



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

January 14, 2003

Lori Wrotenbery
Director
Oil Conservation Division

Devon Energy Production Company, L. P.
20 North Broadway
Oklahoma City, Oklahoma 73102-8260



Attention: Ken Gray

RE: *Administrative application (administrative application reference No. pKRV0-233730283) for Devon Energy Production Company, L. P.'s ("Devon") proposed Bad Axe "23" Federal Com. Well No. 1 to be drilled at an unorthodox gas well location within the Indian Basin-Upper Pennsylvanian Gas Pool (33685) 660 feet from the North line and 2110 feet from the West line (Unit C) of Section 23, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.*

Dear Mr. Gray:

I am in receipt of your telefaxed letter of Friday, January 10, 2003 (see copy attached), which is in response to my second application deficiency letter of December 27, 2002. Please submit a copy of the "contractual agreement" with Marathon mentioned in your letter. Please submit the requested information by Wednesday, January 29, 2003.

The Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. If the necessary information is not submitted, your application will be returned to you.

Should you have any questions concerning this matter, please contact your legal counsel, James Bruce in Santa Fe at (505) 982-2043 or me at (505) 476-3465.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: **New Mexico Oil Conservation Division - Artesia**
U. S. Bureau of Land Management - Carlsbad
James Bruce, Legal Counsel for Devon Energy Production Company, L. P. - Santa Fe
Walter Duecase, Marathon Oil Company - Midland
W. Thomas Kellahin, Legal Counsel for Marathon Oil Company - Santa Fe



Devon Energy Corporation
20 North Broadway
Oklahoma City, Oklahoma 73102-5280
Fax 405-552-8113

January 9, 2003

New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505
Attn: Michael Stogner

Re: Administrative Application
Reference No. pKRV0-233730283
Bad Axe 23 Fed Com #1
Section 23-T21S-R23E
Eddy County, New Mexico

Dear Mr. Stogner

I am in receipt of your letter dated December 15, 2002 regarding Devon's administrative application referenced above. You have pointed out, accurately so, that Marathon currently operates the Indian Basin Gas Com No. 1 located 1980 feet from the North line and 660 feet from the West line of Section 23. Marathon and Devon have previously entered into a contractual arrangement in anticipation of additional Morrow development in Section 23 that provides for Marathon to temporarily operate and produce the Indian Basin Gas Com #1. Marathon will cease production at such time as an additional Morrow well is completed for production. Marathon is further obligated to execute the necessary instruments to transfer operations of the communitized area to Devon.

With respect to the protection of the correlative rights of the interest owners in Section 23, Marathon owns the majority interest in Section 23 with Devon owning the remaining minority interest. Devon, however owns 100% of the interest in Section 14. Therefore, Marathon's correlative rights and protection from potential drainage with respect to Section 23 should be a primary consideration.

Attached, you will find letters of acceptance from three of the four offsetting interest owners affected by this application.

Reservoir Discussion (Jon Sikes, Reservoir Engineer)

If there was no competition present in the reservoir, wells could drain from 10 to 320 acres in the poorer quality areas of the reservoir (or the more oily areas which are down structure from the gas) and they are capable of draining 640 acres in the higher quality areas of the reservoir

(or in the "high on structure" gas areas of the reservoir). This broad range of drainage calculations is because "True pay" as apposed to "perceived pay" could be over stated or under stated by several multiples because the Cisco/Canyon has relatively low overall porosity.

The main reason for the request for an unorthodox location is not because it can be proven that the wells in section 14 drained outside of section 14, but because under either extreme viewpoint, an unorthodox location in section 23 would be required to protect the correlative rights of section 23.

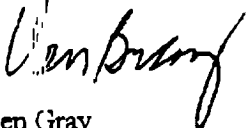
Consider the most likely scenario that the area of the reservoir that is on or near the boundary of section 14 and 23 is the "lower quality" type of reservoir. Under this assumption, a well drilled at an orthodox location would not be able to drain the reservoir all the way to the section 23 boundary and thus would leave some hydrocarbons undrained. This orthodox location would prevent Devon from being able to protect the correlative rights of the owners in section 23.

Now consider the opposite view; that the area of the reservoir that is on or near the boundary of section 14 and 23 is the "higher quality" type of reservoir. Under this assumption, if the wells in section 14 have drained any portion of section 23, then Devon must drill a well at a mirror location (unorthodox) in order to protect future drainage from occurring, thus protecting correlative rights. If the wells in section 14 have not drained any reserves from section 23, then a mirror location (unorthodox) in section 23 will not drain any of section 14 and thus will not cause any damage or waste.

If there are any questions or if additional information is required feel free to call me at (405) 552-4633

Yours very truly,

DEVON ENERGY PRODUCTION COMPANY, L.P.



Ken Gray
Senior Land Advisor

Kg/
Enclosure