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January 14, 2004

Hand Delivered

David Catanach  
Oil Conservation Division  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

Re: Case No. 13132/Devon Energy Production Company, L.P.

Dear David:

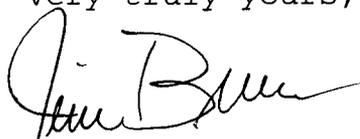
Enclosed is a draft order submitted on behalf of Devon Energy Production Company, L.P. (hard copy and disk). Also enclosed is a copy of the voluntary agreement reached among Devon Energy Production Company, L.P. and several interest owners regarding sharing of costs and production. **Please note** that, since the hearing, Magnum Hunter Production, Inc. has voluntarily joined the well and has signed this agreement. Thus, no relief is sought against them.

As a result of the foregoing, applicant seeks relief against the following interest owners:

1. Citation 1987-II Investment Limited Partnership, only for allocation of production among the three zones.
2. Wainoco Oil & Gas Company, for forced pooling and allocation of production.
3. Chaparral Energy, LLC only for operations.
4. Shell Offshore Ventures, Inc., for forced pooling and allocation of production, if it owns an interest (it claims to have assigned to someone else, but nothing is of record).

Call if you have any questions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce". The signature is written in black ink and is positioned above the printed name.

James Bruce

Attorney for Devon Energy  
Production Company, L.P.

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

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION  
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF DEVON ENERGY PRODUCTION  
COMPANY, L.P. FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 13132  
ORDER NO. R-

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 20, 2003 at Santa Fe, New Mexico before Examiner David R. Catanach.

NOW, on this \_\_\_\_\_ day of January, 2004, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Devon Energy Production Company, L.P., seeks an order pooling all mineral interests in the Morrow formation underlying Lots 1, 2, S $\frac{1}{2}$ NE $\frac{1}{4}$ , and SE $\frac{1}{4}$  (the E $\frac{1}{2}$  equivalent) of Section 6, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico, to form a standard 319.49-acre gas spacing and proration unit for all pools spaced on 320 acres within this vertical extent, which presently includes the East Carlsbad-Morrow Gas Pool.

(3) The above-described unit (the "Unit") is to be dedicated to applicant's proposed Joell Well No. 2, to be located at an orthodox gas well location in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 6.

(4) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the above-described well.

(5) There are interest owners in the proposed Unit who have not agreed to pool their interests.

(6) The Morrow formation underlying the Unit covers the subsurface interval from approximately 11,366 feet to 11,883 feet.

(7) The Morrow formation in the E $\frac{1}{2}$  of Section 6 is potentially productive from both the Middle Morrow zone and the

Lower Morrow zone. There is production from each zone in wells immediately offsetting the Unit.

(8) The geologic evidence shows that a reasonable operator would test the entire Morrow interval in any well drilled in the E½ of Section 6.

(9) The Morrow formation underlying the E½ of Section 6 is divided into three zones, with different sets of ownership in each zone. These zones are as follows:

- (a) 11,366-11,761 feet subsurface, which is 76.402321% of the Morrow interval. This portion of the Morrow formation is subject to an operating agreement entered into in 1970;
- (b) 11,761-11,766 feet subsurface, which is 0.967118% of the Morrow interval. This portion of the Morrow formation is subject to the above-described operating agreement; and
- (c) 11,766-11,883 feet subsurface, which is 22.630561% of the Morrow interval. This portion of the Morrow formation is not subject to an operating agreement.

(10) The operator under the operating agreement is Chaparral Energy, LLC. Chaparral Energy, LLC owns no working or other interest in the Morrow formation underlying the E½ of Section 6.

(11) Applicant requests pooling of the lower portion of the Morrow formation, which is not subject to an operating agreement, and that the Division approve an allocation of costs and production between the three Morrow zones. Applicant further requests that it be named operator of the entire Morrow interval.

(12) Chaparral Energy, LLC was notified of the hearing in this matter, but did not appear.

(13) There should be only one division-approved operator in the entire Morrow formation.

(14) A number of interest owners in the Morrow formation have entered into a voluntary agreement apportioning production based on the percentages set forth in Finding Paragraph (9) above.

(15) The working interest owners in the E½ of Section 6 have received a demand from royalty owners to develop the acreage.

