

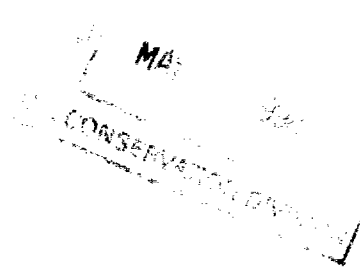
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May 11, 1998



Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 11966 (Application of Devon Energy Corporation
(Nevada) for 23 unorthodox oil well locations in the Red
Lake Queen-Grayburg-San Andres Pool)

Dear Mr. Stogner:

As you requested at the hearing on the above matter, this letter sets forth the reasons for not notifying overriding royalty interest owners of certain of the requested well locations.

First, please note that 4 of the locations requested in the application were approved administratively before hearing,¹ and thus Devon only seeks approval of the 19 locations listed in Exhibit 3 submitted at the hearing.

Second, attached hereto as Exhibit A is a listing of the wells for which Devon believes notification to overriding royalty owners is unnecessary, because (i) the well is moving toward the same lease on which the well is located, (ii) the well is moving toward a non-Devon lease, and the offset operator or lessee was notified of the hearing, or (iii) the affected acreage has or will have wells drilled thereon and completed in the same pool.²

¹The unorthodox locations approved administratively are the Carter Collier "5" Fed. No. 9, Evarts "6" Fed. No. 4, Hawk "17C" Fed. No. 1, and Hawk "17C" Fed. No. 2. These wells are all in Township 18 South, Range 27 East, N.M.P.M.

²Devon is drilling two wells per quarter-quarter section due to the limited drainage areas of wells completed in this pool, and for possible future waterflooding.

There are four wells which may concern the Division. We refer you to Exhibit 1 submitted at the hearing regarding the well locations and the different leases involved. The four wells, and the reasons Devon believes notification of the overriding royalty owners is unnecessary, are set forth below:

1. Falcon "3N" Fed. Well No. 18 (Unit N §3-18S-27E): This well is located only 20 feet from the offsetting lease (which covers the W¼SW¼ §3), due to a gas plant occupying most of Unit N. **See Devon Exhibit 7.** Both the lease on which the well is located and the offsetting lease are federal leases, and so there is no problem regarding royalty owners, and all working interest owners in both leases were notified of the application. Also, the lease covering the W¼SW¼ §3 has no overriding royalties. As a result, additional notice is not required.

2. Hawk "90" Fed. Well No. 17 (Unit O §9-18S-27E): This well is located 150 feet from the offsetting lease, which covers the N¼SE¼ of Section 9, because of a draw and a nearby ARCO well. Again, both leases are federal, and all working interest owners were notified of the application. The only overriding royalty owner in the N¼SE¼ of Section 9 is Devon. Moreover, the offsetting 40 acre tract has two wells completed or to be completed in the same pool (the Hawk "9J" Well No. 15 and the proposed Hawk "9J" Well No. 16). As a result, notice is unnecessary.

3. Paton "6" Fed. Well No. 3 (Unit N §6-18S-27E): This well is located 130 feet from Unit M of Section 6, which is within the West Red Lake Unit. Both leases are federal. Please note that Unit M contains two wells completed in the same pool, including the West Red Lake Unit Well No. 1, which has produced 70,000 barrels of oil to date. In addition, because of the small drainage areas of wells in this pool, the effect of the proposed well on Unit M, if any, is minimal. Therefore, Devon does not believe notice is necessary.

4. Paton "6" Fed. Well No. 4 (Unit K §6-18S-27E): This well is located 149 feet from the offset lease (the NW¼SW¼ of Section 6). Again, both leases are federal leases, so there is no issue regarding royalty owners, and all working interest owners have been notified of the application. Devon does not believe notice to overriding royalty owners is necessary because (i) of the small drainage area of the proposed well, and (ii) the NW¼SW¼ of Section 6 has one well on it, completed in the same pool,³ and another well is planned. **See Devon Exhibit 1.**

³The Fred "6" Fed. Well No. 1, which produced 119,000 barrels of oil.

