



RECEIVED OCD

2010 APR -6 A 11:11

Devon Energy Production Company  
Operations Engineering  
20 North Broadway - CT 3.056  
Oklahoma City, Oklahoma 73102-8260  
Phone: (405)-552-7802  
Fax (405)-552-8113  
[Stephanie.Ysasaga@devon.com](mailto:Stephanie.Ysasaga@devon.com)

March 3rd, 2010

Mr. Richard Ezeanyim  
State of New Mexico  
Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, New Mexico 87505

**Re: Central Tank Battery, Surface Commingle and Off-Lease Measurement Gas Hydrocarbons  
Algerita 32 State 1 & Rustler Hills 5 Federal 2  
LG-8291 T22S-R26E & NM-97120 T23S-26E  
API # 30-015-35339 & 30-015-36084  
Happy Valley; Delaware - Pool Code: 29665  
Eddy County, New Mexico**

Dear Mr. Ezeanyim:

Please find attached the OCD Form C-103 Sundry Notice of Intent to Surface Commingle, OCD form C-107A and approved BLM Form 3160-5 Sundry Notice of Intent to Surface Commingle the aforementioned wells. The working interest, royalty interest and overriding royalty interest owners in both leases is not uniform; parties have been notified via certified mail.

Should you require any additional information or assistance, please do not hesitate to contact me at (405)-552-7802.

Very truly yours,

**DEVON ENERGY PRODUCTION COMPANY, L.P.**

Stephanie A. Ysasaga  
Sr. Staff Engineering Technician ☺

Enclosures

CTB-614

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 Central Tank Battery

[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.**

Stephanie A. Ysasaga  
 Print or Type Name

[Signature]  
 Signature

Sr. Staff Engineering Technician  
 Title

03/05/2010  
 Date

Stephanie.Ysasaga@dmv.com  
 e-mail Address

*New Submitted*  
 2010 APR -5 A 11:12  
 RECEIVED OCD

Submit 3 Copies To Appropriate District Office  
 District I  
 1625 N. French Dr., Hobbs, NM 88240  
 District II  
 1301 W. Grand Ave., Artesia, NM 88210  
 District III  
 1000 Rio Brazos Rd., Aztec, NM 87410  
 District IV  
 1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico  
 Energy, Minerals and Natural Resources

Form C-103  
 May 27, 2004

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

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 <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/>		WELL API NO. 30-015-35339 & 30-015-36084				
2. Name of Operator Devon Energy Production Company, LP		5. Indicate Type of Lease STATE <input checked="" type="checkbox"/> FED <input checked="" type="checkbox"/>				
3. Address of Operator 20 North Broadway Oklahoma City, Oklahoma 73102-8260 (405) 552-7802		6. State Oil & Gas Lease No.				
4. Well Location Unit Letter _____ : _____ feet from the _____ south _____ line and _____ feet from the _____ west _____ line Section _____ Township _____ Range _____ NMPM Eddy County New Mexico		7. Lease Name or Unit Agreement Name See below				
11. Elevation (Show whether DR, RKB, RT, GR, etc.) n/a		8. Well Number				
Pit or Below-grade Tank Application <input type="checkbox"/> or Closure <input type="checkbox"/> Pit type _____ Depth to Groundwater _____ Distance from nearest fresh water well _____ Distance from nearest surface water _____ Pit Liner Thickness: _____ mil Below-Grade Tank: Volume _____ bbls; Construction Material _____		9. OGRID Number 6137				
12. Check Appropriate Box to Indicate Nature of Notice, Report or Other Data <table border="0"> <tr> <td colspan="2"> <b>NOTICE OF INTENTION TO:</b>            PERFORM REMEDIAL WORK <input type="checkbox"/> PLUG AND ABANDON <input type="checkbox"/>            TEMPORARILY ABANDON <input type="checkbox"/> CHANGE PLANS <input type="checkbox"/>            PULL OR ALTER CASING <input type="checkbox"/> MULTIPLE COMPL <input type="checkbox"/>            OTHER: <b>Surface Commingle Gas Hydrocarbons &amp; Flare per NTL-4A</b> <input checked="" type="checkbox"/> </td> <td colspan="2"> <b>SUBSEQUENT REPORT OF:</b>            REMEDIAL WORK <input type="checkbox"/> ALTERING CASING <input type="checkbox"/>            COMMENCE DRILLING OPNS. <input type="checkbox"/> P AND A <input type="checkbox"/>            CASING/CEMENT JOB <input type="checkbox"/>            OTHER: <input type="checkbox"/> </td> </tr> </table>		<b>NOTICE OF INTENTION TO:</b> PERFORM REMEDIAL WORK <input type="checkbox"/> PLUG AND ABANDON <input type="checkbox"/> TEMPORARILY ABANDON <input type="checkbox"/> CHANGE PLANS <input type="checkbox"/> PULL OR ALTER CASING <input type="checkbox"/> MULTIPLE COMPL <input type="checkbox"/> OTHER: <b>Surface Commingle Gas Hydrocarbons &amp; Flare per NTL-4A</b> <input checked="" type="checkbox"/>		<b>SUBSEQUENT REPORT OF:</b> REMEDIAL WORK <input type="checkbox"/> ALTERING CASING <input type="checkbox"/> COMMENCE DRILLING OPNS. <input type="checkbox"/> P AND A <input type="checkbox"/> CASING/CEMENT JOB <input type="checkbox"/> OTHER: <input type="checkbox"/>		10. Pool name or Wildcat Happy Valley; Delaware
<b>NOTICE OF INTENTION TO:</b> PERFORM REMEDIAL WORK <input type="checkbox"/> PLUG AND ABANDON <input type="checkbox"/> TEMPORARILY ABANDON <input type="checkbox"/> CHANGE PLANS <input type="checkbox"/> PULL OR ALTER CASING <input type="checkbox"/> MULTIPLE COMPL <input type="checkbox"/> OTHER: <b>Surface Commingle Gas Hydrocarbons &amp; Flare per NTL-4A</b> <input checked="" type="checkbox"/>		<b>SUBSEQUENT REPORT OF:</b> REMEDIAL WORK <input type="checkbox"/> ALTERING CASING <input type="checkbox"/> COMMENCE DRILLING OPNS. <input type="checkbox"/> P AND A <input type="checkbox"/> CASING/CEMENT JOB <input type="checkbox"/> OTHER: <input type="checkbox"/>				

