

LCX DISCUSSIONS REGARDING THE DRILLING OF 1725 Federal Com #61 well

10-28-05 Thursday

Frank Nix with LCX Energy, LLC called me on the phone and he wanted to know if we would make a deal on our interest in the W/2 of Section 6, T-17-S, R-25-E, Eddy County, New Mexico. He said that they had a rig moving in at the end of the week and needed to do something quick. I told him that we would need a proposal and AFE from them and the team would evaluate and make a recommendation to management. I also told him that, if it was me, I would not let the rig move onto this location. As the conversation progressed he admitted that the rig had already moved in earlier that week and the well had spud. I told him that we have a sizable interest, 120 acres in the proration unit, 37.5% and that the team would not do anything without a well proposal and AFE detailing the cost to be considered. I told him that this would not go over well with the people at Devon and that if it was me, I would tell the his company about the mistake (couldn't really determine if it was his mistake or his operations people) and probably ask them to move off location until such time as they could propose the well. I told him whether it was his mistake or operation's mistake, that he still needed to advise his company and let them make a decision as a whole as to what they should do. I initially felt sorry for him and the position that he was in and actually tried to console him. Anyway, I wished him luck and told him to let me know what happened when he talked to his company and how they were going to proceed.

11-1-05 Monday

Hadn't heard anything from LCX and went out to the OCD website and found their APD that was approved 9-14-05. I also discovered after reading the file that the well actually spud 10-7-05. The well had been planned and there were plats dating back to July of this year. Devon's field personnel confirmed that LCX was continuing to drill well.

11-3-05

Still hadn't heard anything from LCX and sent an email to Bill Carr describing the events that had happened and requested his advice and that he represent Devon in this matter.

11-7-05

Talked to Mr. Carr and he advised that Devon send a letter to LCX requesting that we work out a way to combine acreage and transfer operations to Devon because of the manner in which LCX has handled the property. Request a response by November 14, 2005. If no response, file for compulsory pooling in order to protect Devon's rights. Sent letter to LCX.

11-15-05 – 17 Days without any response from LCX

No response so Bill Carr filed for compulsory pooling for Devon.

11-17-05

Finally got phone message from Frank Nix. I returned Frank's call and got his voice mail and left a message that I did want to talk to him. Said I would be out of the office on Friday, but I would be in the office the following Monday through Wednesday.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 13603 and 13628 Exhibit No. 4  
Submitted by:  
DEVON ENERGY CORPORATION  
Hearing Date: March 2, 2006

11-23-05

By Wednesday, the day before Thanksgiving, still had not heard from Frank, so I called again and said I would still like to talk to him and have been here all week.

After messages back and forth, we finally spoke and I told him the following:

I discovered after our conversation over three weeks ago that you were not completely truthful to me. You started off saying rig was coming and then said rig had already moved in that week. After my investigation of the OCD website, well had been drilling for 3 weeks when we talked. And our field personnel confirmed that you all were continuing to drill. When we talked over three weeks ago, I advised you that Devon was not going to be happy about this and expected to hear right back from you after you talked to your folks that a mistake had been made. I also said we would need to see an AFE and Well proposal. Instead – heard nothing for 3 weeks. I sent a letter by fax and certified mail and never heard anything from you. Had no choice but to file for compulsory pooling.

At the very least:

1. Would like to discuss the combination of the 320 acre unit.
2. Work out a feasible time to turn over operations.
3. Devon would like to see if we could get a copy of the Title Opinion and Well information.

I know the well has continued to drill. Are you down yet?

Frank Nix responded that they were finished drilling and off of the well.

Talked and told him that their lack of response forced Devon to respond in this manner.

Frank Nix stated that he wanted to work with Devon but guess we are going to have to go to Force pooling everytime. He said he wanted to call us and send letter, but was trying to retain council. He also said the telephone works both ways and that we should have called them.

I responded that we did respond to their actions by letter which requested a response from them. We got no response. The fact that after the 1<sup>st</sup> phone call we did not get so much as a call for 3 weeks and then never actually talked until a month after we first learned that they were drilling a well, has Devon very concerned with LCX as an Operator. I told him again that we have had NO feedback from LCX. No proposal or AFE – nothing. Expressed that this is not how a company should conduct business. Asked for proposals, AFE, Title, Well information, anything that they could give us.