(16) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in the Unit the opportunity to recover or receive

without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit, and by granting the additional relief requested by applicant.

(17) Applicant should be designated the operator of the subject well and of the Unit.

(18) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3 of the COPAS form titled "Accounting Procedure-Joint Operations."

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Devon Energy Production Company, L.P. is hereby approved, and all uncommitted mineral interests, whatever they may be, in the oil and gas in the Morrow formation underlying Lots 1, 2, S $\frac{1}{2}$ NE $\frac{1}{4}$ , and SE $\frac{1}{4}$  (the E $\frac{1}{2}$  equivalent) of Section 6, Township 23 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 319.49-acre gas spacing and proration unit for all pools spaced on 320 acres within this vertical extent, which presently includes the East Carlsbad-Morrow Gas Pool. The Unit shall be dedicated to applicant's proposed Joell Well No. 2, to be located at an orthodox gas well location in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 6.

(2) The operator of the Unit shall commence drilling the proposed well on or before the 1st day of May, 2004, and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Morrow formation.

(3) In the event the operator does not commence drilling the proposed well on or before the 1st day of May, 2004, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(5) Upon final plugging and abandonment of the subject well, the pooled unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(6) Applicant is hereby designated the operator of the subject well and Unit.

(7) Well costs, and production from the subject well, shall be allocated among the three Morrow zones in the following proportions:

- (a) Zone A: 11,366-11,761 feet subsurface: 76.402321%.
- (b) Zone B: 11,761-11,766 feet subsurface: 0.967118%.
- (c) Zone C: 11,766-11,883 feet subsurface: 22.630561%.

Within each zone, costs and production shall be allocated based upon each owner's percentage interest of ownership.

(8) After pooling, uncommitted working interest owners are referred to as "pooled working interest owners." (Pooled working interest owners are owners of working interests in the Unit, including unleased mineral interests, who are not subject to an operating agreement governing the Unit.) After the effective date of this Order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing, and equipping the subject well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting interest owners."

(10) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be the reasonable well costs. If there is an objection to actual well costs within the 45-day

period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs exceed reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the pro rata share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000.00 per month while drilling and \$600.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3 of the COPAS form titled "Accounting Procedure-Joint Operations." The operator is hereby authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating such wells, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Ordering Paragraphs (12) and (14) above, all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interest share of production, and no costs or charges shall be withheld from production attributable to the royalty interest.

CASE NO. 13132  
ORDER NO. R-  
PAGE 6

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(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this Order shall thereafter be of no further effect.

(18) The operator of the well and Unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this Order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Commission may deem necessary.

**DONE** at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

LORI WROTENBERY  
Director

SEAL

## AGREEMENT

This Agreement is entered into by the undersigned effective as of October 1, 2003 ("the Effective Date"). In consideration of the provisions of this Agreement, and in order to induce Devon Energy Production Company, L.P. ("Devon") to drill the well described below, the undersigned (whether one or more) agrees as follows:

1. Recitals. Reference is made to the following facts:

(a) The undersigned owns, or holds a mortgage lien on, an overriding royalty interest, oil and gas leasehold interest, working interest, or other interest, in oil, gas or other hydrocarbon substances that may be produced from a portion of the Morrow formation underlying the following land in Eddy County, New Mexico ("the Land"):

Township 23 South, Range 27 East, N.M.P.M.  
Section 6: Lots 1 & 2, S2NE4, SE4

Any of said interests shall be referred to as an "Interest". The Morrow formation underlying the Land shall be referred to as "the Morrow formation".

(b) The ownership of Interests in the Morrow formation is not uniform. There are three distinct zones of uniform ownership in the Morrow formation (collectively "Zones", and individually a "Zone") as follows: from the top of the Morrow formation down to 11,761 feet subsurface ("Zone A"), from 11,761 feet subsurface down to 11,766 feet subsurface ("Zone B"), and from 11,766 feet subsurface down to the base of the Morrow formation ("Zone C"). The ownership of Interests in each Zone is different from the ownership of Interests in the other Zones.

