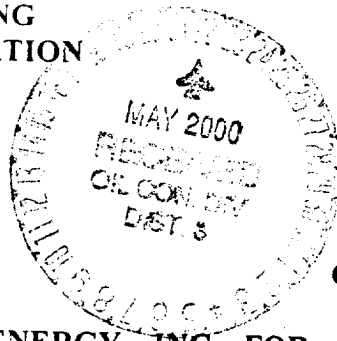


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STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:



NOMENCLATURE
CASE NO. 12387
ORDER NO. R-11374

APPLICATION OF PENWELL ENERGY, INC. FOR POOL CREATION,
SPECIAL POOL RULES, AND A NON-STANDARD OIL PRORATION UNIT
AND AN UNORTHODOX OIL WELL LOCATION, SANDOVAL COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 20, 2000, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 17th day of May, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
 - (2) The applicant, Penwell Energy, Inc. ("Penwell"), seeks:
 - (a) the creation of a new pool for the production of oil from the Entrada formation comprising the N/2 of Section 8, Township 19 North, Range 4 West, NMPM, Sandoval County, New Mexico;
 - (b) the promulgation of special pool rules to include provisions for 160-acre spacing and proration units with wells to be located no closer than 660 feet to any boundary of a unit; and
 - (c) an exception to the proposed rules in order to establish a non-standard 160-acre oil spacing and proration unit to comprise the W/2 NE/4 and the E/2 NW/4 of Section 8 to be dedicated to its Eagle Spring "8"
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Federal Well No. 1 (API No. 30-043-20949), located at an unorthodox oil well location 263 feet from the North line and 2548 feet from the East line (Unit B) of Section 8; and

(d) an exception to the proposed rules for an unorthodox well location for the Eagle Spring "8" Federal Well No. 1.

(3) An unorthodox oil well location, pursuant to Division Rule 104, for the Eagle Spring "8" Federal Well No. 1 was approved by Division Order No. R-11331, issued in Case No. 12335 on February 17, 2000.

(4) The Eagle Spring "8" Federal Well No. 1 was completed in March of 2000 in the Entrada formation through perforations from 5,542 feet to 5,547 feet at an initial rate of approximately 219 barrels of oil per day. It does not currently have a pool designation.

(5) The proposed pool is within two miles of the Arena Blanca-Entrada Pool. The Arena Blanca-Entrada Pool is currently governed by Division Rule 104 which requires standard 40-acre spacing and proration units with wells to be located no closer than 330 feet to any boundary of a unit.

(6) Penwell presented evidence demonstrating that:

(a) the Eagle Spring "8" Federal Well No. 1 is located on an isolated sand dune structure within the Entrada formation;

(b) due to the limited lateral extent of the sand dune structure, a new source of supply for the Entrada formation, separate from the Arena Blanca-Entrada Pool, has been discovered;

(c) one well is capable of draining the entire structure, approximately 194 acres; and

(d) the isolated sand dune structure is located such that a 160-acre non-standard spacing and proration unit will be required to effectively and economically drain the entire reservoir.

(7) Penwell presented further evidence demonstrating that:

- (a) the Eagle Spring "8" Federal Well No. 1 will be unorthodox, pursuant to the proposed well location requirements, because it encroaches on the north line of the unit;
 - (b) all of Section 8 comprises a single Federal lease (Lease No. NM-99705);
 - (c) all of Section 5, Township 19 North, Range 4 West, being the affected offset acreage, is a single Federal lease (Lease No. NM-99704);
 - (d) Penwell operates and owns all the working interest in both Federal leases;
 - (e) royalty interests are identical in Sections 5 and 8; and
 - (f) correlative rights will not be violated because the working and royalty interests in Sections 5 and 8 are identical.
- (8) Penwell testified that only one well will be required to effectively and economically drain the entire reservoir and no other wells will need to be drilled.
- (9) No offset operator or interest owner appeared at the hearing in opposition to the application.
- (10) In order to prevent waste and protect correlative rights, temporary special pool rules providing for 160-acre spacing and proration units should be issued for the proposed pool.
- (11) The temporary special pool rules should provide for designated well locations such that a well shall be located no closer than 660 feet to any outer boundary of a spacing and proration unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.
- (12) Approval of the unorthodox well location and the non-standard proration unit will afford Penwell the opportunity to produce its just and equitable share of the oil underlying the N/2 of Section 8 and will otherwise prevent waste and protect correlative rights.
- (13) Pursuant to Division General Rules No. 505.A. and 506.A., the subject pool should be assigned a depth bracket allowable of 347 barrels of oil per day at a limiting gas-oil ratio of 2,000 cubic feet of gas per barrel of oil.

(14) Pursuant to Division nomenclature procedures, a new pool classified as an oil pool for Entrada production should be created and designated the Southeast Arena Blanca-Entrada Pool, with vertical limits comprising the Entrada formation and horizontal limits comprising the N/2 of Section 8, Township 19 North, Range 4 West, NMPM, Sandoval County, New Mexico.

(15) This case should be reopened at an examiner hearing in May, 2001, at which time the operators in the subject pool should be prepared to appear and show cause why the Temporary Special Rules for the Southeast Arena Blanca-Entrada Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Penwell Energy, Inc., a new pool in Sandoval County, New Mexico, classified as an oil pool for Entrada production is hereby created and designated the Southeast Arena Blanca-Entrada Pool, with vertical limits comprising the Entrada formation and horizontal limits comprising the following described area:

Township 19 North, Range 4 West, NMPM
Section 8: N/2.

(2) Temporary special pool rules for the Southeast Arena Blanca-Entrada Pool are hereby adopted as follows:

**TEMPORARY SPECIAL POOL RULES FOR THE
SOUTHEAST ARENA BLANCA-ENTRADA POOL**

RULE 1. Each well completed in or recompleted in the Southeast Arena Blanca-Entrada Pool, or in the Entrada formation within one mile thereof and not nearer to or within the limits of another designated Entrada pool, shall be spaced, drilled, operated and produced in accordance with these rules.

RULE 2. Each well completed or recompleted in the Southeast Arena Blanca-Entrada Pool shall be located on a unit containing 160 acres, more or less, which consists of the NE/4, SE/4, SW/4 or NW/4 of a single governmental section.

RULE 3. The Director may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the

proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 20 days after the Director has received the application.

RULE 4. Each well shall be located no closer than 660 feet to any outer boundary of a unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard 160-acre oil spacing and proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 347 BOPD with a limiting GOR of 2000 cubic feet of gas per barrel of oil. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

IT IS FURTHER ORDERED THAT:

(3) An unorthodox oil well location for the Eagle Spring "8" Federal Well No. 1 (API No. 30-043-20949), located 263 feet from the North line and 2548 feet from the East line (Unit B) of Section 8, is hereby approved.

(4) A non-standard 160-acre oil spacing and proration unit comprising the W/2 NE/4 and the E/2 NW/4 of Section 8 and dedicated to the well is hereby approved.

(5) This case shall be reopened at an examiner hearing in May, 2001, at which time the operators in the Southeast Arena Blanca-Entrada Pool shall appear and show cause why the temporary special rules for the pool set forth herein should not be rescinded.

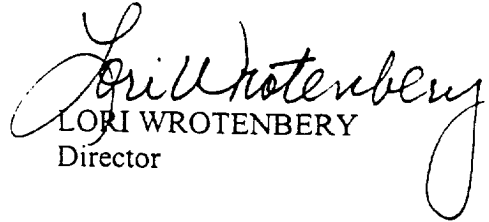
(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

8-19-4

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

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