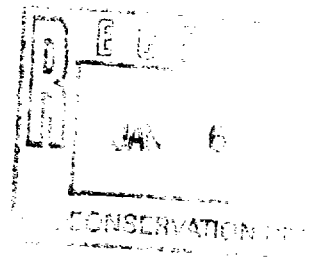


BEFORE THE
OIL CONSERVATION DIVISION



NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF PENWELL ENERGY, INC. FOR POOL
CREATION, SPECIAL POOL RULES
AND A DISCOVERY ALLOWABLE,
EDDY COUNTY, NEW MEXICO.

CASE NO. 114164

APPLICATION

PENWELL ENERGY, INC. ("Penwell"), by its undersigned attorneys, hereby makes application to the Oil Conservation Division for an Order (1) designating a new pool as a result of discovery of hydrocarbons in the Bone Spring formation, in its Rookie State Well No. 1 located at a previously approved unorthodox well location (Order NSL-1265-A dated January 8, 1996) 150 feet from the North line and 2056 feet from the East line in Unit B of Section 7, Township 22 South, Range 26 East, N.M.P.M., Eddy County, New Mexico, (2) promulgating special pool rules and regulations for this pool, including (a) 80-acre oil spacing or proration units on a permanent basis or, in the alternative, on a temporary basis; (b) special well location requirements, and (3) granting a discovery allowable and in support of this application states:

1. Applicant is drilling and by the date of hearing on this application will have completed its Rookie State Well No. 1 in the Bone Spring formation at a location 150 feet from the North line and 2056 feet from the East line of Section 7, Township 22 South, Range

26 East, Eddy County, New Mexico.

2. Applicant believes that the following described lands will be proven to be productive of oil in paying quantities from the Bone Spring formation and should be included in the original definition of the pool to be created because of this discovery:

Township 22 South, Range 26 East, N.M.P.M.

Section 7: W/2 NE/4

3. In order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid augmentation of risk arising from the drilling of an excessive number of wells and otherwise prevent waste and protect correlative rights, special rules and regulations providing for 80-acre oil spacing units should be promulgated for the new pool.

4. Applicant requests that the special pool rules provide that each well should be located on a standard unit containing 80-acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section and that each well shall be located no closer than 330 feet to the outer boundary of the spacing unit.

5. Pursuant to the provisions of Division Rule 509, Penwell Energy Inc. seeks assignment of a discovery allowable to its Rookie State Well No. 1.

WHEREFORE, Penwell Energy, Inc., requests that this application be set for hearing before an Examiner of the Oil Conservation Division on February 8, 1996, that notice be given as required by law and the rules of the Division, and that the application be approved.

Respectfully submitted,

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