(c) Devon, as operator, desires to drill a well on the Land in search of oil, gas or other hydrocarbon substances to be produced from the Morrow formation. However, due to the fact that the ownership of Interests in the Morrow formation is not uniform, and due to the fact that any well completed in the Morrow formation may produce from more than one Zone, Devon is unwilling to drill such a well unless all of the owners of Interests in the Morrow formation agree to share production from anywhere in the Morrow formation on an equitable basis.

(d) It is anticipated that the top of the Morrow formation will be found at a depth of 11,366 feet subsurface, and that the bottom of the Morrow formation will be found at a depth of 11,883 feet subsurface. Based upon these assumptions, Zone A is 395 feet thick, Zone B is 5 feet thick, Zone C is 117 feet thick, and the Morrow formation is 517 feet thick.

(e) The ownership of Interests in Lots 1 & 2 and the S2NE4 of said Section 6 is different from the ownership of Interests in the SE4 of said Section 6. Lots 1 & 2 and the S2NE4 of said Section 6 contain 159.49 acres, and the SE4 of said Section 6 contains 160 acres.

2. Sharing of Production from the Morrow Formation. The undersigned agrees that Zone A comprises 76.402321% (395/517) of the Morrow formation, Zone B comprises 0.967118% (5/517) of the Morrow formation, and Zone C comprises 22.630561% (117/517) of the Morrow formation. The undersigned further agrees that all oil, gas and other hydrocarbon substances produced from the Morrow formation shall be allocated to the Zones in the following manner, regardless of which Zone or Zones such substances may be produced from:

Zone A 0.76402321  
Zone B 0.00967118  
Zone C 0.22630561

Subject to the additional allocation set forth below in Paragraph 3, the production allocated to a Zone shall be shared by the owners of Interests in that Zone in accordance with their respective Interests in that Zone.

3. Pooling. The undersigned agrees that Devon may pool the Interests in Lots 1 & 2 and the S2NE4 of said Section 6 with the Interests in the SE4 of said Section 6 in order to form a well spacing and proration unit in accordance with the rules of the New Mexico Oil Conservation Division, for the purpose of producing oil, gas and other hydrocarbon substances from the Morrow formation. The undersigned further agrees that all oil, gas and other hydrocarbon substances produced from the Morrow formation shall be allocated to the following tracts in the following manner, regardless of which tract such substances may be produced from:

Lots 1 & 2, S2NE4 0.4992  
SE4 0.5008

Subject to the additional allocation set forth above in Paragraph 2, the production allocated to each such tract shall be shared by the owners of Interests in that tract in accordance with their respective Interests in that tract.

4. Operating Agreement. With respect to Interests which are working interests in the Morrow formation, the provisions of this Agreement shall be subject to the provisions of any operating agreement among the owners of such working interests. In the event of any difference or inconsistency between the provisions of this Agreement and the provisions of any such operating agreement, the provisions of such operating agreement shall control.

5. No Obligation to Drill Well. Devon shall have no obligation to drill the well described above in Paragraph 1(c) or any other well. However, if Devon does not commence operations for the drilling of a well on the Land within 1 year from the Effective Date, this Agreement shall automatically terminate and be of no further force or effect.

6. Counterparts. For convenience, this Agreement may be executed in separate or multiple counterparts by the various owners of Interests in the Morrow formation, and the holders of mortgage liens covering any such Interests. However, this Agreement shall not be effective unless and until all owners of Interests in the Morrow formation (other than lessors' royalty), and all holders of mortgage liens covering any such Interests, have executed a counterpart of this Agreement.

7. Successors and Assigns. The provisions of this Agreement shall run with the land, and shall be binding upon, and shall inure to the benefit of, the undersigned and the heirs, devisees, successors and assigns of the undersigned.

8. New Mexico Law. The provisions of this Agreement shall be governed by, and shall be construed, interpreted and enforced in accordance with, the laws of the State of New Mexico.

9. Amendment. This Agreement may be amended or modified only by a writing (or by counterparts of a writing) signed by all owners of Interests in the Morrow formation (other than lessors' royalty), and all holders of mortgage liens covering any such Interests.

EXECUTED this \_\_\_\_\_ day of \_\_\_\_\_, 2003, but effective as of the date first above written.

