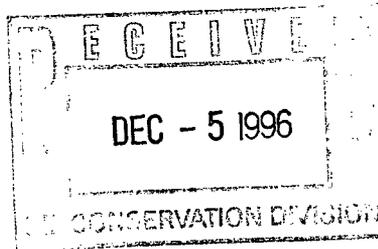


CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN

MICHAEL H. FELDEWERT
TANYA M. TRUJILLO
PAUL R. OWEN

JACK M. CAMPBELL
OF COUNSEL



NSL 12/26/96

12-5

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

December 5, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: *Application of Penwell Energy, Inc. for Administrative Approval of an Unorthodox Well Location for its F. H. "28" State Com. Well No. 2, 1980 feet from the South line and 1650 feet from the West line of Section 28, Township 23 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.*

Dear Mr. LeMay:

Penwell Energy, Inc. hereby seeks administrative approval pursuant to the provisions of Division Rule 104 F (2) adopted on January 18, 1996, of an unorthodox well location for its F. H. "28" State Com. Well No. 2 to be drilled at an unorthodox well location 1980 feet from the South line and 1650 feet from the West line Section 28, Township 23 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

This location in the Morrow formation is unorthodox because it is located within one mile of the South Carlsbad-Morrow Gas Pool which is governed by Special Rules and Regulations (Case 4693, Order No. R-1670-L) that provide for wells to be located no closer than 660 feet to the nearest side boundary of the dedicated tract nor closer than 1980 feet to the nearest end boundary.

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources

December 5, 1996

Page 2

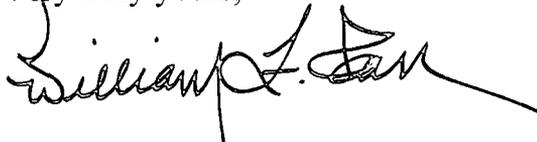
This unorthodox location is required by geological conditions. Attached hereto as Exhibit A is a Lower Morrow Isopach Map which shows the proposed unorthodox location and, immediately East thereof, the nearest standard location. This exhibit demonstrates that moving to the proposed unorthodox location results in a substantial gain in reservoir quality rock.

Attached hereto as Exhibit B is a plat showing the subject spacing unit, the proposed unorthodox well location, the offsetting wells and the diagonal and adjoining spacing units.

Exhibits C and D are a list of the parties affected by this application and a letter from each waiving objection to this well.

Your attention to this application is appreciated.

