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& SHERIDAN, P.A.

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August 12, 1998

HAND DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
98 AUG 12 PM 4:12

Re: ***Case No. 11992: Application of Penwell Energy, Inc. for Compulsory Pooling,
Eddy County, New Mexico***

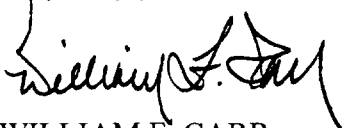
Dear Ms. Wrotenbery,

This letter supplements the Response of Penwell Energy, Inc. to Canadian Kenwood's Motion to Hold Election Notice Invalid or, In the Alternative, to Stay the Election Period Under Order No. R-11004. In Penwell's response, we advised that Ms. Tina Hall, landman for Canadian Kenwood, had told Penwell that she had contacted the assignor of the Penwell assignment to prevent additional extensions thereof and that, based on her conversation, no further extension would be granted.

Mark Wheeler, landman for Penwell, contacted Mr. William Parker, assignor of the Penwell interest in this spacing unit, concerning this matter and Mr. Parker verbally agreed to the extension. However, on this date, Penwell has received the attached letter in which Mr. Parker advises that no extension will be given because of his reliance on Canadian Kenwood.

Penwell renews its request that the Division deny the motion of Canadian Kenwood for a stay of the election period established by Order No. R-11004. A stay will defeat the purpose of the risk penalty set by the Division and will give Canadian Kenwood a free look at the well.

Very truly yours,



WILLIAM F. CARR
Attorney for Penwell Energy, Inc.
Enc.

cc: James Bruce, Esq. (w/enc.)

August 11, 1998

William G. Parker
2885 Leonard Ave
Madford, Oregon 97504

Mr. Mark Wheeler
Perwell Energy Inc
1100 Arco Bldg
800 N. Marienfeld
Midland, Texas 79701

Mark Wheeler:

In reference to the extension request for the Shugart West Prospect (NM-050) in Eddy County, we have reconsidered our position. The relationship between the Parker interest and Canadian Kenwood goes back almost 60 years. In that the Parker interest has very little knowledge of the oil and gas industry, we rely on Canadian Kenwood.

Therefore, on the matter of extension, we will wait and do as Canadian Kenwood.

Sincerely,


William Parker

cc: Tina Hall

OIL CONSERVATION DIV.
93 AUG 10 PM 4:08
STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

APPLICATION OF PENWELL ENERGY, INC.
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

Case No. 11992
Order No. R-11004

RESPONSE OF PENWELL ENERGY, INC.
TO MOTION TO HOLD ELECTION NOTICE INVALID
OR IN THE ALTERNATIVE TO
STAY THE ELECTION PERIOD UNDER ORDER NO. R-11004

With this motion Canadian Kenwood Company ("Canadian") attempts to either (1) avoid the risk penalty set by the Division in Order No. R-11004 or (2) to assist it in negotiating a better agreement for its participation in the proposed well.

FACTS:

In Case No. 11992, Penwell Energy, Inc. ("Penwell") sought an order from the Division pooling all formations from the surface to the base of the Wolfcamp formation underlying the SE/4 SW/4 of Section 19, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico to be dedicated to the West Shugart "19" Federal Well No. 1 (the Shugart well") to be drilled to the Wolfcamp formation. Canadian appeared at the hearing on Penwell's application but did not present testimony.

By Order No. R-11004, the Division granted the application of Penwell and pooled all mineral interests from the surface to the base of the Wolfcamp. This order directs Penwell to provide Canadian with an AFE for the Shugart well and provides that if Canadian

does not pay its share of these estimated well costs within 30 days its interest is subject to a 200% risk penalty.

Due to the poor performance of other Wolfcamp wells in the immediate area, by letter dated July 15, 1998, Penwell proposed to drill only to the Bone Spring formation and sent an AFE to Canadian which included only the costs of a well to this formation (a formation pooled by Order No. R-11004). Canadian contacted Penwell to express its concerns about only drilling to the Bone Spring and on the following day filed this motion with the Division.

Because of Canadian's concern about limiting this well to the Bone Spring, Penwell withdrew its proposal to drill only to the Bone Spring. On August 4, 1998, Penwell sent to Canadian its AFE for a well to be drilled to the Wolfcamp formation. Penwell's letter transmitting this AFE to Canadian dated August 4, 1998 is attached hereto as Exhibit A. Accordingly the 30 day election period for Canadian to join in a Wolfcamp well on this pooled spacing unit pursuant to Division Order No. R-11004 commenced to run on that date.

ARGUMENT:

Canadian's Motion must be denied because Penwell will drill the Shugart well to the Wolfcamp formation as it proposed in Case 11992 and approved by the Division in Order No. R-11004. Furthermore, as set out below, Canadian has brought this matter to the Commission for reasons other than those stated in its Motion.