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 of proposed completion or recompletion.

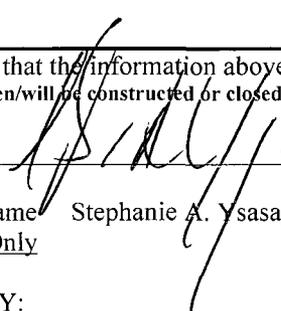
**Devon Energy Production Co., LLP respectfully requests approval to surface commingle the gas hydrocarbons and flare gas hydrocarbons per NTL-4A on the following wells:**  
 \* Rustler Hills 5 Federal 2: API # 30-015-36084 Sec 5-T23S-R26E Lease NM-97120 Happy Valley; Delaware (29665)  
 \* Algerita 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. Per NTL-4A supporting engineering evaluation, economic data demonstrating justification to flare and reporting and measurement responsibilities documented for your review. See BLM approval dated 03/31/2010. Interest owners have been notified via certified mail (see attached).

Application for Exception to No-Flare Rule 306 has been approved by the NMOCD for 11/06/2009 for 360 days (see documentation) for the Algerita 32 State 1. Concurrent application to the NMOCD for exception to No-Flare Rule 306 has been submitted on the Rustler Hills 5 Federal 2 per BLM "conditions of approval".

Please Note: Approval for central tank battery, off-lease storage and sales of "oil hydrocarbons" previously approved by the BLM 01/04/2010 (pending Santa Fe NMOCD approval).

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that any pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines , a general permit  or an (attached) alternative OCD-approved plan .

SIGNATURE  TITLE Sr. Staff Engineering Technician DATE 03/05/2010

Type or print name Stephanie A. Ysasaga E-mail address: Stephanie.Ysasaga@dvn.com Telephone No. (405) 552-7802

For State Use Only

APPROVED BY: \_\_\_\_\_ TITLE \_\_\_\_\_ DATE \_\_\_\_\_

Conditions of Approval (if any): \_\_\_\_\_

**MCARDLEAD FIELD OFFICE**

Form 3160-5  
(February 2005)

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

FORM 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.**

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

1. Type of Well

Oil Well  Gas Well  Other

8. Well Name and No. **Rustler Hills 5 Federal 2**

2. Name of Operator   
**Devon Energy Production Co., LP**

9. API Well No. **30-015-36084**

3a. Address  
20 North Broadway  
OKC, OK 73102

3b. Phone No. (include area code)  
**(405)-552-7802**

10. Field and Pool or Exploratory Area  
**Happy Valley; Delaware (29665)**

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

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 <u>Surface Commingle</u>
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	<u>Gas Hydrocarbons</u>
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	<u>&amp; Flare per NTL-4A</u>

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 recomplete 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 recompletion 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) <b>Stephanie A. Ysasaga</b>	Title <b>Sr. Staff Engineering Technician</b>
Signature	Date <b>03/05/2010</b>

**THIS SPACE FOR FEDERAL OR STATE OFFICE USE**

Approved by	Title <b>LPE1</b>	Date <b>3/31/2010</b>
-------------	-------------------	-----------------------

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)

## 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.

District I  
1625 N. French Drive, Hobbs, NM 88240  
District II  
1301 W. Grand Ave, 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 Department

Form C-107-B  
Revised June 10, 2003

**OIL CONSERVATION DIVISION**  
1220 S. St Francis Drive  
Santa Fe, New Mexico 87505

Submit the original application to the Santa Fe office with one copy to the appropriate District Office.

**APPLICATION FOR SURFACE COMMINGLING (DIVERSE OWNERSHIP)**

OPERATOR NAME: Devon Energy Production Company, L.P.

OPERATOR ADDRESS: 20 N. Broadway, Oklahoma City, OK 73102-8260

APPLICATION TYPE:

Pool Commingling  Lease Commingling  Pool and Lease Commingling  Off-Lease Storage and Measurement (Only if not Surface Commingled)

LEASE TYPE:  Fee  State  Federal

Is this an Amendment to existing Order?  Yes  No If "Yes", please include the appropriate Order No. \_\_\_\_\_

Have the Bureau of Land Management (BLM) and State Land office (SLO) been notified in writing of the proposed commingling  
 Yes  No

**(A) POOL COMMINGLING**

Please attach sheets with the following information

(1) Pool Names and Codes	Gravities / BTU of Non-Commingled Production	Calculated Gravities / BTU of Commingled Production		Calculated Value of Commingled Production	Volumes

(2) Are any wells producing at top allowables?  Yes  No

(3) Has all interest owners been notified by certified mail of the proposed commingling?  Yes  No.

