

DATE IN 9-14-04	SUSPENSE	ENGINEER STOGNER	LOGGED IN 9-15-04	TYPE NSL	APPROVAL NO. DSEM0425936529
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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 _____

2004 SEP 14 PM 2 18

- [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

KELLAMIN & KELLAMIN
Attorneys At Law
P.O. Box 2265
Santa Fe, NM 87504-2265

Date

9/14/04

KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
Recognized Specialist in the Area of
Natural Resources-oil and gas law-
New Mexico Board of Legal Specialization

P.O. Box 2265
Santa Fe, New Mexico 87504
117 North Guadalupe
Santa Fe, New Mexico 87501

Telephone 505-982-4285
Facsimile 505-982-2047
kellahin@earthlink.net

September 14, 2004

Mr. Michael E. Stogner
Administrative Judge
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

HAND DELIVERED

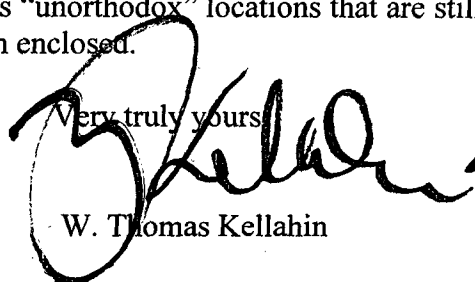
Re: Administrative Application of Devon Energy
Production Company, L.P. to amend Administrative
Order NSL-5089 (BHL) to change the approved
targeted bottomhole location for both the Atoka
and the Morrow formations for its
Red Bull "31" State Well No. 1
S/2 dedication, Section 31
T23S, R35E, Lea County, New Mexico

2004 SEP 14 PM 2 18

Dear Mr. Stogner:

By Administrative Order NSL-5089 (BHL) dated August 2, 2004, you approved Devon Energy Production Company, L.P.'s ("Devon") original application for unorthodox well locations for the referenced Red Bull "31" State Well No. 1. Both the originally approved surface and bottom hole locations, Atoka and Morrow formations, crowded the interior line between the SW/4 and the SE/4 of this spacing unit consisting of the S/2 of Section. This is a single State of New Mexico oil & gas lease and the location was based upon geology and geophysics.

Now, Devon desires to move the bottom hole targets for the Atoka and for the Morrow formations to less "unorthodox" locations that are still unorthodox. Accordingly, please find our application enclosed.

Very truly yours,

W. Thomas Kellahin

CC: Devon Energy Production Company, L.P.
Attn: Richard Winchester

**ENERGY, MINERALS AND NATURAL RESOURCES
DEPARTMENT
OIL CONSERVATION DIVISION**

**ADMINISTRATIVE APPLICATION OF
DEVON ENERGY PRODUCTION COMPANY, L.P.
TO AMEND ADMINISTRATIVE ORDER NSL-5089 (BHL)
TO CHANGE THE APPROVED TARGETED
BOTTOMHOLE LOCATIONS FOR THE
RED BULL "31" STATE WELL NO. 1
LEA COUNTY, NEW MEXICO**

ADMINISTRATIVE APPLICATION

Comes now Devon Energy Production Company, L.P. ("Devon") and by and through its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division ("Division") to amend Administrative Order NSL-5089 (BHL) that approved a directional wellbore and unorthodox gas well surface and subsurface (Atoka and Morrow formations) locations for its Red Bull "31" State Well No. 1, S/2 Section 31, T23S, R35E, Lea County, New Mexico, and

In support, Devon States:

(1) Administrative Order NSL-5089 (BHL) approved:

- a. a location of 1300 feet FSL and 2610 feet FWL (Unit N) from the surface down to the Atoka formation, then
- b. directionally to a bottom hole location in the Morrow formation at a measured depth of 14,497 feet (14,400 feet TVD) being 1300 feet FSL and 2320 feet FEL (Unit O)
- c. S/2 of Section 31, T23S, R35E, Lea County, New Mexico to be dedicated to a standard 320-acre gas spacing unit ("GPU") consisting of the S/2 of this section to be drilled to test the Morrow formation. **See Exhibit "B" from original application (copy attached).**

(2) Devon now seeks to amend these approved locations as follows:

- a. a location of 1300 feet FSL and 2610 feet FWL (Unit N) from the surface down to a kick-off point approximately at a measured depth of 11,987 feet (11,987 feet TVD), then
- b. directionally to the top of the Atoka formation at an estimated measured depth of 12,677 feet (12,662 feet TVD) approximately 1272 feet FSL and 2550 feet FEL (Unit O), then
- c. continuing directionally to the top of the Morrow "C" interval of the Morrow formation at an estimated measured depth of 14,470 feet (13,942 feet TVD) approximately 1000 feet FSL and 1370 feet FEL (Unit O). **See Exhibit "A-New" revised for this application**
- d. S/2 of Section 31, T23S, R35E, Lea County, New Mexico to be dedicated to a standard 320-acre gas spacing unit ("GPU") consisting of the S/2 of this section to be drilled to test the Morrow formation. **See Exhibit "B-NEW" form C-103 attached**

(3) Devon is the only proposed operator of the Red Bull "31" State Well No. 1 and owns 100% of the working interest in the S/2 of Section 31, T23S, R35E, Lea County, New Mexico

(4) Devon's proposed unorthodox well location encroaches on an internal boundary of the GPU.

(5) Effective August 31, 1999, the Division amended Rule 104 to require a well to be no closer than 660 feet to the side boundaries of the quarter section in which the well was located.