The Term Assignment by which Penwell owns an interest in the pooled spacing unit

(SE/4 SE/4 of Section 19, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico), will terminate on August 30, 1998 unless a well is commenced on this pooled unit by that date or an extension obtained from the Assignor. At the hearing on their application, Penwell advised the Examiner of the need to expedite this order because of the pending expiration of this Term Assignment and the order was promptly entered by the Division. However, in an attempt to avoid the risk penalty provisions of this order, Canadian filed the instant Motion and, through its landman, Tina Hall, has contacted the assignor of the Penwell assignment concerning an extension of this agreement. Ms. Hall has advised Penwell of this conversation and informed Penwell that no further extensions of their assignment will be granted.

Canadian does not appear to want to prevent the drilling of a well in the SE/4 SW/4 of Section 19. Although it owns a 73% interest in the subject tract and in three offsetting tracts, Canadian has expressed no interest in drilling a well on this spacing and proration unit. Instead, it just wants a better deal. While it files a *de novo* application "to preserve its rights," Canadian has not proposed a well or even suggested that it drill on this acreage. Instead, it seeks better terms than it has been able to negotiate with Penwell or are available to it under New Mexico's compulsory pooling statutes. Since the Penwell Assignment will expire on August 30, Canadian is simply attempting to force Penwell to: (1) negotiate a better deal; or (2) give Canadian a free look at the well. If the Motion to Stay the Election Period

Under Order No. R-11004 is granted, Penwell must proceed with the drilling of the Shugart well and Canadian will know the results of this drilling before it has to make its election on whether or not to participate.

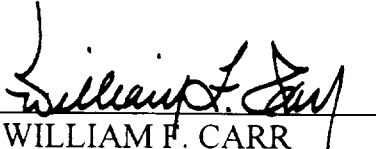
If the Shugart well is drilling by the time this case comes before the Commission on September 10, Canadian will likely again make only a token appearance as it did when this application came before the Examiner. It will do this because its objectives will have been achieved. The well will be drilling and Canadian will know the results of the Penwell drilling before it has to join in the well. The risk penalty will have been avoided and Penwell will have assumed all risk for the Canadian 73% interest in this tract.

At the de novo hearing, Penwell will again appear and present its case. At that time Penwell will expect Canadian to present witnesses to testify about its concerns and will expect Ms. Hall to appear to be questioned about her contacts with the Assignor of the Penwell Assignment and her other actions concerning this matter which may raise issues for the Commission and/or issues which may be beyond the Commission's jurisdiction.

WHEREFORE, Penwell Energy, Inc. requests that Canadian Kenwood's Motion to Hold Election Notice Invalid or in the Alternative to Stay the Election Period Under Order No. R-11004 be denied.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN. P. A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87501-2208

Attorneys for Penwell Energy, Inc.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was hand delivered this 10th day of August, 1998 to:

James Bruce, Esq.
612 Old Santa Fe Trail, Suite B
Santa Fe, New Mexico 87501

Marilyn S. Hebert, Esq.
Oil Conservation Commission
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Rand Carroll, Esq.
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505


WILLIAM F. CARR

PENWELL ENERGY, INC.

1100 ARCO BUILDING
800 N. MARIENFELD
MIDLAND, TEXAS 79701

OFF: (915) 693 2534
FAX: (915) 693 4514

August 4, 1998

SENT VIA FEDERAL EXPRESS 8-4-98

Canadian Kenwood Company
1910 IDS Center
80 South Eighth Street
Minneapolis, MN 55402

Attn: Tena Hall

Re: Shugart West "19" Federal #1 Well
Shugart West Prospect (NM-050)
Eddy County, New Mexico

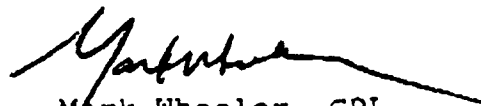
Dear Tena:

Pursuant to Compulsory Pooling Order R-11004, Penwell Energy, Inc. hereby proposes the drilling of the captioned well, a 10,300' Wolfcamp test well to be drilled 1980' FWL & 660' FSL of Section 19, T-18-S, R-31-E, NMPM, Eddy County, New Mexico. Please disregard my letter of July 15, 1998 as we have decided to drill this well to the Wolfcamp formation.

Pursuant to said Order's paragraph (4) on Page 3, Canadian Kenwood has thirty (30) days from the date you receive this letter in which to pay your 73% share of the estimated well costs. Should you have any questions, please feel free to contact us.

Yours very truly,

PENWELL ENERGY, INC.



Mark Wheeler, CPL
Land Manager, Permian Basin

/cmw:nm-050(30m)
xc: Steve Foy / John Thoma

EXHIBIT A