I expressed again that their lack of response elicited our reaction. Expressed that their lack of truthfulness had us additionally concerned. Stated that they are not handling their business in an industry acceptable manner.

He said they would try to fix that and previously, he stated that he didn't know when they spud..

Later that afternoon I received a faxed well proposal and AFE. The well proposal letter was rather confusing. It referenced the well in question, but in the body of the letter it described another well in another Section. Also requested a Term Asgn or FO should we not elect to participate. Didn't receive any title or well information.

11-30-05

Sent a letter to the other WI owners describing what LCX had done and requested their support of Devon in its quest for being designated Operator. I also called and talked to landmen with Capstone, Mark Wheeler, Parallel, and EOG and informed them of the situation and that a letter would be forthcoming. Dale Douglas with Capstone or Mark Wheeler said they would inform Jerry Elger. Was informed by each of the landmen for these companies that their hands were tied because they were contractually tied to LCX by virtue of an Exploration Agreement covering a larger area of land.

12-6-05

Sent letter to LCX requesting clarification of their faxed proposal letter and also requested title and well information. Requested to meet by phone or in person to discuss putting the unit together. Also requested operations to be transferred to Devon.

12-16-05

Received an Application for Compulsory Pooling notice from LCX attorney.

1-6-06

Finally received a response from LCX, being a clarification of their proposal letter, itemization of drilling costs to date and drilling reports, and a JOA. They requested that we discontinue discussions with other working interest owners.

1-11-06

Sent letter to LCX thanking them for the above information and requested well logs and title information. I also expressed Devon's continued concern with LCX's lack of communication with Devon throughout this entire time. On that same day, Bill Carr filed a subpoena to obtain the well and title information.

1-18-06

LCX filed a Motion to Quash.

1-26-06

Devon filed a response to LCX's Motion to Quash.

1-27-06, 1-30-06, 2-1-06

LCX joinder and settlement proposal.

2-20-06

OCD ordered LCX to produce certain documents.

2-24-06- Documents delivered to Devon.



Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

Meg Muhlinghouse  
Land Advisor

Phone: (405) 228-4416  
Fax: (405) 552-8113

**VIA FACSIMILE AND CERTIFIED MAIL**

November 7, 2005

Mr. Frank Nix  
LCX Energy, LLC  
110 N. Marienfeld, Suite 200  
Midland, Texas 79701

Re: 1725 Fed Com #61 Well  
660' FNL & 760' FWL  
W/2 Section 6, T-17-S, R-25-E  
Eddy County, New Mexico

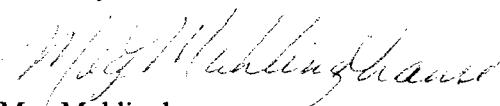
Dear Frank,

Reference is made to our telephone conversation on Friday October 28, 2005, wherein you informed me that LCX Energy, LLC ("LCX") was drilling the 1725 Fed Com #61 well, which is a horizontal Wolfcamp well in the W/2 of Section 6, T-17-S, R-25-E, Eddy County, New Mexico. As you are aware, Devon Energy Production Company, LP ("Devon") owns one hundred twenty (120) acres in the captioned acreage which equates to a 37.5% working interest in the proration unit for said well. After our lengthy conversation, I was under the impression that you would talk to LCX regarding the fact that this well has never been proposed to Devon, and that you would get back to me and advise as to how LCX would proceed. As of this date, I have heard nothing back from you or anyone at LCX. Devon has never received a well proposal or AFE detailing the costs for said well. Additionally, Devon's field personnel have advised that it appears that LCX is continuing to drill ahead on this well. I have also discovered that this well spud on October 7, 2005, and not the week that you called me, as you stated in our phone call. Needless to say, Devon is surprised and definitely not pleased with the manner in which LCX is handling this situation.

In light of all that has transpired with this well to date, Devon would be willing to meet with LCX by telephone or in person, in order to work out an amicable agreement, whereby we combine the lands of both companies in the W/2 of Section 6, T-17-S, R-25-E, Eddy County, New Mexico, which is necessary in order to produce a 320 acre proration unit for a Wolfcamp gas well. Devon would like to further propose that Devon be named as Operator of said proration unit, and that we discuss the timing of the transfer of Operations of the captioned well to Devon.

