

DEVON ENERGY CORP/DE

Form 8-K

February 05, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event report): February 5, 2004

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

000-30176
(Commission File Number)

73-1567067
(IRS Employer
Identification Number)

20 NORTH BROADWAY, OKLAHOMA CITY, OK
(Address of Principal Executive Offices)

73102
(Zip Code)

Registrant's telephone number, including area code: **(405) 235-3611**

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Item 5. Other Events and Required FD Disclosure

On February 5, 2004, Devon Energy Corporation released the following forward-looking estimates.

Definitions

The following discussion includes references to various abbreviations relating to volumetric production terms and other defined terms. These definitions are as follows:

AECO means the price of gas delivered onto the NOVA Gas Transmission Ltd. System.
Bbl or Bbls means barrel or barrels.
Bcf means billion cubic feet.
Boe means barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas.
Brent means pricing point for selling North Sea crude oil.
Btu means British thermal units, a measure of heating value.
Inside FERC refers to the publication *Inside F.E.R.C.'s Gas Market Report*.
LIBOR means London Interbank Offered Rate.
MMBbls means one million Bbls.
MMBoe means one million Boe.
MMBtu means one million Btu.
Mcf means one thousand cubic feet.
NGL or NGLs means natural gas liquids.
NYMEX means New York Mercantile Exchange.
Oil includes crude oil and condensate

Forward-Looking Estimates

The forward-looking statements provided in this discussion are based on management's examination of historical operating trends, the information which was used to prepare the December 31, 2003 reserve reports and other data in Devon's possession or available from third parties. Devon cautions that its future oil, natural gas and NGL production, revenues and expenses are subject to all of the risks and uncertainties normally incident to the exploration for and development, production and sale of oil, gas and NGLs. These risks include, but are not limited to, price volatility, inflation or lack of availability of goods and services, environmental risks, drilling risks, regulatory changes, the uncertainty inherent in estimating future oil and gas production or reserves, and other risks as outlined below.

Additionally, Devon cautions that its future marketing and midstream revenues and expenses are subject to all of the risks and uncertainties normally incident to the marketing and midstream business. These risks include, but are not limited to, price volatility, environmental risks, regulatory changes, the uncertainty inherent in estimating future processing volumes and pipeline throughput, cost of goods and services and other risks as outlined below.

Also, the financial results of Devon's foreign operations are subject to currency exchange rate risks. Additional risks are discussed below in the context of line items most affected by such risks.

A summary of these forward-looking estimates is included at the end of this document.

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Specific Assumptions and Risks Related to Price and Production Estimates Prices for oil, natural gas and NGLs are determined primarily by prevailing market conditions. Market conditions for these products are influenced by regional and worldwide economic conditions, weather and other local market conditions. These factors are beyond Devon's control and are difficult to predict. In addition to volatility in general, Devon's oil, gas and NGL prices may vary considerably due to differences between regional markets, transportation availability and costs and demand for the various products derived from oil, natural gas and NGLs. Substantially all of Devon's revenues are attributable to sales, processing and transportation of these three commodities. Consequently, Devon's financial results and resources are highly influenced by price volatility.

Estimates for Devon's future production of oil, natural gas and NGLs are based on the assumption that market demand and prices for oil, gas and NGLs will continue at levels that allow for profitable production of these products. There can be no assurance of such stability. Also, Devon's international production of oil, natural gas and NGLs is governed by payout agreements with the governments of the countries in which Devon operates. If the payout under these agreements is attained earlier than projected, Devon's net production and proved reserves in such areas could be reduced.

Estimates for Devon's future processing and transport of oil, natural gas and NGLs are based on the assumption that market demand and prices for oil, gas and NGLs will continue at levels that allow for profitable processing and transport of these products. There can be no assurance of such stability.

The production, transportation, processing and marketing of oil, natural gas and NGLs are complex processes which are subject to disruption due to transportation and processing availability, mechanical failure, human error, meteorological events including, but not limited to, hurricanes, and numerous other factors. The following forward-looking statements were prepared assuming demand, curtailment, producibility and general market conditions for Devon's oil, natural gas and NGLs during 2004 will be substantially similar to those of 2003, unless otherwise noted.

Unless otherwise noted, all of the following dollar amounts are expressed in U.S. dollars. Amounts related to Canadian operations have been converted to U.S. dollars using a projected average 2004 exchange rate of \$0.7600 U.S. dollar to \$1.00 Canadian dollar. The actual 2004 exchange rate may vary materially from this estimate. Such variations could have a material effect on the following estimates.