(4) Measurement type:  Metering  Other (Specify)

(5) Will commingling decrease the value of production?  Yes  No If "yes", describe why commingling should be approved

**(B) LEASE COMMINGLING**

Please attach sheets with the following information

(1) Pool Name and Code. Happy Valley; Delaware Pool Code: 29665

(2) Is all production from same source of supply?  Yes  No

(3) Has all interest owners been notified by certified mail of the proposed commingling?  Yes  No

(4) Measurement type:  Metering  Other (See facility diagram - Separate EFM meters on Algerita 32 State 1 & Rustler Hills 5 Federal 2).

**(C) POOL and LEASE COMMINGLING**

Please attach sheets with the following information

(1) Complete Sections A and E.

**(D) OFF-LEASE STORAGE and MEASUREMENT**

Please attached sheets with the following information

(1) Is all production from same source of supply?  Yes  No Happy Valley; Delaware (29665)

(2) Include proof of notice to all interest owners. (See attached notification list with tracking numbers)

**(E) ADDITIONAL INFORMATION (for all application types)**

Please attach sheets with the following information

(1) A schematic diagram of facility, including legal location.

(2) A plat with lease boundaries showing all well and facility locations. Include lease numbers if Federal or State lands are involved.

(3) Lease Names, Lease and Well Numbers, and API Numbers:

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

SIGNATURE: [Signature] TITLE: Sr. Staff Engineering Technician DATE: 03/05/2010

TYPE OR PRINT NAME Stephanie A. Ysasaga TELEPHONE NO.: (405)-552-7802

E-MAIL ADDRESS: Stephanie.Ysasaga@dmn.com

## 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 OGAR 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

**APPLICATION FOR SURFACE COMMINGLING, OFF-LEASE MEASUREMENT & FLARING APPROVAL PER NTL-4A**

State of New Mexico – Santa Fe  
 Oil Conservation Division  
 1220 S. St Francis Drive  
 Santa Fe, New Mexico 87505

**Surface commingling proposal for Algerita and Rustler Hills leases:**

Devon requests approval for surface commingle and off lease measurement of gas hydrocarbons and to flare gas hydrocarbons from the Happy Valley; Delaware (29665) Pool from the following wells per NTL-4A.:

**State Lease LG-8291**

Well Name	Location	API #	Pool 29665
Algerita 32 State 1	SWSW Sec 32-T22S-R26E	30-015-35339	Happy Valley; Delaware

**Federal Lease NM 97120**

Well Name	Location	API #	Pool 29665
Rustler Hills 5 Federal 2	NENW Sec 5-T23S-R26E	30-015-36084	Happy Valley; Delaware

A map (Exhibit A) is enclosed showing the State and Federal leases and well locations in Section 32 of T22S R26E and Sec 5 of T23S R26E respectively. The Happy Valley; Delaware Pool is not unitized or communitized. The ownership in the Algerita State and Rustler Hills leases is not identical; all affected working interest owners have been notified of this proposal (Exhibit B).

**Gas metering:**

Under current market conditions, the sour gas production from the Rustler Hills 5 Federal 2 can not be economically connected to a gas market. Devon proposes to combine the gas flow from the Rustler Hills 5 Federal 1 and Algerita 32 State 1 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.

The gas-hydrocarbon production from the Algerita 32 State 1 and Rustler Hills 5 Federal 2 will be the only hydrocarbon being commingled, measured and flared off-lease. The off-lease measuring facility is located in the SWSW of Section 32, T22S, R26E on State Lease LG-8291 on the Algerita 32 State-1 location in Eddy County, New Mexico (Exhibit C). This meter will be calibrated on a regular basis per API, NMOCD and BLM specifications. A new poly flowline will be laid from the Rustler Hills 5 Federal 2 to the Algerita 32 State-1 battery facility to transport oil production. The BLM and OCD will be notified of any future changes in the facility.

Approval was previously granted for off-lease storage of the oil at the Algerita 32 State 1 battery under BLM sundry notice 01/04/2010. ✓

**Process and Flow Descriptions:**

Please see attached diagram for the proposed Algerita 32 State 1 battery. The flow of produced fluids is shown in detail on Exhibit D along with a description of each vessel.

The commingling of production is in the interest of conservation and waste and will result in the most effective, economic means of producing the reserves in place from the affected wells and will not result in reduced royalty or improper measurement of production. The proposed commingling will reduce operating expenses as well as reduce the surface facility footprint and overall emissions.