TECHNICAL EVIDENCE

(6) Originally, Devon believed and its 3-D Seismic data demonstrated that the proposed unorthodox gas well location may test an Atoka formation structural feature and a Morrow formation sand with the same wellbore at the proposed unorthodox location, that may not be accessible from a single wellbore at the closest standard location. **See Exhibit "C" to Devon's original application (seismic structure map attached.)**

(7) After obtaining Administrative Order NSL-5089 (DHL), Devon has re-examined its plan for this well and now believes that:

- a. the point of greatest potential thickness for the Atoka is farther to the west than indicated in the originally approved location, and
- b. the original Morrow location is too close to the western edged of the Morrow "C" sand channel and should be moved farther east. **See Devon Exhibit "C-NEW" attached**

(8) Devon has revised its proposed directional drilling plan to conform with its revised interpretation set forth in Paragraph (6) above. **See Devon Exhibit "B-NEW"**

AFFECTED PARTIES

(9) All of the South half of Section 31 is part of the same State of New Mexico Oil & Gas Lease, VA-2488. **See Exhibit "E-Original" attached to original application.** Devon is the only working interest owner in the S/2 of this section and there are no overriding royalty owners.

NMOCD Administrative Application
Devon Energy Production Company, L.P.

-Page 4-

NOTIFICATION

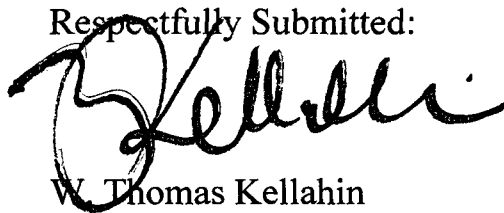
(10) Division Rule 1207 does not require notice under these circumstances.

REQUEST

(11) Approval of this application will afford the owners and the applicant the opportunity to produce their just and equitable share of the gas in the Atoka and Morrow formations, will promote the orderly development in this area, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

WHEREFORE, Applicant requests that this application be approve by the Division.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the printed name. The signature is stylized with a large initial 'W' and a cursive 'Kellahin'.

W. Thomas Kellahin

DEVON ENERGY

Created by adrynm
Date plotted : 25-Jun-2004
Plot Reference is plan1.
Coordinates are in feet reference structure.
True Vertical Depths are reference structure.

Structure : Red Bull 31 State

Slot : slot #1

Field :

Location : LEA COUNTY, NEW MEXICO

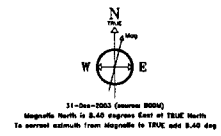
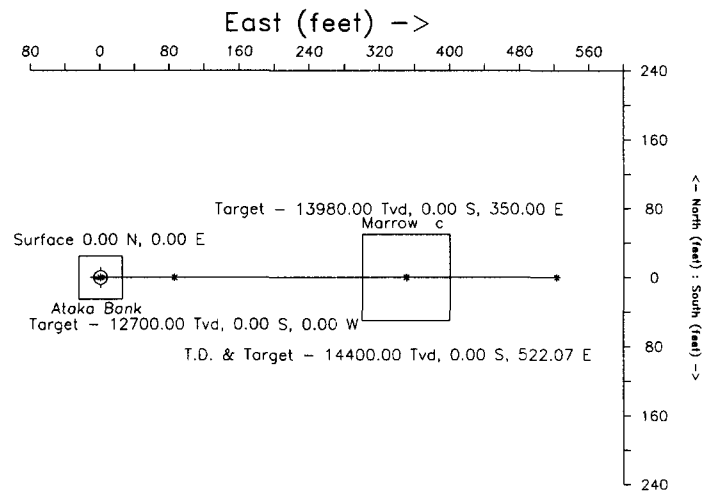
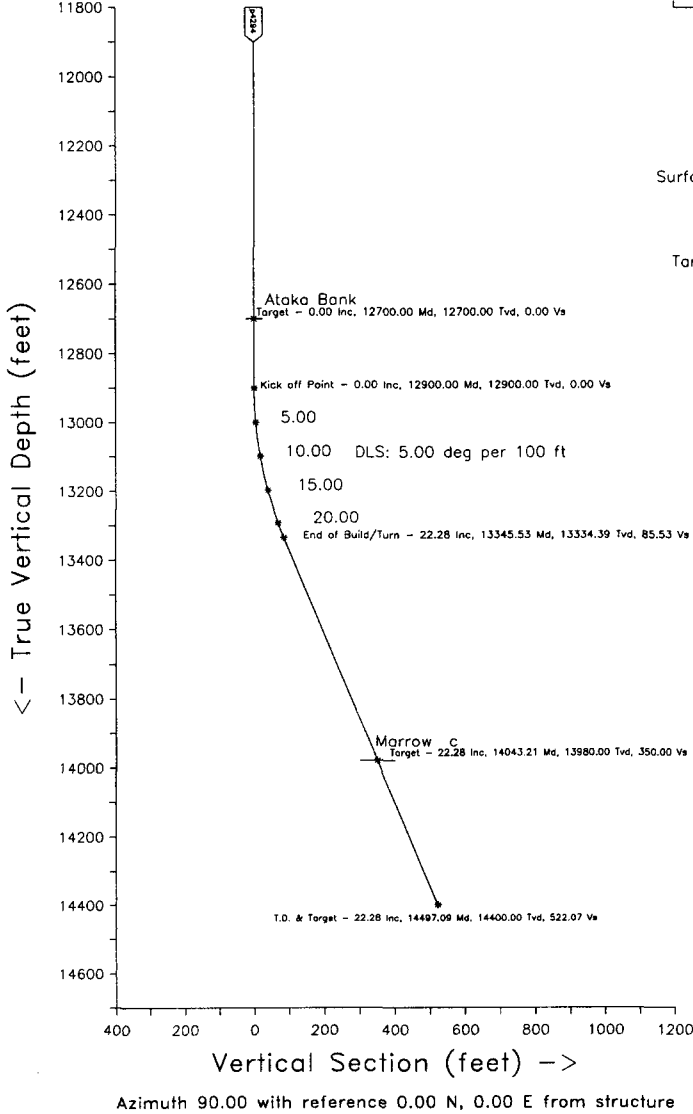
--- Baker Hughes INTEQ ---