Though Devon has completed several major property acquisitions and dispositions in recent years, these transactions are opportunity driven. Thus, the following forward-looking data excludes the financial and operating effects of potential property acquisitions or divestitures during the year 2004.

Geographic Reporting Areas for 2004

The following estimates of production, average price differentials and capital expenditures are provided separately for each of the following geographic areas:

the United States Onshore;

the United States Offshore, which encompasses all oil and gas properties in the Gulf of Mexico;

Canada; and

International, which encompasses all oil and gas properties that lie outside of the United States and Canada.

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Year 2004 Potential Operating Items

Oil, Gas and NGL Production Set forth in the following paragraphs are individual estimates of Devon's oil, gas and NGL production for 2004. On a combined basis, Devon estimates its 2004 oil, gas and NGL production will total between 256 and 261 MMBoe. Of this total, approximately 95% is estimated to be produced from reserves classified as proved at December 31, 2003.

Oil Production Devon expects its oil production in 2004 to total between 78 and 80 MMBbls. Of this total, approximately 97% is estimated to be produced from reserves classified as proved at December 31, 2003. The expected ranges of production by area are as follows:

	(MMBbls)
United States Onshore	15 to 15
United States Offshore	18 to 19
Canada	14 to 14
International	31 to 32

Oil Prices Fixed Through various price swaps, Devon has fixed the price it will receive in 2004 on a portion of its oil production. The following table includes information on this fixed-price production by area. Where necessary, the prices have been adjusted for certain transportation costs that are netted against the prices recorded by Devon.

	Bbls/Day	Price/Bbl	Months of Production
United States Onshore	11,000	\$27.51	Jan - Dec
United States Offshore	18,000	\$27.16	Jan - Dec
Canada	15,000	\$27.53	Jan - Dec
International	20,000	\$26.03	Jan - Dec

Oil Prices Floating Devon's 2004 average prices for each of its areas are expected to differ from the NYMEX price as set forth in the following table. The NYMEX price is the monthly average of settled prices on each trading day for West Texas Intermediate crude oil delivered at Cushing, Oklahoma.

	Expected Range of Oil Prices Less than NYMEX Price
United States Onshore	(\$3.00) to (\$2.00)
United States Offshore	(\$4.50) to (\$2.50)
Canada	(\$6.50) to (\$4.50)
International	(\$5.50) to (\$3.00)

Devon has also entered into costless price collars that set a floor and ceiling price for a portion of its 2004 oil production that is otherwise subject to floating prices. The floor and ceiling prices related to domestic and Canadian oil production are based on the NYMEX price. The floor and ceiling prices related to international oil production are based on the Brent price. If the NYMEX or Brent price is outside of the ranges set by the floor and ceiling prices in the various collars, Devon and the counterparty to the collars will settle the difference. Any such settlements will either increase or decrease Devon's oil revenues for the period. Because Devon's oil volumes are often sold at prices that differ from the NYMEX or Brent price due to differing quality (i.e., sweet crude versus sour crude) and transportation costs from different geographic areas, the floor and ceiling prices of the various collars do not reflect actual limits of Devon's realized prices for the production volumes related to the collars.

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The international oil prices shown in the following table have been adjusted to a NYMEX-based price, using Devon's estimates of 2004 differentials between NYMEX and the Brent price upon which the collars are based.

To simplify presentation, Devon's costless collars as of December 31, 2003, have been aggregated in the following table according to similar floor prices and similar ceiling prices. The floor and ceiling prices shown are weighted averages of the various collars in each aggregated group.

