

Statement
of

J. Larry Nichols
Chairman and Chief Executive Officer
Devon Energy Corporation

before the

Senate Committee on Energy and Natural Resources

on

Oil and Gas Resources on the Outer Continental Shelf
and Areas Available for Leasing in the Gulf of Mexico

Washington, DC

January 25, 2007

Mr. Chairman and members of the Committee, I am Larry Nichols, Chairman and Chief Executive Officer of Devon Energy Corporation, one of the largest independent exploration and production companies in the United States.

I am pleased to be here today. Thank you for the opportunity to share some of the excitement of our Devon Energy team – from geoscientists to our production personnel – as we work hard to provide the secure supplies of natural gas and oil that America needs.

That excitement is especially keen with respect to offshore energy resources that are the focus of today's hearing.

Who could not be excited about our being able to tap potential energy-bearing geologic formations five miles below the seabed, under a mile-and-a-half-deep water?

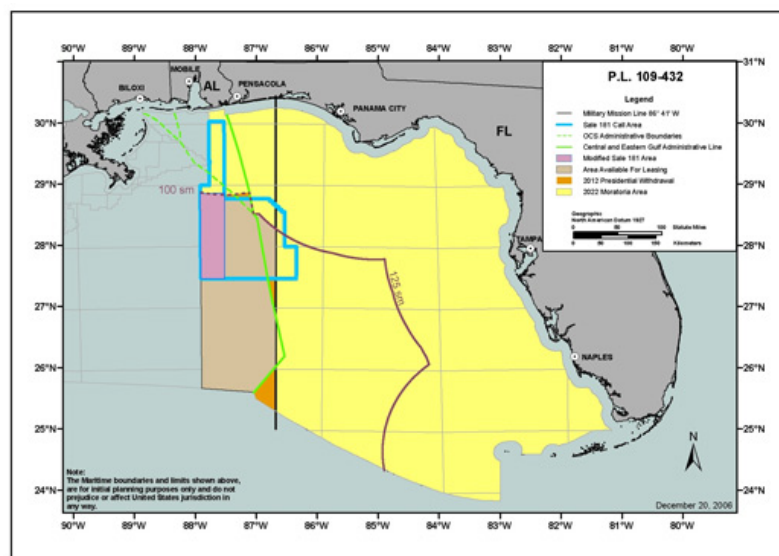
The sand sample I am going to pass to you to look at is from just such a formation. (There is oil trapped within the small pores of the sample, providing both the potential energy and some of the extraction and cost challenges for the future that must be understood.)

This sample provides the starting point for my remarks today that will focus on our views of available Gulf of Mexico resources, other areas that should be made available for exploration, the advanced technologies that make our industry the best and most efficient in the world, and the need for good, stable energy and investment policies for us to best meet the nation's energy requirements.

Gulf of Mexico

The members of this Committee know very well the crucial role that the Gulf of Mexico and the Gulf Coast states have today in providing oil and gas for America. The Department of the Interior projects that within the next five years fully 40 percent of US oil production and 20 percent of US natural gas production will come from the Gulf of Mexico.

Some of that natural gas production will undoubtedly come from the areas in the Central Gulf that will be leased as a direct result of the Gulf of Mexico Energy Security Act passed first by the Senate and then approved by the House and signed into law late last year. That new access is shown in the beige shading on the map.



Opening this new area and putting in place the revenue sharing principle included in the new law are very significant steps toward what the country must do in providing increased access to better prospects for natural gas and oil exploration and production. I commend you and your colleagues for this progress.

Devon Energy is already carefully evaluating where, and at what levels, we will be prepared to bid in the original Sale 181 area that is to be leased to the north later this year. We are also interested in acquiring seismic and other data to better assess the potential of the area to the south.