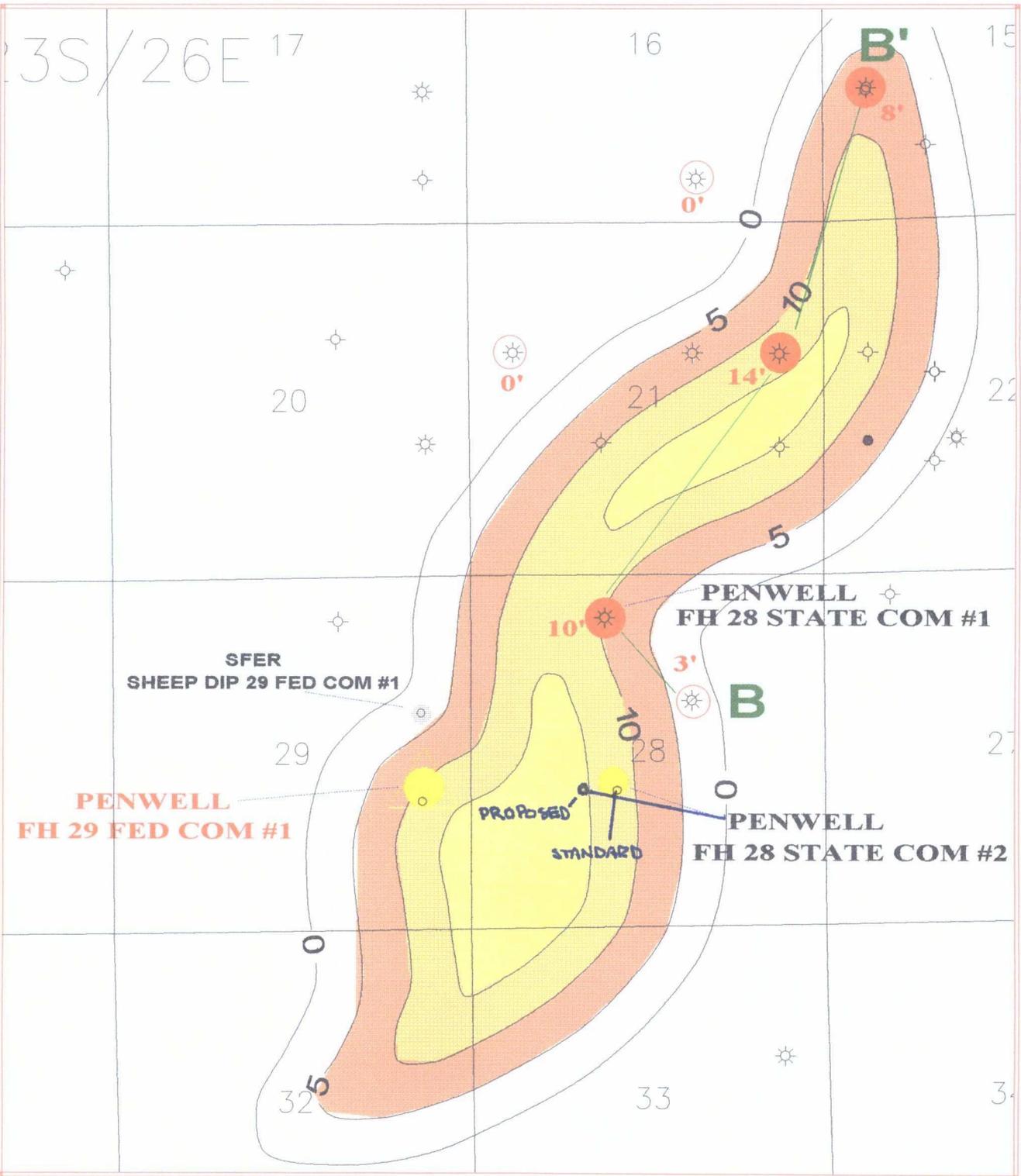
Very truly yours,

A handwritten signature in cursive script, appearing to read "William F. Carr". The signature is written in black ink and extends to the right with a long, sweeping tail.

WILLIAM F. CARR
Attorney for Penwell Energy, Inc.

Enclosures

cc: Mr. Mark Wheeler
Penwell Energy, Inc.
1100 ARCO Building
600 North Marienfeld
Midland, Texas 79701