Devon Energy Production Company, LP understands the requested approval will not constitute the granting of any right-of-way or construction rights not granted by the lease instrument. Additionally, Devon Energy Production Co., LP will submit within 30 days, an application for right-of-way approval to the BLM and NMOCD section in your office, if we have not already done so.

cc: State of New Mexico Commissioner of Public Lands  
310 Old Santa Fe Trail  
P.O. Box 1148  
Santa Fe, New Mexico 87504-1148

Exhibit "A"

DEC 65% WI

31

32

**22S 26E**

LG-8291

Algerita 32 State #1



NM-97120



100% WI

Rustler Hills 5 Fed #2

6

5

100% WI

**23S 26E**

Algerita/ Rustler Hills Commingling

**Algerita/Rustler Hills Commingling Notification List****Exhibit "B"**

Minerals Management Service  
Royalty Management Program  
P.O. Box 5810  
Denver, Colorado 80217-5810  
7008-1140-0004-6107-9428

Lobos Energy Partners, LLC  
3817 NW Expressway, Suite 950  
Oklahoma City, Oklahoma 73112-1488  
7008-1140-0004-6107-9435

State of New Mexico  
Commissioner of Public Lands  
P.O. Box 1148  
Santa Fe, New Mexico 87504-1148  
7008-1140-0004-6107-9442

Premier Oil & Gas, Inc.  
P.O. Box 1246  
Artesia, New Mexico 88210  
7008-1140-0004-6107-9459

Sundance Minerals I  
P.O. Box 17744  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9466

Robert C. Grable  
201 Main Street, Suite 2500  
Fort Worth, Texas 76102-3129  
7008-1140-0004-6107-9473

The Roach Foundation  
Account No. 8300205110  
Fort Worth Club Tower PEN II-J  
777 Taylor Street  
Fort Worth, Texas 76102-4919  
7008-1140-0004-6107-9480

William K. Burton  
301 Commerce Street, Suite 2900  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9497

## CCB 1998 Trust

Ben J. Fortson, Trustee  
301 Commerce Street, Suite 2900  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9503

## DCB 1998 Trust

Ben J. Fortson, Trustee  
301 Commerce Street, Suite 2900  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9510

## MWB 1998 Trust

Ben J. Fortson, Trustee  
301 Commerce Street, Suite 2900  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9527

## Ben J. Fortson III Children Trust

Ben J. Fortson III Trustee  
301 Commerce Street, Suite 2900  
Fort Worth, Texas 76102  
7008-1140-0004-6107-9534

## McCombs Energy, Ltd.

A Texas Limited Partnership  
McCombs Energy LLC, General Partner  
5599 San Felipe, Suite 1200  
Houston, Texas 77056  
7008-1140-0004-6107-9541

## Curtis A. Anderson

3807 South County Road 1135  
Midland, Texas 79706  
7008-1140-0004-6106-9146

## Kimball Art Foundation

301 Commerce Street, Suite 2300  
Fort Worth, Texas 76102  
7008-1140-0004-6106-9153

## Map00-Net, a Texas General Partnership

Carolyn L. Frans, AIF  
P.O. Box 268946  
Oklahoma City, Oklahoma 73126  
7008-1140-0004-6106-9160