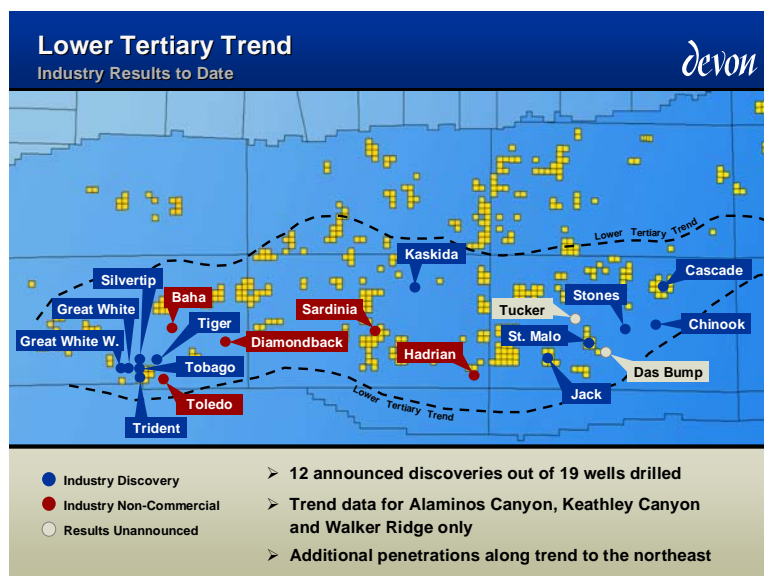
We and others, including the large independents that are leading the way in developing the Independence Hub in the part of the Sale 181 area leased several years ago, are well positioned to be major participants in these new areas.

In terms of resource expectations in these areas, we'll defer to the MMS for official numbers. But these areas are very significant. They may even hold potential to have more gas than are in current official estimates.

We must always keep in mind that resource estimates are based on available information. As more information is gained, resource estimates can grow substantially. That has certainly been the case in the Central and Western Gulf of Mexico where exploration and production has been allowed for decades. In those parts of the Gulf we have produced three times more natural gas than the first comprehensive resource estimates identified – and we now believe the Gulf still contains nearly five times those original estimates. The more we explore, the more we know.

If you detect excitement about the natural gas potential in the Gulf, the same should be true with respect to oil potential. However, in the most promising areas in the deeper waters and deeper geologic formations, our enthusiasm must be tempered with a realization that we face very high technology hurdles and costs. We also face very long lead times – perhaps a decade – before there is any production, much less cost recovery or profit, from even the best prospects.

You have seen and heard about recent deep water discoveries in what is known as the Lower Tertiary trend located hundreds of miles off the central and western Gulf of Mexico coasts. Devon has been associated with four of those discoveries, including Chevron's Jack prospect (from which the sand sample was provided). The graphic shows industry results to date.



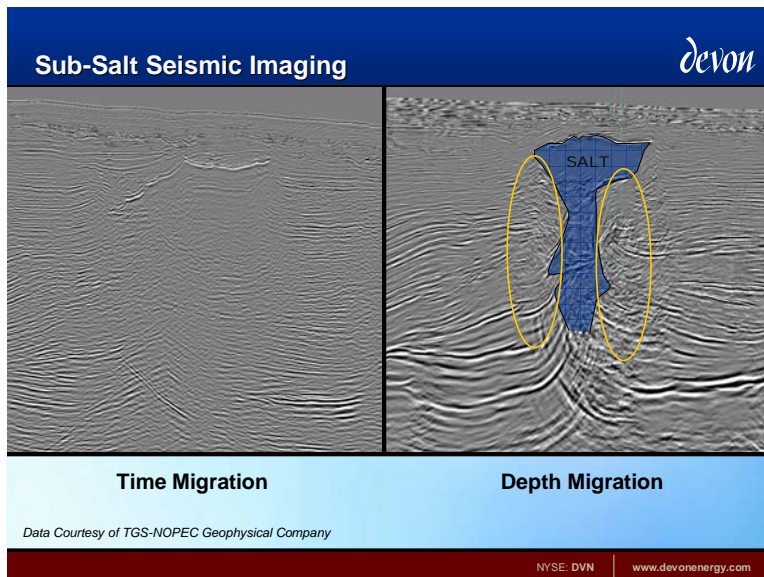
Devon Energy has additional prospects and leases in the trend area.