Please discuss Devon's proposal with LCX and get back to me at the letterhead address and phone number as soon as possible. Because this well is currently drilling, Devon requests that you respond **no later than 5:00 p.m. on Monday November 14, 2005**. If you cannot reach me, please contact Sam Sitton at (405) 228-8850. Thank you in advance for your prompt attention to this matter.

Sincerely,

  
Meg Muhlinghouse  
Land Advisor

LCX Energy, LLC  
Attn: Frank G. Nix  
110 N. Marientfeld, Suite 200  
Midland, Texas 79701  
Phone: 432-687-1575  
Fax: 432-687-5874

**LCX ENERGY, LLC**

# Fax

<b>To:</b> Meg Muhlinghouse	<b>From:</b> Frank G. Nix 432-848-0221
<b>Fax:</b> 405-552-8113	<b>Pages:</b> Cover + 3
<b>Phone:</b> 405-228-4416	<b>Date:</b> 11/23/2005
<b>Re:</b> 1725 Fed Com #61	<b>CC:</b>

☐ Urgent    ☐ For Review    ☐ Please Comment    ☐ Please Reply    ☐ Please Recycle

• **Comments:**

Meg,

I apologize for the delay in getting you a written response, as we discussed by phone and by phone messages, I was waiting on a response from our outside counsel, two and a half weeks have gone by and no response, so we have now found someone else.

Herewith, please find our AFE and offer to participate in the 1725 Fed Com #61. I hope your management will want to join us in this well.

Thanks  
Frank

*[Handwritten signature]*

# LCX Energy, LLC

November 23, 2005

VIA FACSIMILE AND CERTIFIED MAIL

Devon Energy Production Company, L.P.  
Attn: Meg Muhlinghouse  
20 N. Broadway St. 1500  
Oklahoma City, OK 73102

RE: Participation  
LCX Energy, LLC - 1725 Fed Com #61  
W/2 Section 8, T17S, R25E  
Eddy County, New Mexico

Dear Ms. Muhlinghouse:

Per our conversation, LCX Energy, LLC is the operator under the LCX Energy, LLC - 1625 State Com #201 well captioned above. This is a horizontal Wolfcamp well located in the W/2 W/2 of Section 20, T16S, R25E, Eddy County, New Mexico as more specifically described on the AFE. Devon owns a 120.0 net acre leasehold interest in Lot 3 and the E/2 SW/4 of Section 8, which falls within the spacing unit for our 1625 Fed Com #61. LCX Energy, LLC proposes Devon join us in the drilling of this well.

Enclosed for your review and further handling, please find duplicate copies of an Authorization for Expenditure for drilling, completing and equipping the captioned well. Should you decide to join in the drilling of this well, then please sign and return one copy of this letter and the enclosed AFE. We will then prepare a Joint Operating Agreement for your review.

In the alternative, should you not wish to participate, we propose (1) a term assignment of your interest for \$75.00 per net acre for a 75% net revenue interest one-year term assignment or (2) a farmout of your leasehold interest with Devon retaining the difference between existing leasehold burdens and 25% as an overriding royalty interest with the option to convert the retained override to a 25% working interest at payout of the well, proportionately reduced to Devon's leasehold interest in the 320 acre unit.

Please fax the signed letter and AFE to my attention at 432-687-2521 and mail the original document to my attention at the letterhead address.

Thank you in advance for time and consideration in this matter.

Very truly yours,

LCX Energy, LLC



Frank G. Nix  
Encl.

RE: Participation  
LCX Energy, LLC - 1725 Fed Com #81  
W/2 Section 6, T17S, R25E  
Eddy County, New Mexico

- ☐ The undersigned elects to **PARTICIPATE** in drilling the captioned well.
- ☐ The undersigned elects **NOT TO PARTICIPATE** in drilling the captioned well.

In the alternative to participation:

- ☐ The undersigned elects to take the term assignment alternative option (1) set out above.
- ☐ The undersigned elects to take the farmout alternative option (2) set out above.

Devon Energy Production Company, L.P.