Overriding ownership in the NW¼SW¼ and Unit K is similar. Attached as Exhibit B is a listing of overriding royalty owners in Unit K, and attached as Exhibit C is a listing of overriding royalty owners in the NW¼SW¼. The only people who own an interest in the NW¼SW¼, but own no override in Unit K, are Kate G. Lowrey and Robert L. Huguley, Sr. (their names are highlighted on Exhibit C). **If you determine that notice to these two overriding royalty owners is necessary, please let me know.**

Devon is preparing a lease map of this area for you, so that you may use it for reference in future unorthodox location applications. As discussed at hearing, Devon' plan is to fully develop all of its leases in this area with two wells per 40 acres. Wells are not being drilled on a selective basis based on overriding royalty ownership.

Please call me if you have any questions about this matter.

Very truly yours,

James Bruce

EXHIBIT A

Township 17 South, Range 27 East, N.M.P.M. :

<u>Well Name</u>	<u>Location</u>	<u>Reason</u>
Eagle "27H" Fed. No. 15	1450' FNL & 990' FEL §27	1
Evarts "31" Fed. No. 3	1330' FSL & 1630' FEL §31	2, 4
Eagle "33G" Fed. No. 6	2460' FNL & 1350' FEL §33	2
Eagle "33H" Fed. No. 8	2435' FNL & 531' FEL §33	2
Eagle "33N" Fed. No. 10	230' FSL & 2140' FWL §33	2
Eagle "34E" Fed. No. 10	2310' FNL & 1240' FWL §34	1
Eagle "34F" Fed. No. 12	2310' FNL & 2420' FWL §34	3, 4
Eagle "34G" Fed. No. 14	2310' FNL & 1600' FEL §34	1
Eagle "34I" Fed. No. 18	1740' FSL & 280' FEL §34	4
Eagle "34L" Fed. No. 24	1740' FSL & 1065' FWL §34	1

Township 18 South, Range 27 East, N.M.P.M. :

<u>Well Name</u>	<u>Location</u>	<u>Reason</u>
Fred "6" Fed. No. 5	1260' FNL & 990' FWL §6	1
Paton "6" Fed. No. 6	2460' FNL & 2310' FWL §6	1
Hawk "9B" Fed. No. 4	990' FNL & 1360' FEL §9	1
Hawk "9J" Fed. No. 16	1630' FSL & 1650' FEL §9	1
Kaiser No. 1	330' FNL & 1110' FEL §18	1

Reason offset overriding royalty owners not notified:

1. Well moving toward same lease.
2. Well moving toward non-Devon lease, and offset operators/lessees notified of application.
3. Affected offset acreage has or will have Red Lake Queen-Grayburg-San Andres Pool well(s) drilled thereon.
4. Well location not very unorthodox.¹

¹Devon's reservoir engineer testified at hearing that above-average wells in this pool drain approximately 14 acres, with a drainage radius of about 445 feet. **Devon Exhibit 12.** Therefore, unless a well is 100 feet (or less) off the lease line, it will not drain more offset acreage than a well at an orthodox location which is capable of draining 40 acres.

APPENDIX III

Attached to and Made a Part of Drilling Title Opinion
dated December 23, 1997, rendered by Woernle, Patterson,
Strain & Miller, L.L.P. for Devon Energy Corporation (Nevada)

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LAND DEPARTMENT

PATON FEDERAL

LC-960894: SE/4 NW/4 and E/2 SW/4 of Section 6, T-18-S, R-27-E, NMPM, and Lots 2, 3 and 4 and
SE/4 NW/4 and E/2 SW/4 of Section 31, T-17-S, R-27-E, NMPM, Eddy County, New
Mexico, from the surface to the base of the San Andres formation, containing 357.27
acres, more or less.