The trend's resource potential may indeed eventually be in the billions-of-barrels ranges reported by media. But my previous point bears repeating: We are at the leading edge of technology and we have very high costs that may or may not lead to any particular project's being determined to be economic.

Technology and Costs

Today we are able to use our geoscience technology such as 3- and 4-dimensional seismic imaging to "see" geologic formations better than ever before.

For example, in the year 2000 we could not see through deep salt formations that



cover parts of the Lower Tertiary trend. But with new seismic acquisition and improved processing capability we are able to study and target interesting formations we knew little about only a few years ago. At the same time, drilling and well completion technology that allows exploration and production in today's water depths and deep formations did not exist.

Today our advanced technology allows us to both find new supplies and then make the most efficient and cost-effective development and production facility decisions.

The new technologies are expensive. Drill ships that use satellite and thruster positioning because of ultra deep water conditions cost one half million dollars a day – more than twice as much as just a few years ago. We're also contracting for new high-technology moored semi-submersible rigs that can operate in 10,000 feet of water.

The slide is titled "West Sirius" with the Devon logo in the top right. It features a 3D rendering of the West Sirius semi-submersible rig. To the left of the rig, the following text is listed:

- New build 5th generation semi-submersible owned by Seadrill Management AS
- 4-year fixed term contract secured by Devon following rig construction
- Option to extend contract for an additional 12-24 months prior to delivery
- Expected delivery: Q2 2008
- Rig specs:
 - > Rated to 37,500' drilling depth
 - > 10,000' water depth rating
 - > Designed and outfitted for subsea completions/development

At the bottom right, it says "NYSE: DVN | www.devonenergy.com".

This means that we have single well investments of \$100-million or more, field development costs that may exceed \$1.5 billion, and project costs in excess of \$2.5-billion. Again, most of these costs may be incurred years or even a decade before any revenue is obtained, even if a project is assumed to be commercial.

With such costs and timelines we must have a stable investment climate.

Devon Energy and other companies in the large independent sector have a record of investing more than we earn, and 100 percent or more of our total cash flow to find and produce more energy. But we cannot risk making multibillion dollar decisions only to have royalty, tax or regulatory policies change – pulling project economics out from under us.

The same is true for regulatory or other delays, such as in leasing processes. Given the many people involved at every phase of activity from leasing to the construction by service companies of drill rigs to actual drilling and development, slowdowns at any stage cause disruption and higher costs.

On the other hand, if we assume a good, stable investment regime and smooth government and other processes, we are excited about the country's offshore oil and gas potential in the Gulf of Mexico and beyond.

This brings me to my comments on other offshore areas.

Other Areas

The remarkable technology improvements that we continue to experience have made our industry one that is sought after to explore offshore around the world.

We explore, develop and produce oil and gas safely, cleanly and efficiently from the Gulf of Mexico to Angola and Azerbaijan, to Norway and the UK. But we don't do it off the US Atlantic and Pacific coasts. We hope this will change. We will continue to work in that direction.

Which brings me back to the focus of this hearing – offshore resources.

Offshore resources in current moratoria areas may be very large. When opponents of more access argue to the contrary, they turn logic on its head. Without access we do not know what is there – and remember that resource estimates are made on the basis of information – information ultimately available only by exploration.

Based on exploration done in the Atlantic decades ago, for example, we know that there is natural gas 100 miles or more off the mid-Atlantic coast. But without further exploration we don't yet know how much, or whether it is in formations that, with today's technology, might be economic.

With increased reasonable access to new areas in the future, we and our employees are excited about the possibility of providing more natural gas, with less price volatility, to heat our homes, generate our electricity and manufacture fertilizer, plastics, and the many consumer products America relies on everyday.

Thank you once again, Mr. Chairman, for the opportunity to share my views today.

I would be pleased to answer questions.