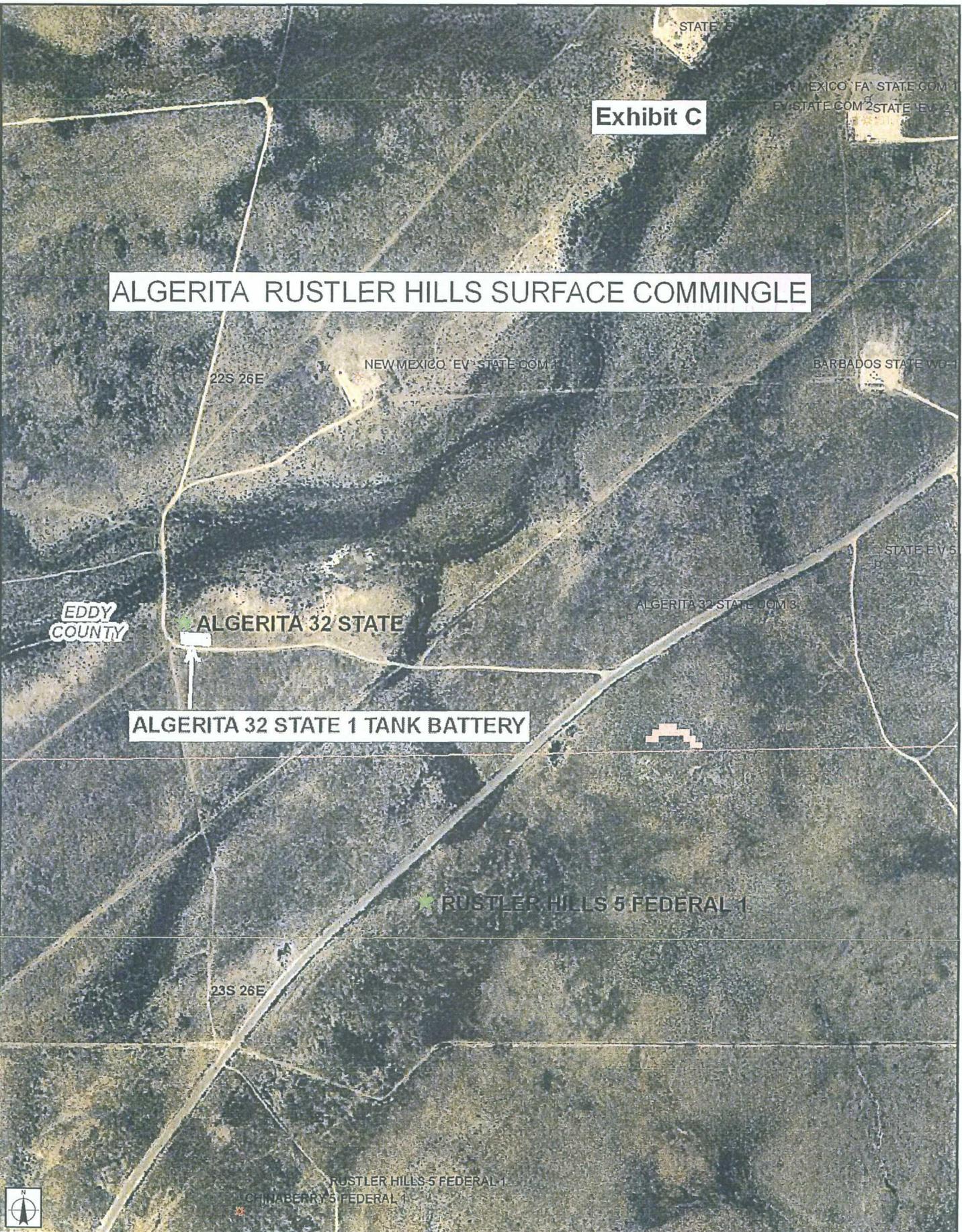


Exhibit C

ALGERITA RUSTLER HILLS SURFACE COMMINGLE

EDDY COUNTY

ALGERITA 32 STATE 1 TANK BATTERY

RUSTLER HILLS 5 FEDERAL 1



**Devon Energy Corp.**  
 Rustler Hills 5 Fed 2  
 S5 T23S T26E  
 Algerita 32 State #1  
 S32 T22S R26E  
 Eddy County, NM

Production System: \_\_\_\_\_ Closed  
 1) Oil sales by tank gauge to tank truck.  
 2) Seal requirements:

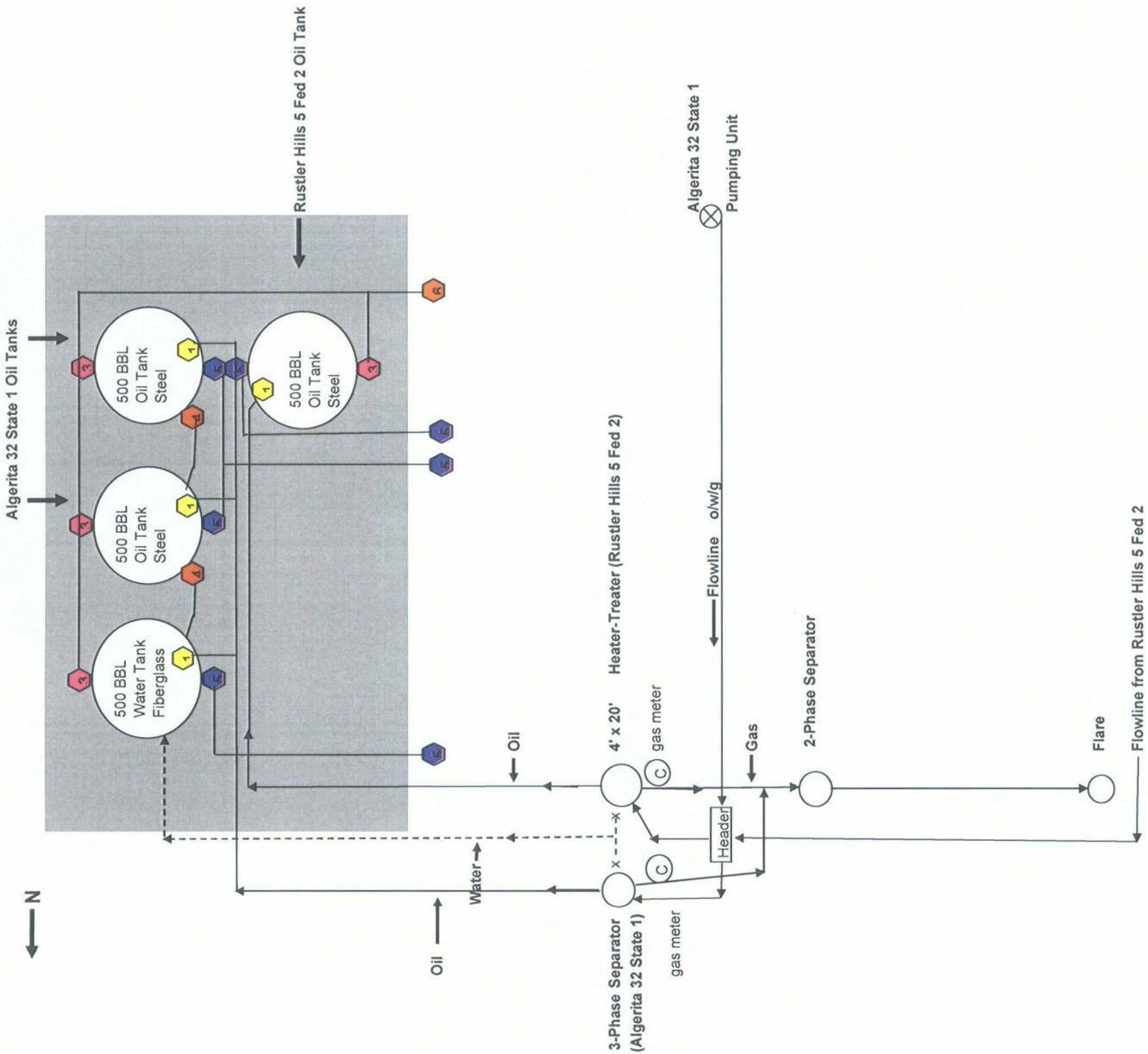
A. Production Phase: On all Tanks.  
 (1) All valves 5 sealed closed.

