this pool. Since a spacing unit can only have one operator, which is Marathon Oil Company, in this case for the deeper Morrow gas production, Devon is not entitled to complete in this zone. Therefore, Devon's reasoning is invalid.

In order to complete this application, please provide further explanation with respect to the Cisco/Canyon's drainage characteristics and how this location is needed to protect Devon's correlative rights and waste will be protected.

Should you have any questions concerning this matter, please contact your legal counsel in Santa Fe at (505) 982-2043 or me at (505) 476-3465.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
James Bruce, Legal Counsel for Devon Energy Production Company, L. P. - Santa Fe



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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

BETTY RIVERA

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

December 27, 2002

**Devon Energy Production Company, L. P.
20 North Broadway
Oklahoma City, Oklahoma 73102-8260**

Attention: Ken Gray

RE: *Administrative application for Devon Energy Production Company, L. P.'s ("Devon") proposed Bad Axe "23" Federal Com. Well No. 1 to be drilled at an unorthodox gas well location within the Indian Basin-Upper Pennsylvanian Gas Pool (33685) 660 feet from the North line and 2110 feet from the West line (Unit C) of Section 23, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.*

Dear Mr. Gray:

Reference is made to my previous letter of deficiency dated December 15, 2002 (see copy attached). This application was ruled to be incomplete on December 15, 2002. Please submit the requested information by Thursday, January 9, 2003.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. The additional information can be faxed to (505) 476-3471, or mailed to the Division in Santa Fe. If the necessary information is not submitted, your application will be returned to you.

Should you have any questions concerning this matter, please contact your legal counsel in Santa Fe at (505) 982-2043 or me at (505) 476-3465.

Sincerely,

Michael E. Stogner

Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
James Bruce, Legal Counsel for Devon Energy Production Company, L. P. - Santa Fe



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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

January 14, 2002
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Lori Wrotenberg
Director
Oil Conservation Division

Devon Energy Production Company, L. P.
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

Attention: Ken Gray

RE: Administrative application (*administrative application reference No. pKRV0-233730283*) for Devon Energy Production Company, L. P.'s ("Devon") proposed Bad Axe "23" Federal Com. Well No. 1 to be drilled at an unorthodox gas well location within the Indian Basin-Upper Pennsylvanian Gas Pool (33685) 660 feet from the North line and 2110 feet from the West line (Unit C) of Section 23, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.

Dear Mr. Gray:

I am in receipt of your telefaxed letter of Friday, January 10, 2003 (see copy attached), which is in response to my second application deficiency letter of December 27, 2002. Please submit a copy of the "contractual agreement" with Marathon mentioned in your letter. Please submit the requested information by Wednesday, January 29, 2003.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. If the necessary information is not submitted, your application will be returned to you.

Should you have any questions concerning this matter, please contact your legal counsel, James Bruce in Santa Fe at (505) 982-2043 or me at (505) 476-3465.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
James Bruce, Legal Counsel for Devon Energy Production Company, L. P. - Santa Fe
Walter Dueease, Marathon Oil Company - Midland
W. Thomas Kellahin, Legal Counsel for Marathon Oil Company - Santa Fe

Southern U.S. Business Unit
Domestic Production



P.O. Box 552
Midland, TX 79702-0552
Telephone 915/882-1626

October 18, 2001

Mr. Ken Gray
DEVON SFS OPERATING, INC.
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Re: Indian Basin Gas Com. #1 Acid Gas Disposal Well
1980'FNL & 660' FWL
Section 23, T-21-S, R-23-E, N.M.P.M.,
Eddy County, New Mexico

Dear Ken:

Marathon has received an order from the New Mexico Oil Conservation Division to either resume injection into, produce from, or plug and abandon the above referenced well. The Indian Basin Gas Plant may need this wellbore to inject plant wastes associated with removing additional sulfur from the NGL stream and wants to defer abandonment of the Devonian. Marathon, as the Gas Plant Operator, should know if this well will be necessary for disposal in the next few months.

In order to satisfy OCD requirements and keep the Gas Plant options open, Marathon proposes to temporarily produce the above referenced well from the Morrow Formation. The well has been tested, in its current condition, and is capable of flowing small quantities of sweet Morrow gas at low pressure up the annulus. Production will be metered and will flow through a new flow line into Marathon's low-pressure gathering system. In order to accomplish this, Marathon agrees to the following:

1. Marathon will operate the above referenced well and shall be liable for all costs and expenses associated with this temporary Morrow completion, its connection to Marathon's low-pressure gas gathering system, as well as all operating costs associated with this completion. If the Gas Plant needs this well for disposal, it will convert it at its sole cost. The Gas Plant has the right to convert this well from Morrow production to Devonian disposal at any time without Devon's approval.

Devon SFS Operating, Inc.

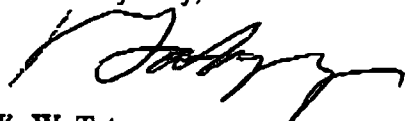
October 18, 2001

Page 2

2. Devon would be credited with a 41.58163% interest in Morrow production from this completion.
3. Marathon agrees to indemnify, defend and save Devon harmless from and against all claims, demands, damages, lawsuits, liability, judgments, expenses, attorneys fees and court costs of every kind and character arising out of or resulting from Marathon's operations in connection with the referenced well.
4. At such time as the Bad Axe "23C" Fed Com #1 well is capable of Morrow production, Marathon will cease Morrow production from the subject well. Additionally, Marathon agrees to execute any necessary instruments to transfer operatorship of the Communitized area to Devon.