WELL PROFILE DATA

Point	MD	Inc	Dir	TVD	North	East	V. Sect	Deg/100
KOP	0.00	0.00	270.00	0.00	0.00	0.00	0.00	0.00
Target Ataka Bank	12700.00	0.00	270.00	12700.00	0.00	0.00	0.00	0.00
KOP	12900.00	0.00	270.00	12900.00	0.00	0.00	0.00	0.00
End of Build/Turn	13345.53	22.28	90.00	13334.39	0.00	85.53	85.53	5.00
Target Marrow c	14043.21	22.28	90.00	13980.00	0.00	350.00	350.00	0.00
T.D. & Target	14497.09	22.28	90.00	14400.00	0.00	522.07	522.07	0.00



INTEQ



Approved By: _____

Title: _____

Date: _____



DEVON ENERGY

Created by adrianm
Date plotted : 24-Aug-2004
Plot Reference is Plan8.
Coordinates are in feet reference structure.
True Vertical Depths are reference structure.
--- Baker Hughes INTEQ ---

Structure : Red Bull 31 State

Slot : slot #1

Field :

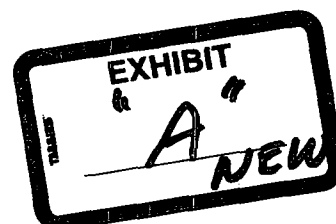
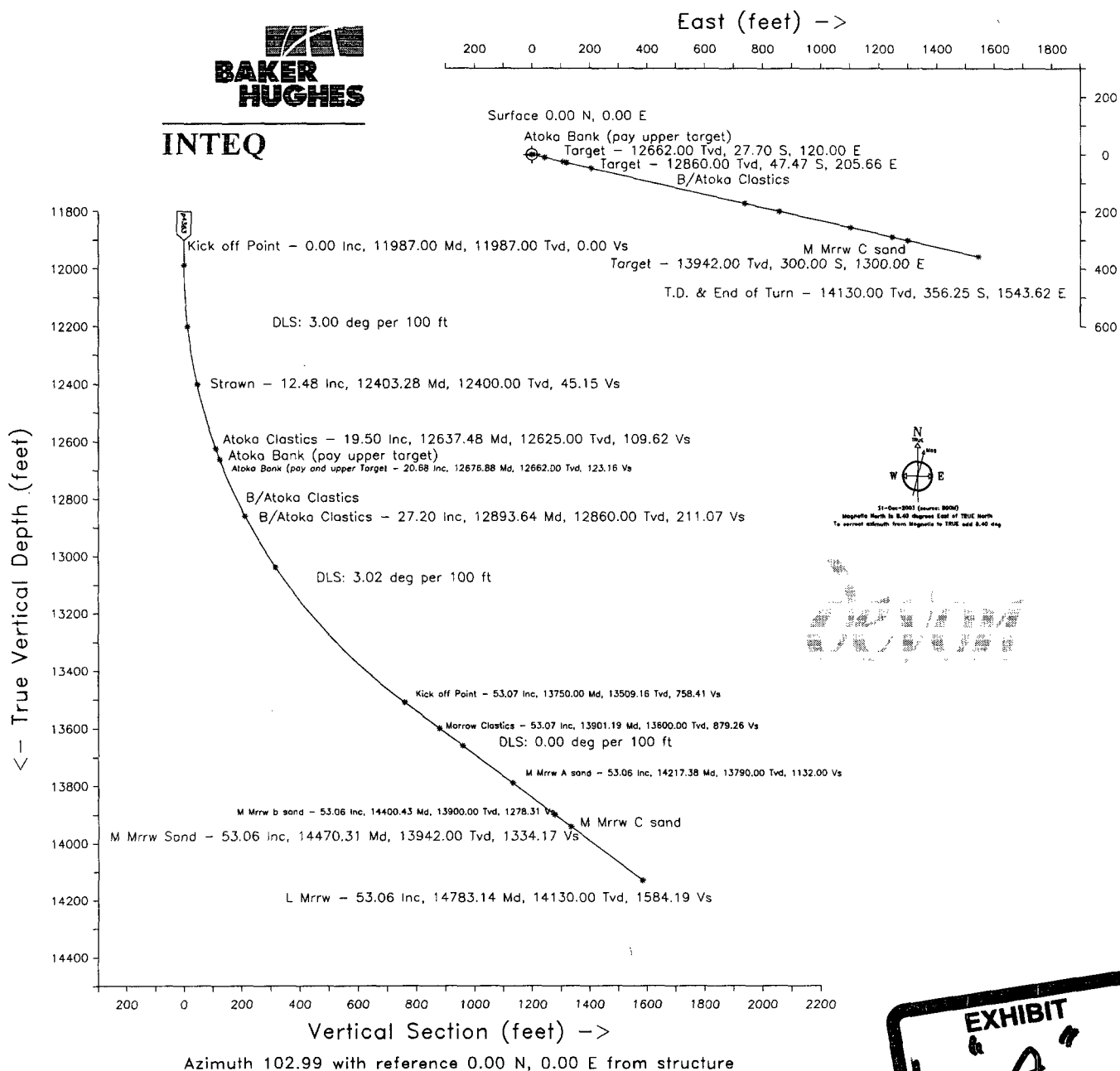
Location : LEA COUNTY, NEW MEXICO

WELL PROFILE DATA

Point	MD	Inc	Dir	TVD	North	East	V. Sect	Deg/100
Tie on	0.00	0.00	102.99	0.00	0.00	0.00	0.00	0.00
KOP	11987.00	0.00	102.99	11987.00	0.00	0.00	0.00	0.00
Target Atoka Bank (pay)	2676.88	20.68	103.00	12662.00	-27.70	120.00	123.16	3.00
Target B/Atoka Clastic	12893.64	27.20	102.99	12860.00	-47.47	205.66	211.07	3.01
KOP	13750.00	53.07	102.99	13509.16	-170.52	738.99	758.41	3.02
Target M Mrrw C sand	14470.31	53.06	103.00	13942.00	-300.00	1300.00	1334.17	0.00
T.D. & End of Turn	14783.14	53.06	103.00	14130.00	-356.25	1543.62	1584.19	0.00