Sales Phase: On Tank being hauled.  
 (1) Valve 1 sealed closed.   
 (2) Valve 3 sealed closed.   
 (3) Valve 4 sealed closed.   
 (4) Valve 5 sealed closed.

{5} Misc. Valves: Plugged or otherwise unaccessible.  
 NOTE: Valve 2 is either a test or roll line if there is a valve 2 it will be sealed closed.

- Legend for Site Diagram**
- Valve #1: Production Line
  - Valve #2: Test or Roll Line
  - Valve #3: Circ./Drain Line
  - Valve #4: Equalizer Line
  - Valve #5: Sales Line
  - Valve #6: BS&W Load Line

- Buried Lines: -----
- Firewall:
- Wellhead:
- Stak-pak:
- Production line: \_\_\_\_\_
- Water line: - - - - -
- Gas Meter:
- Liquid Meter:







BILL RICHARDSON  
Governor

DIANE DENTISH  
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](http://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  
Devon 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/Unloading Rack				/	Active	/
Unit 6 RPNT1	Fugitives				/	Active	/

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

September 24, 2009  
Page No. 2 of 3

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

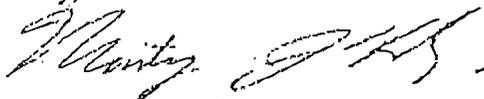
Any changes in the method of operation or addition of more units at the site may constitute a modification, which requires the Department's prior approval for construction and/or operation.

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

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

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
GEOLOGICAL SURVEY  
Conservation DIVISION

Notice to Lessees and Operators of Onshore  
Federal and Indian Oil and Gas Leases  
(NTL-4A)

Royalty or Compensation for Oil and Gas Lost

This Notice is issued pursuant to the authority prescribed in the Oil and Gas Operating Regulations, Title 30 CFR 221, and in accordance with the terms of the Federal and Indian oil and gas leases under the jurisdiction of the Geological Survey. This Notice supersedes certain provisions of NTL-4, issued effective December 1, 1974; Supplement No. 1 to NTL-4, issued effective December 1, 1978, to 10 lessees and operators on a nationwide basis; and Supplement No. 1 to NTL-4, issued effective December 1, 1978, to all lessees and operators in Wyoming. Lessees and operators who submitted payments for royalty on oil and gas lost under these provisions of NTL-4, which are hereby revoked, may file with the Area Oil and Gas Supervisor (Supervisor) an application for a refund of those payments in accordance with the addendum attached to this Notice.

I. GENERAL

Oil production subject to royalty shall include that which (1) is produced and sold on a lease basis or for the benefit of a lease under the terms of an approved communitization or unitization agreement and (2) the Supervisor determines to have been avoidably lost on a lease, communitized tract, or unitized area. No royalty obligation shall accrue as to that produced oil which (1) is used on the same lease, same communitized tract, or same unitized participating area for beneficial purposes or (2) the Supervisor determines to have been unavoidably lost.

Gas Production (both gas well gas and oil well gas) subject to royalty shall include that which is produced and sold on a lease basis or for the benefit of a lease under the terms of an approved communitization or unitization agreement. No royalty obligation shall accrue on any produced gas which (1) is used on the same lease, same communitized tract, or same unitized participating area for beneficial purposes, (2) is vented or flared with the Supervisor's prior authorization or approval during drilling, completing, or producing operations, (3) is vented or flared pursuant to the rules, regulations, or orders of the appropriate State regulatory agency when said rules, regulations, or orders have been ratified or accepted by the Supervisor, or (4) the Supervisor determines to have been otherwise unavoidably lost.

Where produced gas (both gas well gas and oil well gas) is (1) vented or flared during drilling, completing, or producing operations without the prior authorization, approval, ratification, or acceptance of the Supervisor or (2) otherwise avoidably lost, as determined by the Supervisor, the compensation due the United States or the Indian lessor will be computed on the basis of the full value of the gas so wasted, or the allocated portion thereof, attributable to the lease.

## II. DEFINITIONS

As used in this Notice, certain terms are defined as follows:

A. "Avoidably lost" production shall mean the venting or flaring of produced gas without the prior authorization, approval, ratification, or acceptance of the Supervisor and the loss of produced oil or gas when the Supervisor determines that such loss occurred as a result of (1) negligence on the part of the lessee or operator, or (2) the failure of the lessee or operator to take all reasonable measures to prevent and/or to control the loss, or (3) the failure of the lessee or operator to comply fully with the applicable lease terms and regulations, appropriate provisions of the approved operating plan, or the prior written orders of the Supervisor, or (4) any combination of the foregoing.