LEGEND

- LMB PRODUCER
- ▲ PROPOSED PENWELL FH 29 FED COM #1
- PENWELL FH 28 STATE COM #2



PENWELL ENERGY

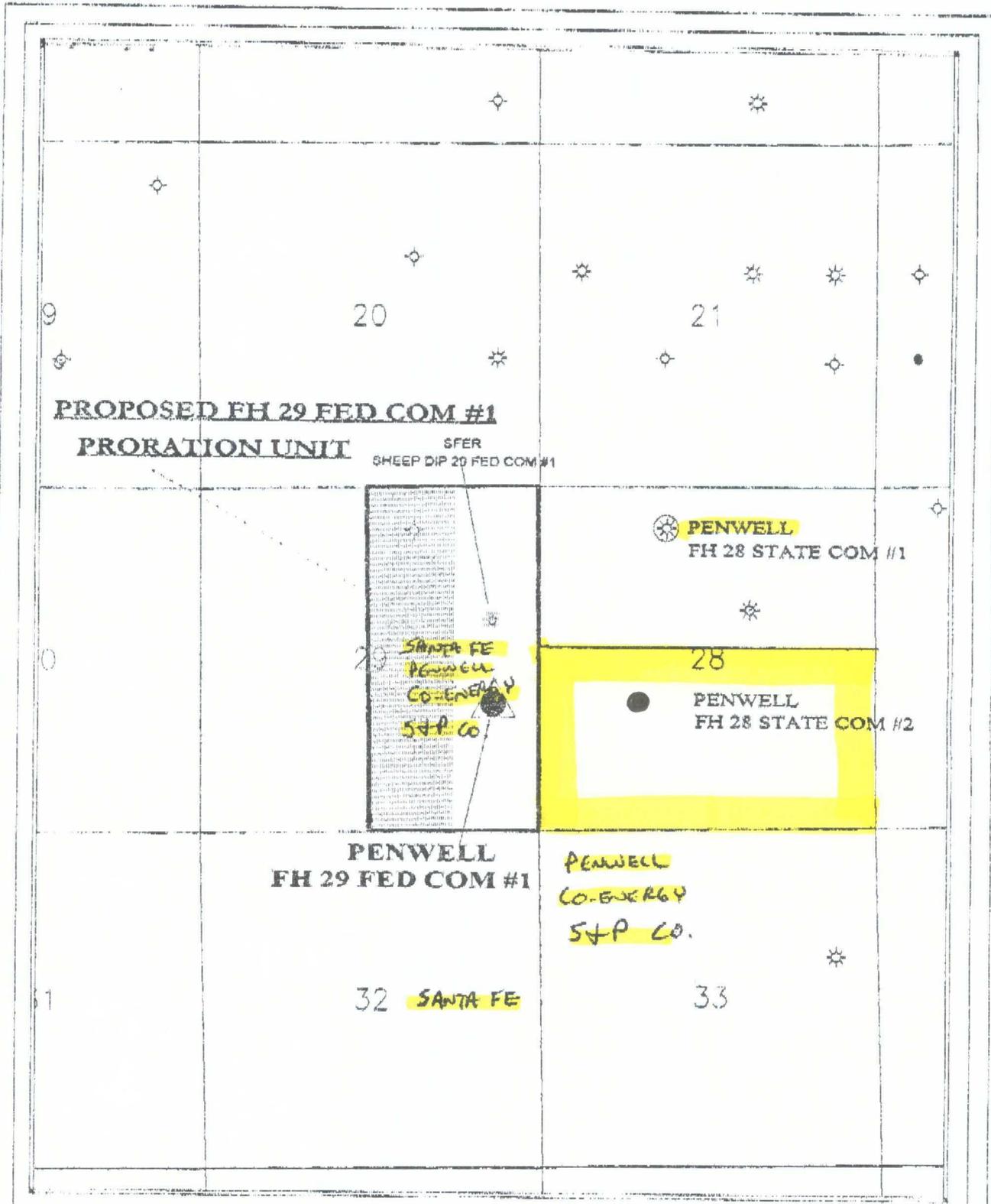
FRONTIER HILLS PROSPECT
 EDDY COUNTY, N.M.
 LOWER MORROW 'LMB' ISOPACH MAP

JLT

Cl: 5'
 1:2000'

10-18-96





PROPOSED FH 29 FED COM #1

PRORATION UNIT

SFER
SHEEP DIP 20 FED COM #1

PENWELL
FH 28 STATE COM #1

28
PENWELL
FH 28 STATE COM #2

PENWELL
FH 29 FED COM #1

PENWELL
CO-ENERGY
S+P CO.

32 **SANTA FE**

33

LEGEND

- ▲ PROPOSED PENWELL FH 29 FED COM #1
- PENWELL FH 28 STATE COM #2
- PENWELL LEASEHOLD
- ⊕ SFER LEASEHOLD



PENWELL ENERGY
FRONTIER HILLS PROSPECT
EDDY COUNTY, N.M.
LEASE MAP

JET

11/22/97

10-18-98

EXHIBIT C

AFFECTED PARTIES

Application of Penwell Energy, Inc. for
administrative approval of an unorthodox well location
F.H. "28" State Com. No. 2
1980 feet from the South line and 1650 feet from the West line
Section 28, Township 23 South, Range 26 East, NMPM
Eddy, New Mexico

Co-Energy Central Exploration, Inc.
150 West Jefferson
Suite 1900
Detroit, MI 48226

S & P Co.
Post Office Box 3735
Shreveport, LA 71133

Santa Fe Energy Resources, Inc.
550 West Texas
Suite 1330
Midland, TX 79701

12/04/96 WED 12:47 FAX

DEC- 4-96 WED 12:52 PENWELL

001

PENWELL ENERGY, INC.

December 4, 1996

1100 ARCO BUILDING
600 N. MARIENFELD
MIDLAND, TEXAS 79701

OFF: (915) 683-2534
FAX: (915) 683-4514

TO THE WORKING INTEREST
OWNERS SHOWN ON ATTACHED
EXHIBIT "A"

Re: F.H. "28" State Com. #2 Well
1650' FWL & 1980' FSL of
Section 28, T-23-S, R-26-E
Frontier Hills Prospect (NM-008)
Eddy County, New Mexico

Gentlemen:

Penwell Energy, Inc. herewith respectfully requests your waiver of any objection to the drilling of the captioned well at the stated location, which is unorthodox in relation to the west line of said Section 28.