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

LCX ENERGY, LLC

AUTHORITY FOR EXPENDITURE

LEASE & WELL NO.: 1725 Fed Com # 61  
COUNTY: Eddy  
AFE No.: LCXD5023

PROSPECT:  
STATE: New Mexico  
SEC 6, 17S-25E, 760' FWL & 660' FNL SL, 760' FWL & 660' FSL BHL

TOTAL DEPTH: MD 9200'  
WELL TYPE: Horizontal

Lease # 8085.001

INTANGIBLE DRILLING COST


			IDC: 100	DRY HOLE	COMPLETE	TOTAL
Survey, Permits & Professional Fees			8.43	2,000		2,000
Surface Damages			6.08	10,000		10,000
Road & Location Dirtwork			6.07	85,000	3,000	88,000
Drilling Footage	ft @ \$	per ft	6.11			
Drilling Daywork	30:0 day @ \$	12,500 per day	6.13	375,000		375,000
Rig Mobilization			8.40	40,000		40,000
Pulling Unit	8 day @ \$	\$2,200 per day	6.60; 7.38		17,600	17,600
Swab Rig	day @ \$	\$1,000 per day	7.30			
Fuel & Lubricants			6.38	40,000		40,000
Mud, Wash Oil & Chemicals			6.12	50,000		50,000
Bits, Stabilizers & Reamers			8.08	65,000		65,000
Directional Service	MWD, motor, directional package, 11 days @ \$10000/d		6.53	110,000		110,000
Casing Crews & Equipment			6.01; 7.03	7,000	5,000	12,000
Equipment Rental			6.20; 7.12	40,000	10,000	50,000
Waterwell, Pump & Line			6.47	10,000	5,000	15,000
Water Transport			6.46; 7.17	10,000	5,000	15,000
Cement Service	Kick off plug		8.02; 7.43	51,000	35,000	86,000
Drill Stem Testing	@ \$	per test	6.54			
Coring & Core Analysis	ft @ \$	per ft	6.05			
Geological Services			6.24			
Mud Logging	15 day @ \$	650 per day	6.23	9,800		9,800
Open Hole Log Service			8.34	16,000		16,000
Cased Hole Log Service			7.86		10,000	10,000
Perforating	TCP + Tractor		6.35; 7.35		70,000	70,000
Acid Stimulation			7.01			
Frac Stimulation			7.16		300,000	300,000
Pump Truck & Nitrogen Service			7.19		3,000	3,000
Transportation			6.32; 7.32	5,000	3,000	8,000
Contract Labor & Welding			8.04; 7.07	1,500	1,500	3,000
Tubular Inspection			6.45; 7.34			
Engineering & Wellsite Supervision	Days @ \$900/day		8.18; 7.10	27,000	7,200	34,200
Abandonment			6.66			
Environmental, Disposal & Restoration			6.56		10,000	10,000
Contingencies @ 5 %			6.86; 7.36	45,200	24,300	69,500
Subtotal:				848,500	509,600	1,459,100

LEASE & WELL EQUIPMENT

	Size/Wt./Grade/Thd	Footage	Price			
Tubulars:						
Conductor Pipe		ft @ \$	per ft	3.03		
Surface Casing	13 3/8" 48# H40	385	ft @ \$ 32.00	per ft 3.06	12,400	12,400
Intermediate Casing	9 5/8" 36# J55	1,300	ft @ \$ 26.00	per ft 3.04	33,800	33,800
Protection Liner		ft @ \$	per ft	4.40		
Production Casing		ft @ \$	per ft	4.21		
Production Liner	5 1/2" 17# N80	9,300	ft @ \$ 15.00	per ft 4.21	139,500	139,500
Production Tubing	2 3/8" 4.6# L80	4,800	ft @ \$ 4.50	per ft 4.33	21,600	21,600
Wellhead Equipment			3.09; 4.36	4,000		4,000
Flowing Tree			3.09; 4.36		3,500	3,500
Pumping Hookup			3.09; 4.36			
Liner Hanger, Packer & Tubing Anchor			4.17; 4.20		40,000	40,000
Cementing & Float equipment			3.01; 4.41	4,000	2,000	6,000
Pumping Unit w/ Base & Prime Mover			4.22			
Electrical Installation			4.15			
Rods, Subsurface Pump & Accessories			4.24; 4.28; 4.06			
Compressor & Accessories			4.05			
SWD Equipment			4.14			
Oil Storage Tanks			4.27			
SW Fiberglass Tanks			4.35		4,800	4,800
Separator			4.26		7,500	7,500
Heater-Treater			4.13			
Dehydrator/Line Heater			4.28			
Meters, Valves & Connections			4.84		3,000	3,000
Installation			4.25		3,000	3,000
Flowline & Connections			4.34; 4.10		1,000	1,000
Gas Pipeline, Meter & Installation			4.18		10,000	10,000
Subtotal:				54,200	235,900	290,100
Grand Total:				1,003,700	745,500	1,749,200