B. "Beneficial purposes" shall mean that oil or gas which is produced from a lease, communitized tract, or unitized participating area and which is used on or for the benefit of that same lease, same communitized tract, or same unitized participating area for operating or producing purposes such as (1) fuel in lifting oil or gas, (2) fuel in the heating of oil or gas for the purpose of placing it in a merchantable condition, (3) fuel in compressing gas for the purpose of placing it in a marketable condition, or (4) fuel for firing steam generators for the enhanced recovery of oil. Gas used for beneficial purpose shall also include that which is produced from a lease, communitized tract, or unitized participating area and which is consumed on or for the benefit of that same lease, same communitized tract, or same unitized participating area (1) as fuel for drilling rig engines, (2) as the source of actuating automatic valves at production facilities, or (3) with the prior approval of the Supervisor, as the circulation medium during drilling operations. Where the produced gas is processed through a gasoline plant and royalty settlement is based on the residue gas and other products at the tailgate of the plant, the gas consumed as fuel in the plant operations will be considered as being utilized for beneficial purposes. In addition, gas which is produced from a lease, communitized tract, or unitized participating area and which, in accordance with a plan approved by the Supervisor, is reinjected into wells or formations subject to that same lease, same communitized tract, or same unitized participating area for the purpose of increasing ultimate recovery shall be considered as being used for beneficial purposes; provided, however, that royalty will be charged on the gas used for this purpose at the time it is finally produced and sold.

C. "Unavoidably lost" production shall mean (1) those gas vapors which are released from storage tanks or other low-pressure production vessels unless the Supervisor determines that the recovery of such vapors would be warranted, (2) that oil or gas which is lost because of line failures, equipment malfunctions, blowouts, fires, or otherwise except where the Supervisor determines that said loss resulted from the negligence or the failure of the lessee or operator to take all reasonable measures to prevent and/or control the loss, and (3) the venting or flaring of gas in accordance with Section III hereof.

### III. AUTHORIZED VENTING AND FLARING OF GAS

Lessees or operators are hereby authorized to vent or flare gas on a short-term basis without incurring a royalty obligation in the following circumstances:

A. Emergencies. During temporary emergency situations, such as compressor or other equipment failures, relief of abnormal system pressures, or other conditions which result in the unavoidable short-term venting or flaring of gas. However, this authorization to vent or flare gas in such circumstances without incurring a royalty obligation is limited to 24 hours per incident and to 144 hours cumulative for the lease during any calendar month, except with the prior authorization, approval, ratification, or acceptance of the Supervisor.

B. Well Purging and Evaluation Tests. During the unloading or cleaning up of a well during drillstem, producing, routine purging, or evaluation tests, not exceeding a period of 24 hours.

C. Initial Production Tests. During initial well evaluation tests, not exceeding a period of 30 days or the production of 50 MMcf of gas, whichever occurs first, unless a longer test period has been authorized by the appropriate State regulatory agency and ratified or accepted by the Supervisor.

D. Routine or Special Well Tests. During routine or special well tests, other than those cited in III.B and C above, only after approval by the Supervisor.

### IV. OTHER VENTING OR FLARING

A. Gas Well Gas. Except as provided in II.C and III above, gas well gas may not be flared or vented. For the purposes of this Notice, a gas well will be construed as a well from which the energy equivalent of the gas produced, including its entrained liquid hydrocarbons, exceeds the energy equivalent of the oil produced.

B. Oil Well Gas. Except as provided in II.C and III above, oil well gas may not be vented or flared unless approved in writing by the Supervisor. The Supervisor may approve an application for the venting or 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 the 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.

The venting or flaring of gas from oil wells completed prior to the effective date of this Notice is authorized for an interim period. However, an application for approval to continue such practices must be submitted within 90 days from the effective date hereof, unless such venting or flaring of gas was authorized, approved, ratified, or accepted previously by the Supervisor. For oil wells completed on or after the effective date of this Notice, an application must be filed with the Supervisor, and approval received, for any venting or flaring of gas beyond the initial 30-day or other authorized test period.

C. Content of Applications. Applications under section B above shall include all appropriate engineering, geologic, and economic data in support of the applicant's determination that conservation of the gas is not viable from an economic standpoint and, if approval is not granted to continue the venting or flaring of the gas, that it will result in the premature abandonment of oil production and/or the curtailment of lease development. The information provided shall include the applicant's estimates of the volumes of oil and gas that would be produced to the economic limit if the application to vent or flare were approved and the volumes of the oil and gas that would be produced if the applicant was required to market or beneficially use the gas. When evaluating the feasibility of requiring conservation of the gas, the total leasehold production, including both oil and gas, as well as the economics of a field wide plan shall be considered by the Supervisor in determining whether the lease can be operated successfully if it is required that the gas be conserved.

## V. REPORTING AND MEASUREMENT RESPONSIBILITIES

The volume of oil or gas produced, whether sold, avoidably or unavoidably lost, vented or flared, or used for beneficial purposes (including gas that is reinjected) must be reported on Form 9-329, Monthly Report of Operation, in accordance with the requirement of this Notice and the applicable provisions of NTL-1 and NTL-1A. The volume and value of all oil and gas which is sold, vented or flared without the authorization, approval, ratification, or acceptance of the Supervisor, or which is otherwise determined by the Supervisor to be avoidably lost must be reported on Form 9-361, Monthly Report of Sales and Royalties. Payments submitted in this respect must be accompanied by a Form 9-614-A, Rental and Royalty Remittance Advice.