If you agree to waive objection, please so indicate by signing and returning one (1) copy of this letter by fax (915-683-4514) this afternoon, if at all possible. Should you have any questions concerning this matter, please feel free to contact us. Thank you for your continuing cooperation.

Yours very truly,

PENWELL ENERGY, INC.



Mark Wheeler, CPL
Land Manager, Permian Basin

WE HEREBY WAIVE ANY OBJECTION
TO THE CAPTIONED UNORTHODOX
WELL LOCATION.

OWNER: Co Energy Central
By: John A. Picraglio
Name: John A. Picraglio
Title: Asset Manager

/cmw:NM-008(23m)
xc: Bill Carr / Bill Pierce

PENWELL ENERGY, INC.

December 4, 1996

1100 ARGO BUILDING
500 N. MARIENFELD
MIDLAND, TEXAS 79701

OFF: (815) 883-2634
FAX: (815) 883-4514

TO THE WORKING INTEREST
OWNERS SHOWN ON ATTACHED
EXHIBIT "A"

Re: F.H. "28" State Com. #2 Well
1650' FWL & 1980' FSL of
Section 28, T-23-S, R-26-E
Frontier Hills Prospect (NM-008)
Eddy County, New Mexico

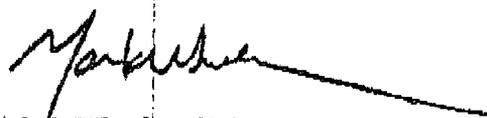
Gentlemen:

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If you agree to waive objection, please so indicate by signing and returning one (1) copy of this letter by fax (915-683-4514) this afternoon, if at all possible. Should you have any questions concerning this matter, please feel free to contact us. Thank you for your continuing cooperation.

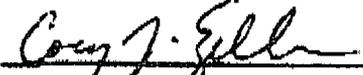
Yours very truly,

PENWELL ENERGY, INC.


Mark Wheeler, CPL
Land Manager, Permian Basin

WE HEREBY WAIVE ANY OBJECTION
TO THE CAPTIONED UNORTHODOX
WELL LOCATION.

OWNER: S & P Co.

By: 
Name: Cory Ezelle
Title: Geological Manager

/cmw:NM-008(23m)
cc: Bill Carr / Bill Pierce

SENT BY:

12-4-96 4:04PM Santa Fe Energy

18156834514;# 2/ 2

PENWELL ENERGY, INC.

December 4, 1996

1100 ARCO BUILDING
600 N. MARIENFELD
MIDLAND, TEXAS 79701

OPP: (915) 683-2834
FAX: (915) 683-4514

TO THE WORKING INTEREST
OWNERS SHOWN ON ATTACHED
EXHIBIT "A"

Re: F.H. "28" State Com. #2 Well
1650' FWL & 1980' FSL of
Section 28, T-23-S, R-26-E
Frontier Hills Prospect (NM-008)
Eddy County, New Mexico

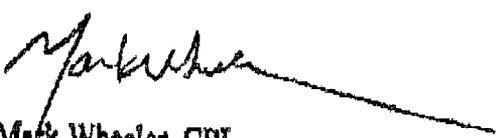
Gentlemen:

Penwell Energy, Inc. herewith respectfully requests your waiver of any objection to the drilling of the captioned well at the stated location, which is unorthodox in relation to the west line of said Section 28.

If you agree to waive objection, please so indicate by signing and returning one (1) copy of this letter by fax (915-683-4514) this afternoon, if at all possible. Should you have any questions concerning this matter, please feel free to contact us. Thank you for your continuing cooperation.

Yours very truly,

PENWELL ENERGY, INC.


Mark Wheeler, CPL
Land Manager, Permian Basin

WE HEREBY WAIVE ANY OBJECTION
TO THE CAPTIONED UNORTHODOX
WELL LOCATION.

OWNER: Santa Fe Energy Resources, Inc.

By: 
Name: Gene H. Davis
Title: Geol. & Geophysics Mgr.

/cmw:NM-008(23m)
xc: Bill Carr / Bill Pierce