INTEQ



DEVON ENERGY
Red Bull "31" State

slot #1

LEA COUNTY, NEW MEXICO

P R O P O S A L S U M M A R Y

Your ref : Plan8
Our ref : prop4363
License :
Date printed : 24-Aug-2004
Last revised : 24-Aug-2004

Slot location is n32 15 26.500,w103 24 24.400
Slot Grid coordinates are N 458582.196, E 786427.536
Slot local coordinates are 0.00 N 0.00 E
Projection type: mercator - New Mexico East (3001), Spheroid: Clarke - 1866
Reference North is True North

Measured Depth	Inclin. Degrees	Azimuth Degrees	True Vert Depth	R E C T A N G U L A R C O O R D I N A T E S		Dogleg Deg/100ft	Vert Sect	
0.00	0.00	102.99	0.00	0.00 N	0.00 E	-	0.00	- Tie on
11987.00	0.00	102.99	11987.00	0.00 N	0.00 E	-	0.00	- KOP
12676.88	20.68	103.00	12662.00	27.70 S	120.00 E	3.00	123.16	- End of Build/Turn
& Atoka Bank (pay								
12893.64	27.20	102.99	12860.00	47.47 S	205.66 E	3.01	211.07	- End of Build/Turn
& B/Atoka Clastic								
13750.00	53.07	102.99	13509.16	170.52 S	738.99 E	3.02	758.41	- End of Build/Turn
14470.31	53.06	103.00	13942.00	300.00 S	1300.00 E	0.00	1334.17	- End of Drop/Turn
& M Mrrw C sand								
14783.14	53.06	103.00	14130.00	356.25 S	1543.62 E	-	1584.19	- T.D. & End of
Turn								

Comments in wellpath

Measured Depth	Inclin. Degrees	Azimuth Degrees	True Vert Depth	R E C T A N G U L A R C O O R D I N A T E S		Dogleg Deg/100ft	Vert Sect	
12403.28	12.48	103.00	12400.00	10.16 S	44.00 E	3.00	45.15	Strawn
12637.48	19.50	103.00	12625.00	24.66 S	106.81 E	3.00	109.62	Atoka Clastics
12676.88	20.68	103.00	12662.00	27.70 S	120.00 E	3.00	123.16	Atoka Bank (pay and
upper Target								
12893.64	27.20	102.99	12860.00	47.47 S	205.66 E	3.01	211.07	B/Atoka Clastics
13901.19	53.07	102.99	13600.00	197.69 S	856.75 E	0.00	879.26	Morrow Clastics
14217.38	53.06	103.00	13790.00	254.52 S	1103.02 E	0.00	1132.00	M Mrrw A sand
14400.43	53.06	103.00	13900.00	287.43 S	1245.57 E	0.00	1278.31	M Mrrw b sand
14470.31	53.06	103.00	13942.00	300.00 S	1300.00 E	0.00	1334.17	M Mrrw Sand
14783.14	53.06	103.00	14130.00	356.25 S	1543.62 E	-	1584.19	L Mrrw

Targets associated with this wellpath

Revised	Target name	Geographic Location	T.V.D.	Rectangular Coordinates
2004	Atoka Bank (pay uppe		12662.00	27.70S 120.00E 24-Aug-
2004	B/Atoka Clastics		12860.00	47.47S 205.66E 24-Aug-
2004	M Mrrw C sand		13942.00	300.00S 1300.00E 24-Aug-

All data is in feet unless otherwise stated.
Coordinates from structure and TVD from rotary table.
Vertical section is from N 0.00 E 0.00 on azimuth 102.99 degrees.

State of New Mexico
Energy, Minerals and Natural Resources

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-103
March 4, 2004

Well API NO.	30-025-36798
5. Indicate Type of Lease	<input checked="" type="checkbox"/> State <input type="checkbox"/> Fee
6. State Oil & gas Lease No.	
7. Lease Name or Unit Agreement Name	Red Bull 31 State
8. Well Number	1
9. Ogrid Number	6137
10. Pool Name or Wildcat	Morrow

SUNDRY NOTICES AND REPORTS ON WELLS
(DO NOT USE THIS FORM FOR PROPOSALS TO DRILL OR TO DEEPEN OR PLUG BACK TO A DIFFERENT RESERVOIR.
USE "APPLICATION FOR PERMIT" (FORM C-101) FOR SUCH PROPOSALS)

1. Type of Well

☐ Oil Well ☒ Gas Well ☐ Other

2. Name of Operator

DEVON ENERGY PRODUCTION COMPANY, LP

3. Address and Telephone No.

20 North Broadway, Ste 1500, Oklahoma City, OK 73102

405-228-8209

4. Well Location

Unit Letter N 1300 feet from the South line and 2610 feet from the West line
Section 31 Township 23S Range 35E NMPM County Lea

11. Elevation (Show whether DR, RKB, RT, GR, etc.)

3435

12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data

NOTICE OF INTENTION TO:

- | | |
|--|--|
| <input type="checkbox"/> PERFORM REMEDIAL WORK | <input type="checkbox"/> PLUG AND ABANDON |
| <input type="checkbox"/> TEMPORARILY ABANDON | <input checked="" type="checkbox"/> CHANGE PLANS |
| <input type="checkbox"/> PULL OR ALTER CASING | <input type="checkbox"/> MULTIPLE COMPLETION |
| <input type="checkbox"/> Other _____ | |

SUBSEQUENT REPORT OF:

- | | |
|---|---|
| <input type="checkbox"/> REMEDIAL WORK | <input type="checkbox"/> ALTERING CASING |
| <input type="checkbox"/> COMMENCE DRILLING OPN | <input type="checkbox"/> PLUG AND ABANDONMENT |
| <input type="checkbox"/> CASING TEST AND CEMENT JOB | |
| <input type="checkbox"/> OTHER _____ | |

13. Describe Proposed or Completed Operations (Clearly state all pertinent details, and give pertinent dates, including estimated date of starting any proposed work). SEE RULE 1103.
For Multiple Completions: Attach wellbore diagram or proposed completion or recompletion. If a pit or below-grade tank is involved in the operation, complete the reverse side of this form.