In determining the volumes of oil and gas to be reported in accordance with the first and second paragraphs of this Section V, lessees and operators shall adhere to the following:

1. When the amount of oil or gas involved has been measured in accordance with Title 30 CFR 221.43 or 221.44, that measurement shall be the basis for the volume reported.
2. When the amount of oil and gas avoidably or unavoidably lost, vented or flared, or used for beneficial purposes occurs without measurement, the volume of oil or gas shall be determined utilizing the following criteria, as applicable:
  - a. Last measured throughput of the production facility.
  - b. Duration of the period of time in which no measurement was made.
  - c. Daily lease production rates.
  - d. Historic production data.
  - e. Well production rates and gas-oil ratio tests.
  - f. Productive capability of other wells in the area completed in the same formation.
  - g. Subsequent measurement or testing, as required by the Supervisor.
  - h. Such other methods as may be approved by the Supervisor.

The Supervisor may require the installation of additional measurement equipment whenever it is determined that the present methods are inadequate to meet the purposes of this Notice.

#### VI. VALUE DETERMINATIONS FOR ROYALTY OR COMPENSATION PURPOSES

In computing the royalty or compensation due on oil or gas under the provisions of this Notice, the value shall be computed in the same manner as the Supervisor would have calculated the value of the oil or gas had it been sold from the same lease, same communitized tract, or same unitized participating area.

VII. COMPLIANCE

The failure to comply with the requirements of this Notice will result in compliance being secured by such actions as are provided by law and regulation.

January 1, 1980

/s/ C.J. Curtis

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Date

C.J. Curtis

Oil and Gas Supervisor

Northern Rocky Mountain Area

Approved:

/s/ Hillary A. Oden

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Hillary A. Oden

Acting Chief, Conservation Division

## ADDENDUM TO NTL-4A

### Refund Applications

Certain provisions of NTL-4 have been revoked retroactive to December 1, 1974, the effective date of said Notice. Accordingly, lessees and operators who submitted royalty payments under the provisions of NTL-4 may apply for a refund of those payments made for (1) oil that was unavoidably lost or used for beneficial purposes on the lease, communitized tract, or unitized participating area from which it was produced and/or (2) gas that was vented or flared with the prior approval of the Supervisor or unavoidably lost. No refunds will be processed in the absence of such an application, and no refunds will be made of those payments submitted on the basis of a determination of waste by the Supervisor. In addition, liquidated damages assessed for the late filing of reports or the failure to report pursuant to the provisions of NTL-4 will not be refunded.

The application shall be in the form of a letter signed by an authorized officer or agent of the lessee or operator and for each individual lease shall include:

1. The lease prefix code and lease number.
2. The month and year.
3. The product code (01, 02, 03, 04, 41, or 43) used in the report and payments previously submitted to the Supervisor.
4. The volume of lost oil and/or gas previously reported and the amount of the refund requested.
5. The total amount of the refund requested for each lease as a subtotal.
6. The total amount of the refund requested for all leases as a grand total.

Additional instructions in regard to the filing and contents of said applications may be obtained by contacting the Supervisor having jurisdiction over the lease or leases involved.

Refund applications will be processed as promptly as possible. The Supervisor, as to Federal leases, may process a direct refund or authorize the applicant to withhold the refund amount from future royalty accruals. However, refunds authorized by the Supervisor with respect to Indian leases will be recoverable only as a credit against future rental or royalty accruals in accordance with the provisions of Section IX (Overpayments) of NTL-1A.



**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](mailto:Stephanie.Ysasaga@dvn.com)

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**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 M CARLSBAD FIELD OFFICE

Form 3160-5 (February 2005)

UNITED STATES DEPARTMENT OF THE INTERIOR BUREAU OF LAND MANAGEMENT

FORM 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.

SUBMIT IN TRIPLICATE - Other Instructions on page 2.

1. Type of Well

[X] Oil Well [ ] Gas Well [ ] Other

2. Name of Operator Devon Energy Production Co., LP

3a. 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 700' FNL & 2310' FWL

5. Lease Serial No. NM-97120

6. If Indian, Allottee or Tribe Name

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

Table with 2 main columns: TYPE OF SUBMISSION and TYPE OF ACTION. Includes checkboxes for Notice of Intent, Subsequent Report, Final Abandonment Notice, Acidize, Deepen, Fracture Treat, New Construction, Plug and Abandon, Plug Back, Production (Start/Resume), Reclamation, Recomplete, Temporarily Abandon, Water Disposal, Water Shut-Off, Well Integrity, Other Surface Commingle Gas Hydrocarbons & 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 recomplete 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 recompletion 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/Typed) Stephanle A. Yaasaga

Title Sr. Staff Engineering Technician

Signature

Date 03/05/2010

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by

[Signature]

Title LPE7

Date 3/31/2010

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.

Office CFO

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 OGAR 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](http://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  
Devon 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/Unloading Rack				/	Active	/
Unit 6 RPNT1	Fugitives				/	Active	/

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

September 24, 2009  
Page No. 2 of 3

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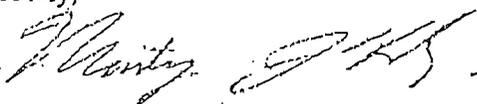
Any changes in the method of operation or addition of more units at the site may constitute a modification, which requires the Department's prior approval for construction and/or operation.

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