

District I
1625 N. French Dr., 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

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

Form C-129
Revised June 10, 2003

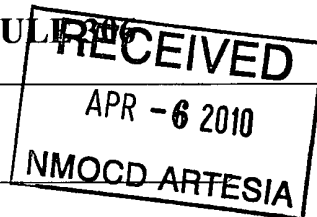
Submit 3 Copies to appropriate
District Office

NFO Permit No. 2-1022

(For Division Use Only)

APPLICATION FOR EXCEPTION TO NO-FLARE RULE 306

(See Rule 306 and Rule 1129)



A. Applicant Devon Energy Production Co, LP

whose address is 20 North Broadway, OKC OK 73102

hereby requests an exception to Rule 306 for 365 days or until

 , Yr , for the following described tank battery (or LACT):

Rustler Hills 5 Federal 2:

Name of Lease API # 30-015-36084 Name of Pool Happy Valley; Morrow Gas

Location of Battery: Unit Letter C Section 5 Township 23S Range 26E

Number of wells producing into battery 2 - (Algerita 32 State 1 & Rustler Hills 5 Federal 2)

B. Based upon oil production of 18 barrels per day, the estimated * volume
of gas to be flared is 85 MCF; Value \$ 382.50 per day.

C. Name and location of nearest gas gathering facility:

DCP

D. Distance 4 miles away Estimated cost of connection

E. This exception is requested for the following reasons: No sour gas gathering system, cost prohibitive to sweeten

Per attached letter from NMED, location is categorized as NOI - 4082; NPR/NOI's done from emission source or tank

battery (NOI includes Algerita 32 State 1 & Rustler Hills 5 Federal 2). See attached BLM approval to surface commingle

gas and flare per NTL-4A. Surface commingle application under concurrent review of Santa Fe NMOCD office.

Algerita 32 State 1 Application for Exception to No-Flare Rule 306 previously approved 11/06/2009 for 365 days.

OPERATOR

I hereby certify that the rules and regulations of the Oil Conservation
Division have been complied with and that the information given above
is true and complete to the best of my knowledge and belief.

Signature 

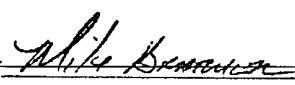
Printed Name
& Title Stephanie A. Ysasaga / Sr. Staff Eng Tech

E-mail Address Stephanie.Ysasaga@dmn.com

Date 04/05/2010 Telephone No. 405-552-7802

OIL CONSERVATION DIVISION

Approved Until April 7, 2011

By Signed By 

Title Env. Spec. NMOCD DIST. II

Date APR 07 2010

SEE ATTACHMENT

* Gas-Oil ratio test may be required to verify estimated gas volume.

**NOTICE TO OIL AND GAS FACILITIES AND OPERATORS
FLARING GAS IN NEW MEXICO**

(March 17, 2010)

The Oil Conservation Division is encouraging all oil and gas facilities with flare stacks and well operators who are flaring gas to ramp up their **Fire Awareness Programs** this year. Precipitation should end up above normal for most areas with the most likely exception to this across parts of the southern ¼ of New Mexico. Northern regions will likely have the greatest chances to see above normal precipitation.

Late winter winds and mild temperatures are creating fire danger across many areas of New Mexico, according to New Mexico State Forestry (SFD). Since January 1, 2010, 28 fires have burned 8,700 acres of state and private land (SFD- 3/10/2010).

Open flames and gas flares should be monitored very carefully and corrective actions, i.e., mowing grass down to one to two inches around flare stacks at least a radial distance of two times (three times when a facility is unmanned) the height of the flare stack, should be taken to reduce fuels around ignition sources. Heightened awareness, preventive measures, and rapid response should be undertaken during posted red flag days. To monitor for red flag days, please go to: <http://gacc.nifc.gov/swcc/> (go to "Predictive Services" on the Southwest Coordination Center Website).

Thank you.