Area (Range of Floor Prices/Range of Ceiling Prices)	Bbls/Day	Weighted Average		Months of Production
		Floor Price Per Bbl	Ceiling Price Per Bbl	
United States Onshore				
(\$20.00 - \$21.50 / \$26.50 - \$27.90)	3,000	\$20.83	\$27.43	Jan - Dec
(\$20.00 - \$22.00 / \$28.35 - \$29.75)	6,000	\$21.42	\$29.25	Jan - Dec
(\$22.00 - \$22.00 / \$30.10 - \$30.60)	2,000	\$22.00	\$30.35	Jan - Dec
United States Offshore				
(\$20.00 - \$22.00 / \$27.55 - \$29.75)	6,000	\$21.42	\$28.75	Jan - Dec
(\$22.00 - \$22.00 / \$30.00 - \$31.40)	7,000	\$22.00	\$30.74	Jan - Dec
Canada				
(\$20.00 - \$21.50 / \$26.50 - \$27.70)	3,000	\$20.50	\$27.07	Jan - Dec
(\$20.00 - \$22.00 / \$28.00 - \$29.20)	5,000	\$21.10	\$28.69	Jan - Dec
(\$22.00 - \$22.00 / \$29.80 - \$32.35)	8,000	\$22.00	\$31.14	Jan - Dec
International				
(\$22.31 - \$22.31 / \$30.11 - \$31.51)	27,000	\$22.31	\$30.82	Jan - Dec
(\$22.31 - \$22.31 / \$31.56 - \$32.81)	10,000	\$22.31	\$31.96	Jan - Dec

Gas Production Devon expects its 2004 gas production to total between 936 Bcf and 948 Bcf. Of this total, approximately 93% is estimated to be produced from reserves classified as proved at December 31, 2003. The expected ranges of production by area are as follows:

	(Bcf)
United States Onshore	489 to 494
United States Offshore	148 to 150
Canada	292 to 297
International	7 to 7

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Gas Prices Fixed Through various price swaps and fixed-price physical delivery contracts, Devon has fixed the price it will receive in 2004 on a portion of its natural gas production. The following table includes information on this fixed-price production by area. Where necessary, the prices have been adjusted for certain transportation costs that are netted against the prices recorded by Devon, and the prices have also been adjusted for the Btu content of the gas hedged.

	<u>Mcf/Day</u>	<u>Price/Mcf</u>	<u>Months of Production</u>
United States Onshore	8,435	\$3.10	Jan - Dec
Canada	43,578	\$2.76	Jan - Jun
Canada	41,920	\$2.79	Jul - Dec

Gas Prices Floating For the natural gas production for which prices have not been fixed, Devon's 2004 average prices for each of its areas are expected to differ from the NYMEX price as set forth in the following table. The NYMEX price is determined to be the first-of-month South Louisiana Henry Hub price index as published monthly in *Inside FERC*.

	<u>Expected Range of Gas Prices Less Than NYMEX Price</u>
United States Onshore	(\$0.80) to (\$0.30)
United States Offshore	(\$0.25) to (\$0.05)
Canada	(\$1.10) to (\$0.60)
International	(\$3.00) to (\$2.00)

Devon has also entered into costless price collars that set a floor and ceiling price for a portion of its 2004 natural gas production that otherwise is subject to floating prices. If the applicable monthly price indices are outside of the ranges set by the floor and ceiling prices in the various collars, Devon and the counterparty to the collars will settle the difference. Any such settlements will either increase or decrease Devon's gas revenues for the period. Because Devon's gas volumes are often sold at prices that differ from the related regional indices, and due to differing Btu contents of gas produced, the floor and ceiling prices of the various collars do not reflect actual limits of Devon's realized prices for the production volumes related to the collars.

The prices shown in the following table have been adjusted to a NYMEX-based price, using Devon's estimates of 2004 differentials between NYMEX and the specific regional indices upon which the collars are based. The floor and ceiling prices related to the domestic collars are based on various regional first-of-the-month price indices as published monthly by *Inside FERC*. The floor and ceiling prices related to the Canadian collars are based on the AECO index as published by the *Canadian Gas Price Reporter*.

To simplify presentation, Devon's costless collars have been aggregated in the following table according to similar floor prices and similar ceiling prices. The floor and ceiling prices shown are weighted averages of the various collars in each aggregated group.

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Area (Range Of Floor Prices/Range of Ceiling Prices)	MMBtu/ Day	Weighted Average		Months of Production
		Floor Price per MMBtu	Ceiling Price per MMBtu	
United States Onshore				
(\$3.32 - \$4.22 / \$4.97 - \$6.37)	110,000	\$3.77	\$5.91	Jan - Dec
(\$3.32 - \$4.47 / \$6.47 - \$7.35)	215,000	\$4.10	\$6.87	Jan - Dec
(\$3.32 - \$4.00 / \$7.45 - \$7.85)	45,000	\$3.54	\$7.62	Jan - Dec
(\$3.50 - \$4.07 / \$8.02 - \$8.86)	100,000	\$3.61	\$8.37	Jan - Dec
(\$4.00 - \$4.15 / \$7.00 - \$7.00)	40,000	\$4.06	\$7.00	