

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

NMOCD-OGA-04-63

IN THE MATTER OF DEVON ENERGY PRODUCTION COMPANY LP

Respondent.

**AGREED ORDER DIRECTING COMPLIANCE
AND ASSESSING CIVIL PENALTY**

Pursuant to the New Mexico Oil and Gas Act, NMSA 1978, Sections 70-2-1 through 70-2-38, as amended ("Act"), and the regulations promulgated under the Act, the Director of the Oil Conservation Division of the Energy Minerals and Natural Resources Department of the State of New Mexico ("OCD") issues this Order to **DEVON ENERGY PRODUCTION COMPANY LP ("Devon")** directing compliance with the Act and OCD Rules, and assessing a penalty for violations of the Act and OCD rules.

FINDINGS

1. The OCD is the state division charged with administration and enforcement of the Act and OCD Rules.
2. Devon is a limited partnership doing business in New Mexico, registered with Secretary of State as a foreign limited partnership under number LPF2000021601. Devon is an active entity with a principal and mailing address at 1500 Mid-America Tower 10 N. Broadway, Oklahoma City, OK 73102. Its registered agent for service of process in New Mexico is Corporation Service Company, 125 Lincoln Ave - Suite 223, Santa Fe NM 87501. Devon has been assigned OGRID # 6137.
3. Devon is the operator of record for the NEBU #413R well, API #30-039-24946, located at Unit Letter A, Section 20, Township 30 North, Range 07 West in Rio Arriba county, New Mexico ("well").
4. On December 17, 2004, New Mexico Oil Conservation Division (OCD) Deputy Oil and Gas Inspector Denny Foust stopped at the Devon NEBU #413R because it appeared to have an open drilling pit. The well site inspection found a lined workover pit with a skim of black oil. The unlined/vent flare portion of the pit contained standing water.
5. An OCD investigation and review of relevant documents established the following facts:

- a) Deputy Inspector Denny Foust approved a C-103 on August 4, 2004, that authorized a lined workover pit for recavitation at NEBU #413R well site. Recavitation operations were completed on August 31, 2004.
 - b) OCD Rule 19.15.2.50.C.(2)(b)(1) [Rule 50.C.(2)(b)(i)] states in pertinent part, “. . . Pits used to vent or flare gas during drilling or workover operations that are designed to allow liquids to drain to a separate pit do not require a liner”.
 - c) Devon violated Rule 50.C.(2)(b)(i) by using an unlined pit to vent or flare gas during drilling operations that was not designed to allow liquids to drain into a separate pit.
 - d) OCD Rule 19.15.2.710.A (Rule 710.A.) states in pertinent part, “No person, including any transporter, may dispose of produced water on the surface of the ground, or in any pit, pond, lake, depression, draw, streambed, or arroyo, or in any watercourse, or in any other place or in any manner which will constitute a hazard to any fresh water supplies.”
 - e) Devon violated Rule 710.A by allowing recavitation fluids that include produced water to stand in the unlined vent/flare portion of the workover pit.
 - f) OCD Rule 19.15.2.50.C.(2)(e) [Rule 50.C.(2)(e)] states in pertinent part, “No measurable or visible layer of oil may be allowed to accumulate or remain anywhere on the surface of any pit.”
 - g) Devon violated Rule 50.C.(2)(e) by allowing oil to accumulate or remain on the surface of the lined portion of the workover pit.
6. NMSA 1978 Section 70-2-31(A) provides in relevant part, “Any person who knowingly and willfully violates any provision of the Oil and Gas Act or any provision of any rule or order issued pursuant to that act shall be subject to a civil penalty of not more than one thousand dollars (\$1,000) for each violation.” NMSA 1978, section 70-2-33(A) defines “person” in relevant part as “any individual, estate, trust, receiver, cooperative association, club, corporation, company, firm, partnership, joint venture, syndicate or other entity...”
 7. As a result of its investigation, the OCD issued Notice of Violation (3-05-01) to Devon.
 8. During the compliance conference held on Notice of Violation (3-05-01) Devon presented some evidence that another party or parties had dumped the oil on the surface of the lined portion of the workover pit.
 9. After being notified of the violations on December 20, 2004, Devon:

- a) immediately had its field personnel empty the vent/flare section of the drilling pit;
- b) changed the design for its drilling locations to comply with Rule 50;
- c) had its employees and dirt contractors meet with District III personnel; and
- d) volunteered to install a surveillance camera at this location, hoping to gather evidence of the dumping and equipment theft to aid enforcement agencies.

CONCLUSIONS

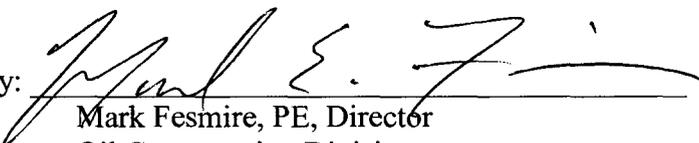
1. The OCD has jurisdiction over the parties and subject matter in this proceeding.
2. Devon is a person as defined by NMSA 1978, Section 70-2-33(A) subject to civil penalties under NMSA 1978, Section 70-2-31(A) for knowing and willful violations of the Oil and Gas Act or OCD Rules.
3. Devon is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for using an unlined pit to vent or flare gas during drilling operations that was not designed to allow liquids to drain into a separate pit, in violation of OCD Rule 50.C(2)(b)(i).
4. Devon is subject to civil penalties under NMSA 1978, Section 70-2-31(A) for allowing drilling fluids containing produced water to stand in the unlined portion of the drilling pit in violation of Rule 710.A.
5. No penalties will be assessed at this time related to the alleged violation of OCD Rule 50.C.(2)(e).

ORDER AND CIVIL PENALTY

1. Taking into account both aggravating and mitigating factors, the OCD hereby assesses a civil penalty totaling two thousand dollars (\$2,000) against Devon.
2. The civil penalty shall be paid within sixty days of receipt of this order. Payment shall be made by certified or cashier's check made payable to the "New Mexico Oil Conservation Division," and mailed or hand-delivered to the New Mexico Oil Conservation Division, Attention: Director, 1220 South Saint Francis Drive, Santa Fe, New Mexico, 87505.
3. Devon is directed to close the pit under an OCD approved plan for this location.
4. By signing this order, Devon expressly:

- a. acknowledges the correctness of the Findings and Conclusions set forth in this order;
- b. agrees to comply with ordering paragraphs 2 and 3;
- c. waives any right, pursuant to the Oil and Gas Act or otherwise, to a hearing either prior or subsequent to the entry of this Order or to an appeal from this Order;
- d. agrees that if it fails to comply with this Order, the Order may be enforced by suit or otherwise to the same extent and with the same effect as a final Order of the Division entered after notice and hearing in accordance with all terms and provisions of the Oil and Gas Act;
- e. agrees that if it fails to pay penalties assessed pursuant to this order, upon application by the OCD the district court may enter judgment against Devon in the amount of the penalties assessed and, in the discretion of the court, may impose additional penalties for Devon's violation of the penalty provisions of this order.

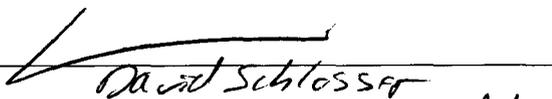
Done at Santa Fe, New Mexico, this 31st day of March, 2005.

By: 
Mark Fesmire, PE, Director
Oil Conservation Division

ACCEPTANCE

Devon Energy Production Company, LP. hereby accepts the foregoing order, and agrees to all of the terms and provisions set forth in the order.

Devon Energy Production Company, LP

By: 
Title: Operations Engineering Advisor
Date 3/8/05