Devon Energy Production Company, LP respectfully requests approval to change the bottomhole location of this well based upon further review of seismic data indicating a need to amend the target location as follows:

Old BHL: Morrow: 1300 FSL & 2320 FEL

New BHL: Atoka: 1272 FSL & 2550 FEL

Morrow: 1000 FSL & 1370 FEL



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

SIGNATURE

Linda Guthrie

TITLE Regulatory Specialist

DATE 8/23/2004

Type or Print name

Linda Guthrie

E-mail Address: linda.guthrie@dvn.com

Telephone No. 405-228-8209

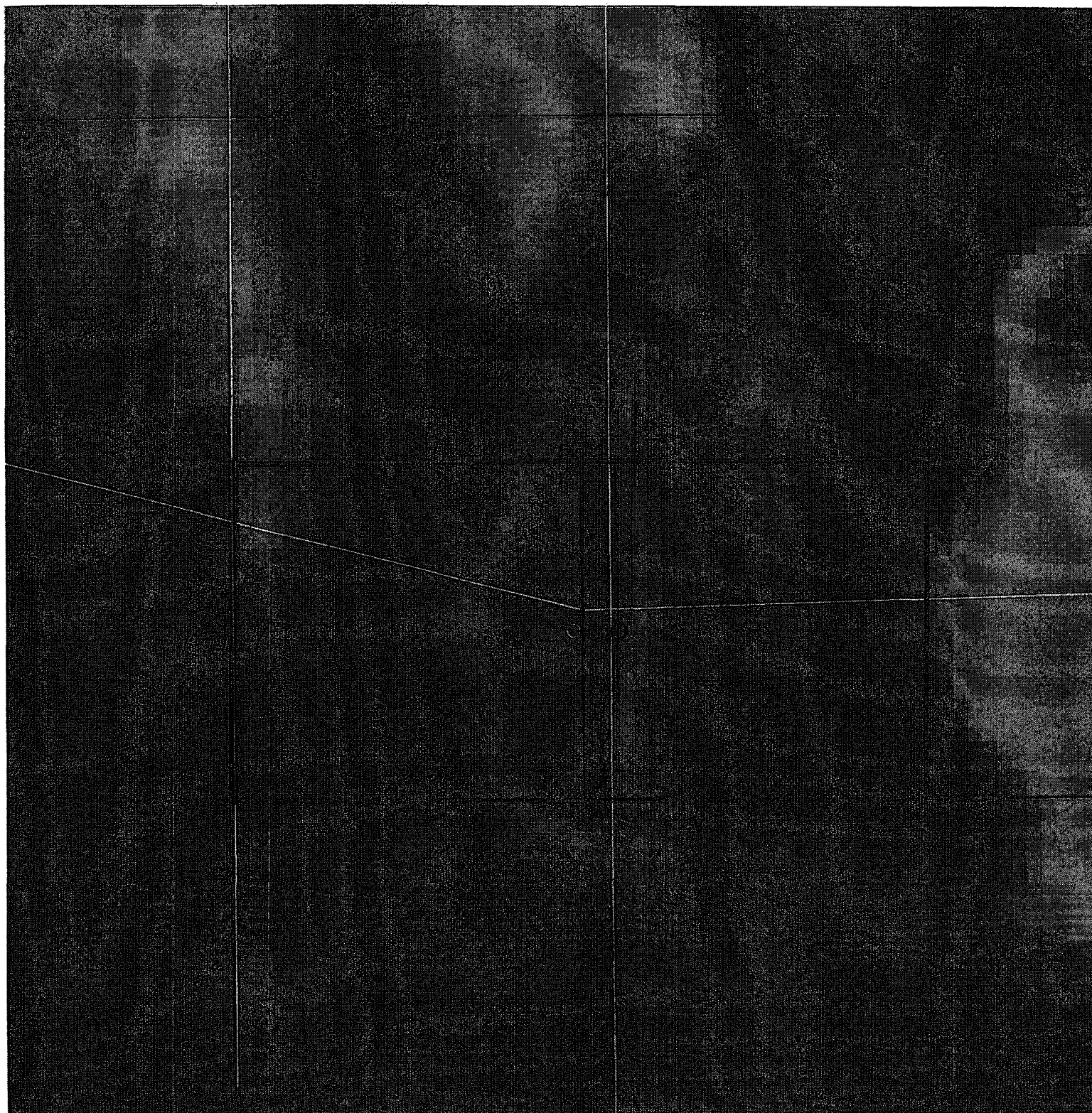
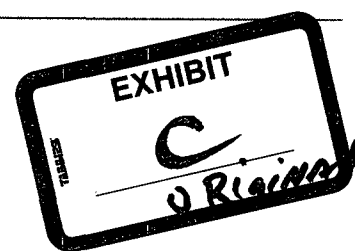
(This space for State use)

