



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

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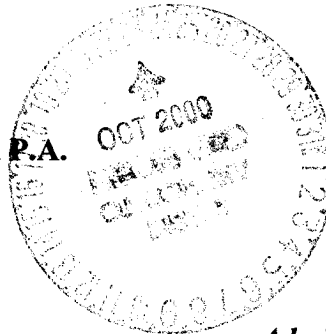
Lori Wrotenbery

Director

Oil Conservation Division

October 18, 2000

JH
Penwell Energy, Inc.
c/o Campbell, Carr, Berge & Sheridan, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208
Attention: William F. Carr



Telefax No. (505) 983-6043

Administrative Order NSL-2053-A

Dear Mr. Carr:

Reference is made to the following: (i) your initial application on behalf of the operator Penwell Energy, Inc., L.L.C. ("Penwell"), dated August 29, 2000, as amended by letter dated October 16, 2000; and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file on Division Administrative Order NSL-2053: all concerning Penwell's request for an unorthodox Entrada oil well for its Torreon Wash "36" State Well No. 1 to be drilled 2143 feet from the South line and 1223 feet from the East line (Unit I) of Section 36, Township 20 North, Range 5 West, NMPM, McKinley County, New Mexico. The NE/4 SE/4 of Section 36 is to be dedicated to the well in order to form a standard 40-acre oil spacing and proration unit within the Arena Blanca-Entrada Oil Pool.

It is our understanding that Penwell is seeking an exception to New Mexico Oil Conservation Division ("Division") Rule 104.B (1), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, based on interpretation of a 3-D seismic survey of the immediate area and from past well bore completions in the Entrada within this 40-acre unit, whereby it contends that a well drilled at the proposed location within the subject 40-acre unit will be at a more favorable geologic position within the potentially oil productive interval of the Entrada formation.

It is further understood that all of Section 36 is included within a single State lease (Lease No. VA-1683) in which Penwell is the leasehold operator; therefore, there are no effected offsets to the subject 40-acre tract within the Entrada interval other than Penwell.

This application has been duly filed under the provisions of Division Rule 104.F,

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By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox oil well location is hereby approved.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lori Wrotenbery", followed by a large, stylized flourish or mark.

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Aztec /
New Mexico State Land Office - Santa Fe
File: NSL-2053

REMARKS: Division Administrative Order NSL-2053, dated May 23, 1985, and Division Order No. R-10025, issued in Case No. 10865 dated December 1, 1993, which orders dealt with Entrada development within this 40-acre tract shall be placed in abeyance until further notice.