LCX ENERGY, LLC

WORKING INTEREST PARTNER

Prepared By: Larry Gillette  
Approved By:   
Title:

DATE: 23-Sep-05  
DATE: 10/3/05

agrees to participate for \_\_\_\_\_ % W. I.  
Approved By: \_\_\_\_\_  
DATE: \_\_\_\_\_  
Title: \_\_\_\_\_





Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

Meg Muhlinghouse  
Land Advisor

Phone: (405) 228-4416  
Fax: (405) 552-8113

**VIA FACSIMILE AND CERTIFIED MAIL**

November 30, 2005

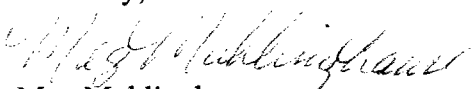
Working Interest Owners  
(See Attached List)

Re: 1725 Federal Com #1 well  
660' FNL & 760' FWL  
W/2 Section 6, T-17-S, R-25-E  
Eddy County, New Mexico

Gentlemen:

Reference is made to the captioned well, currently being drilled by LCX Energy, LLC ("LCX"). Devon Energy Production Company, LP ("Devon") is an owner of 37.5% of the working interest in the W/2 proration unit for the captioned well. Devon was notified by telephone on October 28, 2005 that LCX wanted to drill a horizontal Wolfcamp well in the W/2 of Section 6, T-17-S, R-25-E, Eddy County, New Mexico, which was actually three weeks after the captioned well was spud. Devon advised LCX that they would need a formal well proposal and AFE detailing the costs for said well. Devon sent a letter to LCX on November 7, 2005 (copy attached) expressing Devon's displeasure in the manner in which LCX had handled this situation and requested to meet by phone or in person, in order to work out an amicable agreement to combine the lands of all the owners in said proration unit. Additionally, Devon proposed that the operations of said unit be transferred to Devon. Devon did not hear a word from LCX for three weeks after the initial phone call on October 28, 2005, and then a message was left stating that LCX had been trying to contact legal council regarding this matter. Devon finally received a well proposal November 23, 2005. Due to the manner in which LCX has handled this situation, Devon has filed for compulsory pooling and is requesting that operations be transferred to Devon. Devon hereby requests your support of Devon as Operator of this proration unit. If you would like to discuss this further, please contact the undersigned at the letterhead address and phone number. ?

Sincerely,

  
Meg Muhlinghouse  
Land Advisor

**WORKING INTEREST OWNER LIST**

1725 FED COM #1 WELL  
W/2 Section 6, T-17-S, R-25-E  
Eddy County, New Mexico

Mr. Dale Douglas  
Capstone Oil & Gas Co., LP  
203 West Wall, Suite 1201  
Midland, TX 79701  
Fax (432) 682-4498

Mr. Mark Wheeler  
CMW Interests, Inc.  
24 Smith Road, Suite 405  
Midland, TX 79705  
[mark@cmwinterests.com](mailto:mark@cmwinterests.com)

Mr. Jerry Elger  
Elger Exploration, Inc.  
P.O. Box 2623  
Midland, TX 79702-2623  
Fax (432) 682-4498

Mr. Rick Lanning  
EOG Resources, Inc.  
Post Office Box 2267  
Midland, Texas 79701  
Fax (432) 686-3773

Mr. Mike Gray  
Parallel Petroleum Corp  
1004 N. Big Spring, Suite 400  
Midland, TX 79701  
Fax (432) 684-3905



Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

Meg Muhlinghouse  
Land Advisor

Phone: (405) 228-4416  
Fax: (405) 552-8113

**VIA FACSIMILE AND CERTIFIED MAIL**

December 6, 2005

Mr. Frank Nix  
LCX Energy, LLC  
110 N. Marienfeld, Suite 200  
Midland, Texas 79701

Re: 1725 Fed Com #61 Well  
660' FNL & 760' FWL  
W/2 Section 6, T-17-S, R-25-E  
Eddy County, New Mexico

Dear Frank,

Reference is made to our telephone conversation on Wednesday November 23, 2005 concerning the captioned well, and the subsequent well proposal that you sent that same day. Your proposal letter references the 1725 Fed Com #61 well, but the body of the letter refers to the 1625 State Com #201 well in the W/2W2 of Section 20, T16S, R25E and then later refers to the spacing unit for the 1625 Fed Com #61. The AFE reflects the 1725 Fed Com #61 well, so I'm assuming that the other well names and locations in your letter were typographical errors. However, I wanted to confirm that with you to make sure.

Although Devon appreciates finally receiving the LCX Energy, LLC ("LCX") well proposal, Devon Energy Production Company, LP ("Devon") also wants to receive a copy of your Title Opinion covering the proration unit and any well information obtained to date, as we discussed in our telephone conversation. A detail of well costs would also be helpful. Devon continues to want to work out an amiable arrangement whereby our respective companies can properly combine the acreage in the proration unit for said well, and has been and still is available to discuss the same. However, due to the fact that LCX spud the captioned well on October 7, 2005 and did not officially propose said well until November 23, 2005 (being after said well was drilled), and because of LCX's lack of communication in writing or by telephone, Devon is still not convinced that it is comfortable with the practices of LCX as an Operator. LCX's behavior to date, does not exhibit normal practices of a prudent Operator. As I've stated before, Devon is willing to meet with LCX by telephone or in person, in order to work out an amicable agreement, whereby we combine the lands of all of the working interest owners in the W/2 of Section 6, T-17-S, R-25-E, Eddy County, New Mexico, which is necessary in order to produce a 320 acre proration unit for a Wolfcamp gas well. Devon would like to further propose that Devon be named as Operator of said proration unit, and that we discuss the timing of the transfer of Operations of the captioned well to Devon. Devon has recently sent a letter to the other working interest owners in the proration unit requesting their support of Devon, as Operator.

Please discuss Devon's concerns and proposal with LCX and get back to me at the letterhead address and/or phone number as soon as possible. Your prompt attention to this matter would be greatly appreciated.

Sincerely,

Meg Muhlinghouse  
Land Advisor



Devon Energy Corporation  
20 North Broadway  
Oklahoma City, Oklahoma 73102-8260

Meg Muhlinghause  
Land Advisor

Phone: (405) 228-4416  
Fax: (405) 552-8113

**VIA FACSIMILE AND CERTIFIED MAIL**

January 11, 2006

Mr. Frank Nix  
LCX Energy, LLC  
110 N. Marienfeld, Suite 200  
Midland, Texas 79701

Re: 1725 Fed Com #61 Well  
660' FNL & 760' FWL  
W/2 Section 6, T-17-S, R-25-E  
Eddy County, New Mexico

Dear Frank,

Reference is made to your letter dated January 6, 2006, which was in response to my letter to you dated December 6, 2005 concerning the captioned well. I appreciate receiving the drilling report and well cost information, but in order for Devon to make an informed decision, I am still in need of the well logs and Title Opinion which we have requested both verbally in our telephone conversations and in writing. I also need to express Devon's continued concern with LCX's apparrant lack of communication with Devon regarding this entire matter. The three and four week time lapses between letters sent to LCX and Devon receiving a response, does not exhibit that LCX is anxiously trying to work with Devon in a matter where LCX is clearly the offending party who has handled this situation improperly.

Please discuss Devon's concerns with LCX, forward the information requested to Devon, and get back to me at the letterhead address and/or phone number as soon as possible. Your prompt attention to this matter would be greatly appreciated.

Sincerely,

Meg Muhlinghause  
Land Advisor