Bratcher, Mike, EMNRD

From: Ysasaga, Stephanie [Stephanie.Ysasaga@dvn.com]
Sent: Wednesday, April 07, 2010 10:36 AM
To: Bratcher, Mike, EMNRD
Cc: duncan_whitlock@blm.gov
Subject: Rustler Hills 5 Federal 2: Form C-129 - Application for Exception to No-Flare Rule 306

Mike,

Thank you for calling in regards to the above. Per your request to clarify, the flare stack for the Rustler Hills 5 Federal 1 is located at the Algerita 32 State 1 tank battery located on State Lease-8291 in the SWSE of Sec 32-T22S-R26E. Sorry it would not fit into the comments section. The Rustler Hills is located in Sec 5-T23S-R26E.

Per the conditions of approval, when the NMOCD scans the Form C-129 - Application for Exception to No-Flare Rule 306, I will provide a copy to Duncan at the BLM for their files. Richard Ezeanyim in Santa Fe is reviewing the "gas commingle" application as we speak and will approve the off-lease measurement and storage/sales of the oil under one administrative order. I will also provide the NMOCD approvals to Duncan, so he knows that Devon is in compliance with the NMOCD (Artesia & Santa Fe), NMED and BLM conditions of approval. ☺

If you need anything else, please let me know. ☺

Stephanie A. Ysasaga

Sr. Staff Engineering Technician
(405)-552-7802 Phone (405)-721-7689 Cell
(405)-552-8113 Fax
Corporate Tower 03.056
Stephanie.Ysasaga@dvn.com

Confidentiality Warning: This message and any attachments are intended only for the use of the intended recipient(s), are confidential, and may be privileged. If you are not the intended recipient, you are hereby notified that any review, retransmission, conversion to hard copy, copying, circulation or other use of all or any portion of this message and any attachments is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, and delete this message and any attachments from your system.

P. MCARDLEAD FIELD OFFICE

Form 3160-5
(February 2005)UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENTFORM APPROVED
OMB No. 1004-0137
Expires: March 31, 2007**SUNDRY NOTICES AND REPORTS ON WELLS**
Do not use this form for proposals to drill or to re-enter an
abandoned well. Use Form 3160-3 (APD) for such proposals.

5. Lease Serial No.

NM-97120 ✓

6. If Indian, Allottee or Tribe Name

SUBMIT IN TRIPLICATE - Other Instructions on page 2.

1. Type of Well

☒ Oil Well☐ Gas Well☐ Other2. Name of Operator ✓
Devon Energy Production Co., LP3a. Address
20 North Broadway
OKC, OK 73102

3b. Phone No. (include area code)

(405)-552-7802

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)
Sec 5-T23S-R26E
760' FNL & 2310' FWL

7. If Unit of CA/Agreement, Name and/or No.

8. Well Name and No.

Rustler Hills 5 Federal 2 ✓

9. API Well No.

30-015-36084 ✓

10. Field and Pool or Exploratory Area

Happy Valley; Delaware (29665)

11. Country or Parish, State ✓

Eddy County, NM

12. CHECK THE APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT OR OTHER DATA

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input checked="" type="checkbox"/> Other Surface Commingle
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	Gas Hydrocarbons
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	& Flare per NTL-4A

13. Describe Proposed or Completed Operation: Clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recompleat horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports must be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompleat in a new interval, a Form 3160-4 must be filed once testing has been completed. Final Abandonment Notices must be filed only after all requirements, including reclamation, have been completed and the operator has determined that the site is ready for final inspection.)

Devon Energy Production Co., LLP respectfully requests approval to surface commingle the gas hydrocarbons and flare gas hydrocarbons per NTL-4A on the following wells:

* Rustler Hills 5 Federal 2: API # 30-015-36084 Sec 5-T23S-R26E Lease NM-97120 Happy Valley; Delaware (29665)

* Algerita 32 State 1: API # 30-015-35339 Sec 32-T22S-R26E Lease LG-8291 Happy Valley; Delaware (29665)

Surface commingle will be at the Algerita 32 State 1 tank battery located on State Lease-8291 in the SWSE of Sec 32-T22S-R26E, Eddy County, New Mexico. Approval for off-lease storage and sales of oil hydrocarbons previously approved by the BLM 01/04/2010. Application for Exception to No-Flare Rule 306 has been approved by the NMOCD for 11/06/2009 for 360 days (see documentation). Interest owners have been notified via certified mail (see attached).