OWNERSHIP

LC-960894: SE/4 NW/4 and E/2 SW/4 of Section 6, T-18-S, R-27-E, NMPM, Eddy County, New
Mexico, from the surface to the base of the San Andres formation, containing
120.80 acres, more or less.

Fee Title:

Surface:

This opinion does not cover surface ownership.

Oil and Gas:

United States of America 100%¹

¹ *Note:* The interest of the United States in the oil and gas is
subject to federal lease LC-866894, which provides for a sliding
scale royalty ranging from 12.5% to 32% on oil and 12.5% to 16-
2/3% on gas. For the purpose of tabulating ownership herein,
it has been presumed that the royalty rate will remain constant
at 12.5%. Devon should determine the royalty rate applicable to
each month's production and compute the overriding royalty
interests and working interests accordingly. In connection
herein, refer to Requirement No. 19 below.

Overriding Royalty Interests

Surface to 2,500 feet sub-surface:

James C. Hawley and Pearl
M. Hawley, Trustees of
the Jim & Pearl Hawley
Family Living Trust 1/2 x .006250031250²

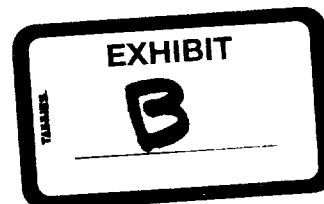
Frank E. Hawley, as his separate
property, for life, remainder
to Frances F. Hawley,
as her separate property 1/2 x .006250031250²

Robert L. Huguley, Jr.
as his separate property 2/9 x .006250013889³

Gary L. Huguley
as his separate property 2/9 x .006250013889³

Sharon Ann Huguley Childs.
as her separate property 2/9 x .006250013889³

Ruth Okla Hill,
as her separate property 1/3 x .006250020833⁴



Paul Slayton	0062500 ¹
Sandra Leigh Terry, as her separate property	1/3 x 1/2 x .03125 0052083 ²
Susan Lynn Terry, as her separate property	1/3 x 1/2 x .03125 0052083 ²
Barbara Frankenfield, as her separate property	1/3 x 1/2 x .03125 0052084 ²
Clyde Guy & Sons, Inc.	1/4 x .03125 0078125 ²
Herbert F. Lowrey and Alice S. Lowrey, Trustees of The Lowrey Revocable Trust dated December 18, 1992	1/4 x .03125 0078125 ²
Karen Gentry Schurig, as her separate property	1/5 x 1/2 x .0375 0037500 ²
Floyd Gentry, as his separate property	1/5 x 1/2 x .0375 0037500 ²
Janice Gentry Middlebrooks, as her separate property	1/5 x 1/2 x .0375 0037500 ²
Evelyn Jackson Edwards as her separate property	2/5 x 1/2 x .0375 0075000 ²
Charles Kyle Clark, as his separate property	1/2 x 1/2 x .0375 0093750 ²
Mary Fulton Estate Partnership, whose partners are Rose Mary Starratt and Louis F. Fulton	1/2 x 1/2 x .0375 0093750 ²
Dorothy B. Lind, as her separate property	1/2 x .0375 0187500 ²
Sunwest Bank of Albuquerque, N.A., as Successor Trustee of the T. J. Sivley and Mary Ray Sivley Trust created under D/T dated 1/27/82, as amended	1/2 x .0375 0187500 ²
Petco Limited, a Texas limited partnership	66.66667% x 2% x 8/8 0133333 ⁴
Total	1383333

¹ *Note:* These overriding royalty interests burden the interests of all operating rights owners, proportionately.

² *Note:* By Deed and Assignment dated January 9, 1996, recorded in Book 241, page 595, ECR, Frank E. Humby, as his separate property, assigned this interest to Frances E. Hawley, reserving for life the executory right and all income generated from the interest.

⁴ *Note:* This overriding royalty interest burdens the operating right interest of Devon Energy Corporation (Nevada) only.