APPROVED BY

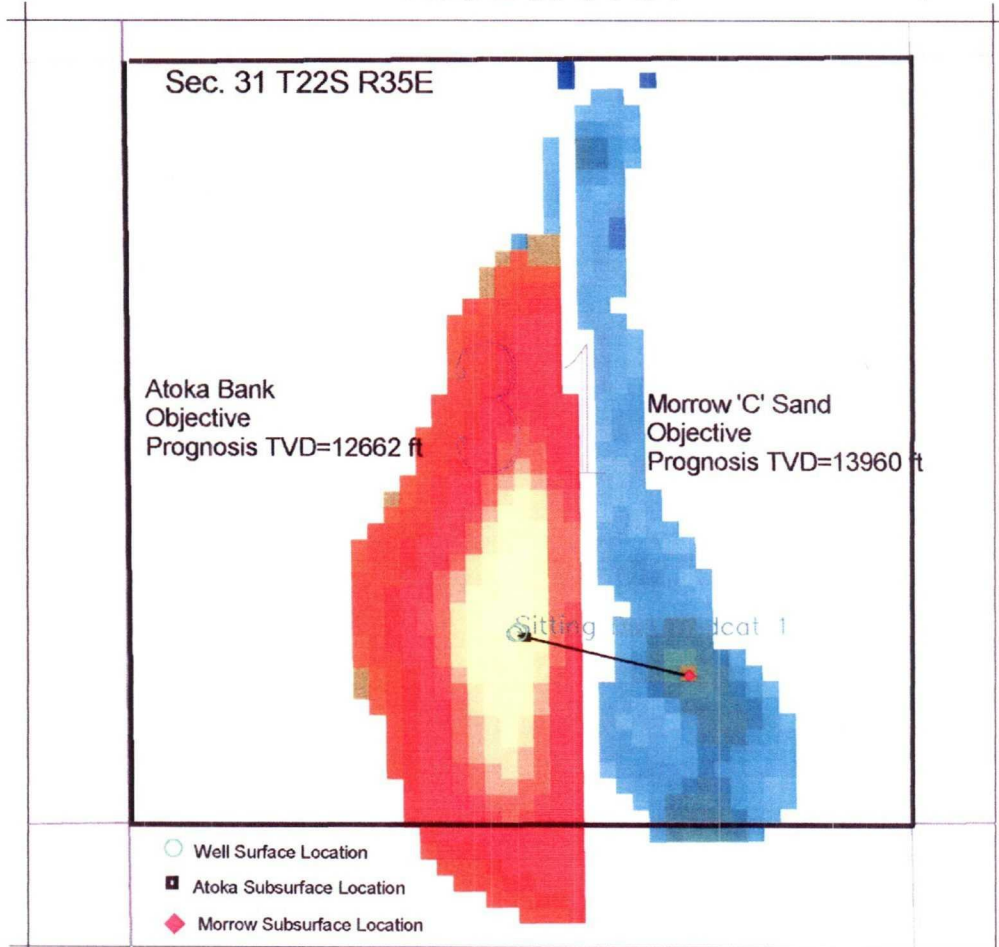
TITLE

DATE

Conditions of approval, if any:



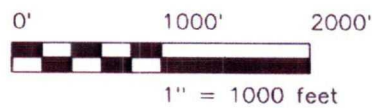
Red Bull 31 #1



DTS:(1200.81,37117.41) Dev SMT
HRZ:(282.68,5958.54) Post MrrwC 500P AVG Energy SM

Post MrrwC 500P AVG
Post MrrwC 500P AV

Atoka Bank / Mrrw C



LEASE NO: VA2488 0000

08056

Application No:

OIL AND GAS LEASE
(Five Year Exploratory Form)

THIS AGREEMENT, dated **June 01, 2001**, between the state of New Mexico, acting by and through its commissioner of public lands, hereinafter called the "lessor", and

DEVON ENERGY PRODUCTION COMPANY, LP
20 N BROADWAY
STE 1500
OKLAHOMA CITY, OK 73102
hereinafter called the "lessee",

WITNESSETH:

WHEREAS, the lessee has filed in the office of the commissioner of public lands an application for an oil and gas lease covering the lands hereinafter described and has tendered therewith the required first payment; and

WHEREAS, all of the requirements of law relative to the application and tender have been duly complied with;

THEREFORE, in consideration of the premises as well as the sum of **SEVENTY-SEVEN THOUSAND and 00/100 dollars (\$77,000.00)**, the same being the amount of the tender above mentioned, and the further sum of \$30.00 filing fee, and of the covenants and agreements hereinafter contained, the lessor does hereby grant, demise, lease and let unto the said lessee, exclusively, for the sole and only purpose of exploration, development and production of oil or gas (including carbon dioxide and helium), or both thereon and therefrom with the right to own all oil and gas so produced and saved therefrom and not reserved as royalty by the lessor under the terms of this lease, together with rights-of-way, easements and servitudes for pipelines, telephone lines, tanks, power houses, stations, gasoline plants and fixtures for producing, treating and caring for such products, and housing and boarding employees, and any and all rights and privileges necessary, incident to or convenient for the economical operation of said land, for oil and gas, with right for such purposes to the free use of oil, gas, casing-head gas or water from said lands, but not from lessor's water wells, and with the rights of removing either during or after the term hereof, all and any improvements placed or erected on the premises by the lessee, including the right to pull all casing, subject, however, to the covenants and conditions hereinafter set out, the following described land situated in the count(y)(ies) of **Lea**, state of New Mexico, and more particularly described as follows:

<u>Subdivisions</u>	<u>Section</u>	<u>Twp</u>	<u>Rge</u>	<u>Acres</u>	<u>Institution</u>
LOT(S) 3(39.64), 4(39.68), E2SW4, SE4	31	23S	35E	319.32	CS

Said lands having been awarded to lessee and designated as Tract No. **VA-O-0010** at public sale held by the commissioner of public lands on **May 15, 2001**.

To have and to hold said land, and all the rights and privileges granted hereunder, to and unto the lessee for a primary term of five years from the date hereof, and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land by lessee, subject to all of the terms and conditions as hereinafter set forth.

In consideration of the premises the parties covenant and agree as follows:

1. Subject to the free use without royalty, as hereinbefore provided, the lessee shall pay the lessor as royalty one-eighth part of the oil produced and saved from the leased premises or the cash value thereof, at the option of the lessor, such value to be the price prevailing the day oil is run into a pipeline, if the oil be run into a pipeline, or into storage tanks, if the oil is stored.