Per NTL-4A supporting engineering evaluation, economic data demonstrating justification to flare and reporting and measurement responsibilities documented for your review.

Interest owners have been notified via certified mail (see attached).

**SUBJECT TO LIKE
APPROVAL BY STATE****SEE ATTACHED FOR
CONDITIONS OF APPROVAL**

14. I hereby certify that the foregoing is true and correct.

Name (Printed/Type)
Stephanie A. Ysavage

Title Sr. Staff Engineering Technician

Signature

Date 03/05/2010

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

Title

LPE7

Date

3/31/2010

Office

CFO

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

(Instructions on page 2)

NTL-4A SUPPORTING DOCUMENTATION FOR AUTHORIZED FLARING OF GAS HYDROCARBONS FOR RUSTLER HILLS 5 FEDERAL 2

Per definition of NTL-4A "Notice to Lessee's and Operations of Onshore Federal & Indian Oil and Gas Leases – Royalty for or Compensation for Oil and Gas Lost", Section II would define the Rustler Hills 5 Federal 2 as "Unavoidably Lost". Per Section IV "Other Venting and Flaring" Part B "Oil Well Gas" the Supervisor may approve an application for venting and flaring of oil well gas if justified either by the submittal of (1.) an evaluation report supported by engineering, geologic, and economic data which demonstrates to the satisfaction of the Supervisor that the expenditures necessary to market or beneficially use such gas are not economically justified and that conservation of the gas, if required, would lead to premature abandonment of recoverable oil reserves and ultimately to a greater loss of equivalent energy than would be recovered if the venting or flaring were permitted to continue or (2.) an action plan that will eliminate venting or flaring of the gas within 1 year from the date of application.

Devon therefore respectfully submits supporting engineering evaluation, economic data demonstrating justification to flare and reporting & measurement responsibilities documentation for your review under the parameters of NTL-4A.

Under current market conditions, the sour gas production from the Rustler Hills 5 Federal 2 can not be economically connected to a gas market. The closest sour gas connect point is about 5 miles away and the cost to install a line that distance would be over \$900,000. The expected volume of gas is only 50 mcf/d and at a gas price of \$4.50, would not payout this size of investment. A sweet gas gathering system is located near the well but the chemical cost alone would be over \$7.50/mcf to remove the 8,000 ppm of hydrogen sulfide. The cost would go even higher considering the cost of the vessels and piping, installation, and operating costs.

The oil production from the well is expected to average 15 bopd based on tests after the well was completed. This \$1200/day of revenue is currently shut-in pending the approval of the surface commingle permit for the gas. Approval was granted for off-lease storage of the oil at the Algerita 32 State 1 battery and the plan is to combine the gas flow from the two wells and flare them together. A gas meter currently measures the volume of gas sent to the flare.

Devon has already obtained a flaring permit from the State of New Mexico Oil Conservation Division for the gas volume from both wells and provided supporting documentation to show that Devon has met the NPR requirement of the New Mexico Environment Department Air Quality Bureau; and combined gas hydrocarbons will not exceed ten (10) tons per year.

For the future, Devon is evaluating the installation of a small generator capable of burning the sour gas and generating electricity. The excess electricity can be returned to the power grid and sold to the power company. The other possibility is that a third party will install a low pressure gathering system in this area and purchase the gas from the well.