Attached herewith are six (6) signature pages and a Communitization Agreement covering Section 23, T-21-S, R-23-E, N.M.P.M. as to the Morrow Formation. If you are in agreement with the foregoing, please indicate your agreement in the space provided below, have all six (6) signature pages of the Communitization Agreement executed on behalf of Devon, have the signatures acknowledged by a notary public and return five (5) original signature pages along with one (1) copy of this letter to the attention of J. F. Rusnak at the above letterhead address. If you have any questions please feel free to call Mr. Rusnak at (915) 687-8480 or myself at (915) 687-8320.


Yours very truly,



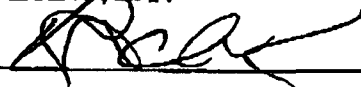
K. W. Tatarzyn
Indian Basin Asset Team Manager

AGREED TO AND ACCEPTED THIS 21
DAY OF ~~OCTOBER~~, 2002.
JANUARY

DEVON SFS OPERATING, INC.


BY: _____
ITS: R D Clark
Vice President *Rla*

DEVON ENERGY PRODUCTION
COMPANY, L. P.


BY: _____
ITS: R D Clark
Vice President *Rla*

devon

Devon Energy Corporation
20 North Broadway
Oklahoma City, Oklahoma 73102-8280

FAX

To: MICHAEL STOGNER

From: KEN GRAY

Fax: 505-476-3462

Date: 1/10/03

Phone:

Pages: 3 (including cover page)

Re: KRVO-238730283

CC:

☐ Urgent

☒ For Review

☐ Please Comment

☐ Please Reply

☐ Please Recycle

• Comments:

Note:
Talked w/ John Seher
on 1-7-2003.
Devon is submitting
the additional
info.

M. Seher



Devon Energy Corporation
20 North Broadway
Oklahoma City, Oklahoma 73102-8280
Fax 405-552-8113

January 9, 2003

New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505
Attn: Michael Stogner

Re: Administrative Application
Reference No. pKRV0-233730283
Bad Axe 23 Fed Com #1
Section 23-T21S-R23E
Eddy County, New Mexico

Dear Mr. Stogner

I am in receipt of your letter dated December 15, 2002 regarding Devon's administrative application referenced above. You have pointed out, accurately so, that Marathon currently operates the Indian Basin Gas Com No. 1 located 1980 feet from the North line and 660 feet from the West line of Section 23. Marathon and Devon have previously entered into a contractual arrangement in anticipation of additional Morrow development in Section 23 that provides for Marathon to temporarily operate and produce the Indian Basin Gas Com #1. Marathon will cease production at such time as an additional Morrow well is completed for production. Marathon is further obligated to execute the necessary instruments to transfer operations of the communitized area to Devon.

With respect to the protection of the correlative rights of the interest owners in Section 23, Marathon owns the majority interest in Section 23 with Devon owning the remaining minority interest. Devon, however owns 100% of the interest in Section 14. Therefore, Marathon's correlative rights and protection from potential drainage with respect to Section 23 should be a primary consideration.

Attached, you will find letters of acceptance from three of the four offsetting interest owners affected by this application.

Reservoir Discussion (Jon Sikes, Reservoir Engineer)

If there was no competition present in the reservoir, wells could drain from 10 to 320 acres in the poorer quality areas of the reservoir (or the more oily areas which are down structure from the gas) and they are capable of draining 640 acres in the higher quality areas of the reservoir

(or in the "high on structure" gas areas of the reservoir). This broad range of drainage calculations is because "True pay" as apposed to "perceived pay" could be over stated or under stated by several multiples because the Cisco/Canyon has relatively low overall porosity.

The main reason for the request for an unorthodox location is not because it can be proven that the wells in section 14 drained outside of section 14, but because under either extreme viewpoint, an unorthodox location in section 23 would be required to protect the correlative rights of section 23.

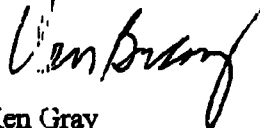
Consider the most likely scenario that the area of the reservoir that is on or near the boundary of section 14 and 23 is the "lower quality" type of reservoir. Under this assumption, a well drilled at an orthodox location would not be able to drain the reservoir all the way to the section 23 boundary and thus would leave some hydrocarbons undrained. This orthodox location would prevent Devon from being able to protect the correlative rights of the owners in section 23.

Now consider the opposite view; that the area of the reservoir that is on or near the boundary of section 14 and 23 is the "higher quality" type of reservoir. Under this assumption, if the wells in section 14 have drained any portion of section 23, then Devon must drill a well at a mirror location (unorthodox) in order to protect future drainage from occurring, thus protecting correlative rights. If the wells in section 14 have not drained any reserves from section 23, then a mirror location (unorthodox) in section 23 will not drain any of section 14 and thus will not cause any damage or waste.

If there are any questions or if additional information is required feel free to call me at (405) 552-4633

Yours very truly,

DEVON ENERGY PRODUCTION COMPANY, L.P.



Ken Gray
Senior Land Advisor

Kg/
Enclosure