2. Subject to the free use without royalty, as hereinbefore provided, at the option of the lessor at any time and from time to time, the lessee shall pay the lessor as royalty one-eighth part of the gas produced and saved from the leased premises, including casing-head gas. Unless said option is exercised by lessor, the lessee shall pay the lessor as royalty one-eighth of the cash value of the gas, including casing-head gas, produced and saved from the leased premises and marketed or utilized, such value to be equal to the net proceeds derived from the sale of such gas in the field; provided, however, the cash value for royalty purposes of carbon dioxide gas and of hydrocarbon gas delivered to a gasoline plant for extraction of liquid hydrocarbons shall be equal to the net proceeds derived from the sale of such gas, including any liquid hydrocarbons recovered therefrom.

Notwithstanding the foregoing provisions, the lessor may require the payment of royalty for all or any part of the gas produced and saved under this lease and marketed or utilized at a price per m.c.f. equal to the maximum price being paid for gas of like kind and quality and under like conditions in the same field or area or may reduce the royalty value of any such gas (to any amount not less than the net proceeds of sale thereof, in the field) if the commissioner of public lands shall



determine such action to be necessary to the successful operation of the lands for oil or gas purposes or to encouragement of the greatest ultimate recovery of oil or gas or to the promotion of conservation of oil or gas or in the public interest.

This lease shall not expire at the end of the primary term hereof if there is a well capable of producing gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in due to the inability of the lessee to obtain a pipeline connection or to market the gas therefrom and if the lessee timely pays an annual royalty on or before the annual rental paying date next ensuing after the expiration of ninety days from the date said well was shut-in and on or before said rental date thereafter. The payment of said annual royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the commencement of marketing of gas from said well or wells the royalty paid for the lease year in which the gas is first marketed shall be credited upon the royalty payable hereunder to the lessor for such year. The provisions of this section shall also apply where gas is being marketed from said leasehold premises and through no fault of the lessee, the pipeline connection or market is lost or ceases, in which case this lease shall not expire so long as said annual royalty is paid as herein provided. The amount of any annual royalty payable under this section shall equal twice the annual rental due be the lessee under the terms of this lease but not less than three hundred twenty dollars (\$320) per well per year, provided, however, that any such annual royalty for any year beginning on or after ten years from the date hereof shall equal four times the annual rental due by the lessee under the terms of this lease but not less than two thousand dollars (\$2,000) per well per year, provided further that no annual royalty shall be payable under this section if equivalent amounts are timely paid pursuant to another lease issued by lessor and if such other lease includes lands communitized with lands granted hereunder for the purpose of prorationally sharing the shut-in well. Notwithstanding the provisions of this section to the contrary, this lease shall not be continued after five years from the date hereof for any period of more than ten years by the payment of said annual royalty unless, for good cause shown, the commissioner of public lands, in his discretion, grants such a continuance.

3. Lessee agrees to make full settlement on the twentieth day of each month for all royalties due to the lessor for the preceding month, under this lease, and to permit the lessor or its agents, at all reasonable hours, to examine lessee's books relating to the production and disposition of oil and gas produced. Lessee further agrees to submit to lessor annually upon forms furnished by lessor, verified reports showing lessee's operations for the preceding year.

4. An annual rental at the rate of **\$1.00** per acre shall become due and payable to the lessor by the lessee upon each acre of the land above described and then claimed by such lessee, and the same shall be due and payable in advance to the lessor on successive anniversary dates of this lease, but the annual rental on any assignment shall in no event be less than forty dollars (\$40.00).

In the event the lessee shall elect to surrender any or all of said acreage, he shall deliver to the lessor a duly executed release thereof and in event said lease has been recorded then he shall upon request furnish and deliver to the lessor a certified copy of a duly recorded release.

5. The lessee may at any time by paying to the lessor all amounts then due as provided herein and the further sum of forty dollars (\$40.00), surrender and cancel this lease insofar as the same covers all or any portion of the lands herein leased and be relieved from further obligations or liability hereunder, in the manner as hereinbefore provided. Provided, this surrender clause and the option herein reserved to the lessee shall cease and become absolutely inoperative immediately and concurrently with the institution of any suit in any court of law or equity by the lessee, lessor or any assignee, to enforce this lease, or any of its terms expressed or implied.

6. All payments due hereunder shall be made on or before the day such payment is due, at the office of the commissioner of public lands in Santa Fe, New Mexico.

7. The lessee with the consent of the lessor shall have the rights to assign this lease in whole or in part. Provided, however, that no assignment of an undivided interest in the lease or in any part thereof nor any assignment of less than a legal subdivision shall be recognized or approved by the lessor. Upon approval in writing by the lessor of an assignment, the assignor shall stand relieved from all obligations to the lessor with respect to the lands embraced in the assignment and the lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the lessor as to such tracts.

8. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land which is draining the leased premises, lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the lessor and the lessee.

9. The lessee agrees to notify the lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the lessor.

If any lands embraced in this lease shall be included in any deed or contract of purchase outstanding and subsisting issued pursuant to any sale made of the surface of such lands prior to the date of this lease, it is agreed and understood that no drilling operation shall be commenced on any such lands so sold unless and until the lessee shall have filed a good and sufficient bond with the lessor as required by law, to secure the payment for such damage to the livestock, range, water, crops or tangible improvements on such lands as may be suffered by the purchaser holding such deed or contract of purchase, or his successors, by reason of the developments, use and occupation of such lands by such lessee. Provided, however, that no such bond shall be required if such purchaser shall waive the right to require such bond to be given in the manner provided by law.

10. In drilling wells all water-bearing strata shall be noted in the log, and the lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when lessor deems it to be in the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the lessor shall pay to the lessee the reasonable value thereof.

11. Lessee shall be liable and agree to pay of all damages to the range, livestock, growing crops or improvements caused by lessee's operations on said lands. When requested by the lessor the lessee shall bury pipelines below plow depth.