Per Section V "Reporting & Measurement Responsibilities" Devon will report gas mcf/d's on the OGA⁰ monthly reports. Copy of this application has been submitted to the Minerals Management Services. Upon approval of this application and conditions of approval, Devon will remit the royalty and/or compensation due to the Minerals Management Services as outlined in the conditions of approval.

cc: Minerals Management Services
Royalty Management Program
P.O. Box 5810
Denver, CO 80217-5810

Rustler Hills 5 Federal 2 and Algerita 32 State #1

Devon Energy Production Co., LP

March 31, 2010

Condition of Approval
Commingle on and off lease

1. This approval is subject to like approval by the New Mexico Oil Conservation Division.
2. This agency shall be notified of any spill or discharge as required by NTL-3A.
3. This agency reserves the right to modify or rescind approval whenever it determines continued use of the approved method may adversely affect the surface or subsurface environments.
4. This approval does not constitute right-of-way approval for any off-lease activities. Within 30 days, an application for right-of-way approval must be submitted to the Realty Section if not already done.
5. Approval for combining production from various sources is a privilege which is granted to lessees for the purpose of aiding conservation and extending the economic life of leases. Applicants should be cognizant that failure to operate in accordance with the provisions outlined in the Authorized Officer's conditions of approval and/or subsequent stipulations or modifications will subject such approval to revocation.
6. All above ground structures on the lease shall be painted Shale Green (5Y 4/2), or as per approved APD stipulations. This is to be done within 90 days, if you have not already done so.
7. An Electronic Flow gas meter for the Rustler Hills 5 Federal #2 will be required to be installed downstream of the Rustler Hills 5 Fed. #2 separator and prior to commingling of gas with the Algerita 32 State #1 production. Gas measurement must be measured as per Onshore Order #5 and NTL 2008-01 prior to flaring. Royalties will be required to be paid on all volumes of gas which are flared. Flared gas will be reported on OGOR to MMS as per federal regulations.
8. All gas and oil subject to royalty shall be measured as per federal regulations and shall be reported to MMS as required. All gas which is vented, flared or used on lease shall be reported as per NTL-4A to MMS. All gas which is vented or flared shall be subject to royalty.
9. An annual report will be submitted to BLM on a Sundry Notice (form 3160-5) stating that the operator has done a review to check for any new pipelines which may have been installed within 1 mile of these wells. This report will also have supporting engineering evaluation, economic data demonstrating justification to flare and cost justification to keep flaring.
10. Application for exception to no flare rule 306, NFO Permit No. 2-1018 is for the Algerita 32 State #1. Approval for the Rustler Hills 5 Federal #2 will be required prior to flaring.



BILL RICHARDSON
Governor

DIANE DENISH
Lieutenant Governor

New Mexico
ENVIRONMENT DEPARTMENT

Air Quality Bureau
1301 Siler Road, Building B
Santa Fe, NM 87507-3113
Phone (505) 476-4300
Fax (505) 476-4375
www.nmenv.state.nm.us



RON CURRY
Secretary

JON GOLDSTEIN
Deputy Secretary

September 24, 2009

CERTIFIED MAIL NO. 7008 0500 0001 1244 4644
RETURN RECEIPT REQUESTED

Ronald Truelove
Environmental Manager
Devon Energy Production Company LP
20 N Broadway
Suite 1500
Oklahoma City, OK 731028260

Notice of Intent No. 4082
IDEA ID No. 28750 - PRN20090001
Deyon Energy - Algerita 32 NO. 1
AIRS No. 350158145

Dear Mr. Truelove:

This letter acknowledges the receipt of your Notice of Intent (NOI) application dated August 25, 2009 to construct and operate the Devon Energy - Algerita 32 NO.1 in Township 22S, Range 26E, Section 23 in Eddy County, New Mexico. The Department received the application on August 28, 2009.

This facility shall consist of

TEMPO SI No. Unit No.	Unit Type	Manufacturer	Model No.	Serial No.	Operating Capacity Max/Site	Subject Item Status	Subject Item Description
Unit 2 EQPT1	Tank - Above Ground	not applicable	not applicable		500 bbl / 500 bbl	Active	500 bbl Crude Oil Tank
Unit 3 EQPT2	Tank - Above Ground	not applicable	not applicable		500 bbl / 500 bbl	Active	500 bbl Crude Oil Tank
Unit 4 EQPT4	Heater				.5 MM BTU/h / .5 MM BTU/h	Active	.5 MM BTU/h / .5 MM BTU/h
Unit 5 EQPT5	Loading/Unlo ading Rack				/	Active	/
Unit 6 RPNT1	Fugitives				/	Active	/