APPENDIX I

Attached to and Made a Part of Drilling Title Opinion
dated January 12, 1997, rendered by Weeradia, Patterson,
Strain & Miller, L.L.P. for Devon Energy Corporation (Nevada)

FRED FEDERAL

LC-069274: Lots 3 (40.41 acres), 4 (39.83 acres), 5 (39.44 acres) and 6 (39.34 acres) of Section 6, T-18-S, R-27-E, NMPM, from the surface to the base of the San Andres formation, containing 158.87 acres, more or less.

OWNERSHIP

Fee Title:

Surface:

Surface ownership is not covered herein; however, from a cursory review of the plat book records at the BLM, it would appear that title to the surface is vested in the United States.

Oil and Gas:

United States of America 100%¹

¹ *Note: The interest of the United States in oil and gas is subject to federal lease LC-069274, which provides for a 12.5% royalty. Based upon application filed by the prior operator pursuant to the provisions of the Stripper Well Royalty Rate Program (CFR § 3103.4), the royalty rate has been reduced and is presently payable at the rate of 2.9%.*

Overriding Royalty Interests:

Sandra Leigh Terry, a/k/a Sandra Leigh Worley, as her separate property	0177083 ²
Susan Lynn Terry, as her separate property	0177083 ²
Barbara Frankensfeld, as her separate property	0177084 ²
Clyde Guy & Sons, Inc.	0265625 ²
Kate G. Lowrey, possibly deceased	0165625 ²
Herbert F. Lowrey and Alice S. Lowrey, Trustees of The Lowrey Revocable Trust	0109000 ²
Paul Slayton	0062500 ²
Ruth O. Hill, Trustee, UDT, dated September 20, 1983	0026833 ²
Robert L. Huguley, as his separate property	0013889 ²
Robert L. Huguley, Sr.	0013889 ²

EXHIBIT

C

Sharon Ann Huguley Childs	-----	.0013889 ²
James C. Hawley and Pearl		
M. Hawley, Trustees under		
the Jim & Pearl Hawley		
Family Living Trust	-----	.0031250 ²
Frank E. Hawley, as his separate		
property, for life, remainder		
to Francis F. Hawley,		
as her separate property	-----	.0031250 ^{2,3}
Petco Limited, a Texas		
limited partnership	----- 79.425% x 2% x 8/8 -----	.0158850 ⁴
Total:		.1408850

² *Note:* These overriding royalty interests burden the interests of all operating rights owners, proportionately.

³ *Note:* By Deed and Assignment dated January 9, 1996, recorded in Book 241, page 505, ECR, Frank E. Hawley, as his separate property, assigned the above interest to Frances F. Hawley reserving for life the executory rights and all income generated from the said interest.

⁴ *Note:* This overriding royalty interest burdens the operating rights interest of Devon Energy Corporation (Nevada) only.

Petco's override was originally reserved by its predecessor in interest, P.C., Ltd., in Partial Assignment and Bill of Sale dated effective January 1, 1997, recorded in Book 270, page 434, Eddy County Records, in favor of States, Inc. In the Partial Assignment, it is stipulated that the override shall only apply to wells producing 6 barrels of oil per day or more in any calendar month (each well standing on its own for calculation purposes). The override is equal "to the difference between any existing burdens and 20%; but, in no event, less than 2% of 8/8 ORRI." As to leases with sliding scale royalties, if total burdens on any well should exceed 18%, Petco shall be entitled to at least a 2% override on that particular well until such time as the total burdens may be reduced to 18% or less. Any override reserved is to be proportionately reduced by the percentage of operating rights interest conveyed by P.C., Ltd. to States in the Partial Assignment.

The Partial Assignment additionally provides that as "to any new wells drilled on the property after January 1, 1997, Assignor [Petco] will receive an ORRI on all oil and gas produced and sold. The ORRI shall be calculated on the same basis" as described above. Should production from existing wells and newly drilled wells be commingled at the surface in common storage facilities, all royalties and overrides shall be calculated using the most current well test information available.

Oil and Gas Leasehold Estate:

Record Title (per BLM records):

Exxon Corporation	-----	100%
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