12. The lessee shall not remove any machinery or fixtures placed on said premises, nor draw the casing from any well unless and until all payments and obligations due the lessor under the terms of this agreement shall have been paid or satisfied. The lessee's right to remove the casing is subject to the provision of Paragraph 10 above.

13. Upon failure or default of the lessee to comply with any of the provisions or covenants hereof, the lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the lessee, but shall not extend to, nor affect the rights of any other lessee or assignee claiming any portion of the lands upon which no default has been made; provided, however, that before any such cancellation shall be made, the lessor shall mail to the lessee so defaulting, by registered or certified mail, addressed to the post-office address of such lessee as shown by the records of the state land office, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

14. If this lease shall have been maintained in accordance with the provisions hereof and if at the expiration of the primary term provided for herein oil or gas is not being produced on said land but lessee is then engaged in bona fide drilling or reworking operations thereon, this lease shall remain in full force and effect so long as such operations are diligently prosecuted and, if they result in the production of oil or gas, so long thereafter as oil and gas in paying quantities, or either of them, is produced from said land; provided, however, such operations extending beyond the primary term shall be approved by the lessor upon written application filed with the lessor on or before the expiration of said term, and a report of the status of all such operations shall be made by the lessee to the lessor every thirty days and a cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

If during the drilling or reworking of any well under this section, lessee loses or junks the hole or well and after diligent efforts in good faith is unable to complete said operations, then within twenty days after the abandonment of said operations, lessee may commence another well within three hundred thirty feet of the lost or junked hole or well and drill the same with due diligence.

Operations commenced and continued as herein provided shall extend this lease as to all lands as to which the same is in full force and effect as of the time said drilling operations are commenced; provided, however, this lease shall be subject to cancellation in accordance with Paragraph 13 hereof for failure to pay rentals or file reports which may become due while operations are being conducted hereunder.

15. Should production of oil and gas or either of them in paying quantities be obtained while this lease is in force and effect and should thereafter cease from any cause after the expiration of five years from the date hereof this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty days after the cessation of such production and shall remain in full force and effect so long as such operations are prosecuted in good faith with no cessation of more than twenty consecutive days, and if such operations result in the production of oil or gas in paying quantities, so long thereafter as oil or gas in paying quantities is produced from said land; provided, however, written notice of intention to commence such operations shall be filed with the lessor within thirty days after the cessation of such production, and a report of the status of such operations shall be made by the lessee to the lessor every thirty days, and the cessation of such operations for more than twenty consecutive days shall be considered as an abandonment of such operations and this lease shall thereupon terminate.

16. Lessee, including their heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the city, county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. Such agencies are not to be deemed third party beneficiaries hereunder, however, this clause is enforceable by the lessor in any manner provided in this lease or by law.

17. Should lessor desire to exercise its rights to take in-kind its royalty share of oil, gas or associated substances or purchase all or any part of the oil, gas or associated substances produced from the lands covered by this lease, the lessee hereby irrevocably consents to the lessor exercising its right. Such consent is a consent to the termination of any supplier/purchaser relationship between the lessor and the lessee deemed to exist under federal regulations. Lessee further agrees that it will require any purchaser of oil, gas or associated substance to likewise waive any such rights.

18. Lessor reserves a continuing option to purchase at any time and from time to time, at the market price prevailing in the area on the date of purchase, all or any part of the minerals (oil and gas) that will be produced from the lands covered by this lease.

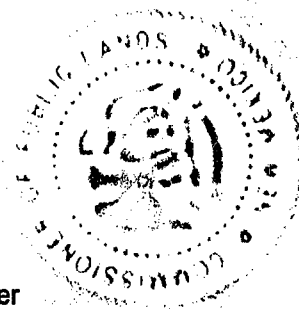
19. Lessor reserves the right to execute leases for geothermal resource development and operation thereon; the right to sell or dispose of the geothermal resources of such lands; and the right to grant rights-of-way and easements for these purposes.

20. All terms of this agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.

In witness whereof, the party of the first part has hereunto signed and caused its name to be signed by its commissioner of public lands thereunto duly authorized, with the seal of his office affixed, and the lessee has signed this agreement the day and year first above written.

STATE OF NEW MEXICO

By: Randy Lowell
Commissioner of Public Lands, Lessor



[Signature] (Seal)
Lessee
R.D. Clark
Vice-President and General Manager
(PERSONAL ACKNOWLEDGMENT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY ATTORNEY-IN-FACT)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____, by
_____ as attorney-in-fact in behalf of

My commission expires: _____
Notary Public

(ACKNOWLEDGMENT BY CORPORATION)

STATE OF _____ ss.

COUNTY OF _____ ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 20____,
by _____ of _____
(Name) (Title) (Corporation)
a _____ corporation, on behalf of said corporation.

My commission expires: _____
Notary Public

STATE OF OKLAHOMA)
) SS
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 4th day of June, 2001, by R. D. Clark, Vice President of Devon Energy Management Company, L.L.C., an Oklahoma limited liability company, General Partner of Devon Energy Production Company, L.P., an Oklahoma limited partnership, on behalf of the company and partnership.

My Commission Expires:

5/27/2005

Kelly W. Robertson

Notary Public in and for
Oklahoma County, Oklahoma



KELLY W. ROBERTSON
Oklahoma County
Notary Public in and for
State of Oklahoma
My commission expires May 27, 2005.

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

JUN 29 2001

at 10:22 o'clock A.M
and recorded in Book 1087
Page 754
Melinda Hughes, Lea County Clerk
By [Signature] Deputy



08056

NOTE TO FILE: PMESO-425936529



State of New Mexico
OIL CONSERVATION COMMISSION

From

MICHAEL E. STOGNER
PETROLEUM ENGINEER

Thursday, September 16, 2004

Memo

To

Met w/ Tom Kellahan this morning about this application. Please expedite.

A handwritten signature in black ink, appearing to read "M. Stogner", with a large, sweeping flourish extending from the end.

P.O. BOX 2088
LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
505-827-5811