Devon Energy Production Company LP
Devon Energy - Algerita 32 NO1, NOI No. 4082

September 24, 2009
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Unit 7 EQPT6	Process Flare	not applicable	not applicable		4.35 MM BTU/h / 4.35 MM BTU/h	Active	4.35 MM BTU/h / 4.35 MM BTU/h
Unit 8 EQPT7	Tank - Above Ground	not applicable	not applicable		500 bbl / 500 bbl	Active	500 bbl Produced Water Tank
Unit 9 EQPT3	Tank - Above Ground	not applicable	not applicable		500 bbl / 500 bbl	Active	500 bbl Crude Oil Tank

Based on the information provided in the submitted application, the Department has determined that the potential uncontrolled emission rate of any regulated air pollutant from this facility for which there is a National or New Mexico Ambient Air Quality Standard is less than ten (10) pounds per hour and twenty-five (25) tons per year. Therefore, in accordance with Title 20, Chapter 2, Part 72 of the New Mexico Administrative Code, (20.2.72 NMAC), an air quality permit is not required and construction may commence. Because the potential emission rate is greater than ten (10) tons per year, this facility is subject to 20.2.73 NMAC. The submitted application will serve as the Notice of Intent in accordance with 20.2.73.200.A. NMAC.

In addition to 20.2.73 NMAC, this facility may be subject to additional state and federal regulations *such as* those found in Table 1. It is the Permittee's responsibility to determine applicability and to comply with all applicable regulations.

Table 1: Other Regulations

Citation	Title
20.2.38 NMAC	Hydrocarbon Storage Facilities
20.2.61 NMAC	Smoke and Visible Emissions
40 CFR 60 Subpart Ka	Standards of Performance for Storage Vessels for Petroleum Liquids for Which Construction, Reconstruction, or Modification Commenced After May 18, 1978, and Prior to July 23, 1984
40 CFR 60 Subpart Kb	Standards of Performance for Volatile Organic Liquid Storage Vessels (Including Petroleum Liquid Storage Vessels) For Which Construction, Reconstruction, or Modification Commenced After July 23, 1984
40 CFR 60, Subpart IIII	Standards of Performance for Stationary Compression Ignition Internal Combustion Engines
40 CFR 60, Subpart JJJJ	Standards of Performance for Stationary Spark Ignition Internal Combustion Engines
40 CFR 63 Subpart ZZZZ	National Emissions Standards for Hazardous Air Pollutants (NESHAP) for Stationary Reciprocating Internal Combustion Engines
40 CFR 63 Subpart HH	National Emission Standards for Hazardous Air Pollutants From Oil and Natural Gas Production Facilities

Before any asbestos demolition or renovation work, the Permittee shall determine whether 40 CFR 61, Subpart M, National Emission Standard for Asbestos applies.

Devon Energy Production Company LP
Devon Energy - Algerita 32 NOI, NOI No. 4082

September 24, 2009
Page No. 3 of 3

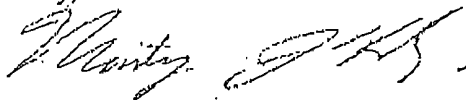
Any changes in the method of operation or addition of more units at the site may constitute a modification, which requires the Department's prior approval for construction and/or operation.

In the event of any change in ownership or operator of this facility, the new owner or operator shall notify the Department in writing within thirty (30) days of that change.

Any new owner or operator shall notify the Department, within thirty (30) days of assuming ownership, of the new owner's or operator's name and address.

If you have any questions, please call me in Santa Fe at 505-476-5565.

Sincerely,



Martyne Kieling
New Source Review Unit/Title V
Air Quality Bureau

Enclosure: Industry/Consultant Feedback Questionnaire with envelope
Zero Balance Invoice

cc via e-mail: Ronald D. Truelove, Devon Energy Production Co. L.P.
Rita Zebian, BENHAM Companies, LLC