**Mobil Producing Texas & New Mexico Inc.**

**Magnum Hunter Production, Inc.**

By:   
C. T. Howell  
Agent and Attorney In Fact

By: \_\_\_\_\_

Devon Energy Production Company, L.P.

Richard D. Steed, Executor of the Estate of S.D. Steed, deceased.

By: D.D. DeCarlo  
D.D. DeCarlo  
Vice President

By: \_\_\_\_\_

Wallace H. Scott, Jr

Wainoco Oil & Gas Company

By: \_\_\_\_\_

By: \_\_\_\_\_

Citation 1987-II Investment Limited Partnership

By: \_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF OKLAHOMA )

The foregoing instrument was acknowledged before me this 21st day of October, 2003, by D. D. DeCarlo, Vice President of Devon Energy Production Company, L.P., an Oklahoma limited partnership, on behalf of the partnership.

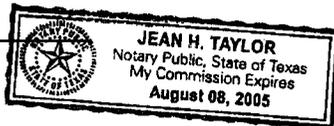


Margaret A. Blair  
Notary Public

STATE OF Texas )  
 ) SS  
COUNTY OF Harris )

The foregoing instrument was acknowledged before me this 11th day of November, 2003, by C. T. Howell, Agent & Attorney in fact of a New Jersey Corporation on behalf of said corporation. ~~President~~

My Commission Expires:



Jean H. Taylor  
Notary Public

Devon Energy Production Company, L.P.

Richard D. Steed, Executor of the Estate of S.D. Steed, deceased.

By: D.D. DeCarlo KK  
D.D. DeCarlo  
Vice President

By: \_\_\_\_\_

Wallace H. Scott, Jr

Wainoco Oil & Gas Company

By: Wallace H. Scott Jr

By: \_\_\_\_\_

Citation 1987-II Investment Limited Partnership

By: \_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF OKLAHOMA )

The foregoing instrument was acknowledged before me this 21st day of October, 2003, by D. D. DeCarlo, Vice President of Devon Energy Production Company, L.P., an Oklahoma limited partnership, on behalf of the partnership.



Margaret A. Blair  
Notary Public

STATE OF )  
 ) SS  
COUNTY OF )

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_\_\_, 2003, by \_\_\_\_\_, \_\_\_\_\_ President of \_\_\_\_\_, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF TEXAS )  
 ) SS  
COUNTY OF TRAVIS )

The foregoing instrument was acknowledged before me this 23<sup>rd</sup> day of October, 2003, by Wallace H. Scott, Jr., an individual.

My Commission Expires:  
\_\_\_\_\_



Linda Gorzycki  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2003, by \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_, an \_\_\_\_\_ partnership, on behalf of the partnership.

My Commission Expires:  
\_\_\_\_\_

\_\_\_\_\_  
Notary Public

Devon Energy Production Company, L.P.

By: [Signature]  
D.D. DeCarlo  
Vice President

Richard D. Steed, Executor of the  
Estate of S.D. Steed, deceased.

By: [Signature]  
Richard D. Steed, Executor

Wallace H. Scott, Jr

By: \_\_\_\_\_

Wainoco Oil & Gas Company

By: \_\_\_\_\_

Citation 1987-II Investment Limited Partnership

By: \_\_\_\_\_

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF OKLAHOMA )

The foregoing instrument was acknowledged before me this 21st day of October, 2003, by D. D. DeCarlo, Vice President of Devon Energy Production Company, an Oklahoma limited partnership, on behalf of the partnership.



[Signature]  
Margaret A. Blaw  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003, by \_\_\_\_\_, \_\_\_\_\_ President of \_\_\_\_\_, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_

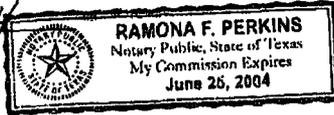
\_\_\_\_\_  
Notary Public

STATE OF Texas )  
 ) SS  
COUNTY OF Tarrant )

The foregoing instrument was acknowledged before me this 29<sup>th</sup> day of October, 2003, by Richard W. Sted, Exec. an individual.

My Commission Expires:

6-25-04



Ramona F. Perkins  
Notary Public

STATE OF \_\_\_\_\_ )  
 ) SS  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003, by \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_, an \_\_\_\_\_ partnership, on behalf of the partnership.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public