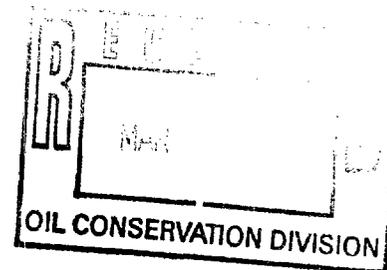


BEFORE THE
OIL CONSERVATION DIVISION



NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF PENWELL ENERGY, INC. FOR
AN EXCEPTION TO THE SALT
PROTECTION CASING STRING
REQUIREMENTS OF DIVISION
ORDER NO. R-111-P,
LEA COUNTY, NEW MEXICO.

CASE NO. 11505

APPLICATION

PENWELL ENERGY, INC. ("Penwell"), through its undersigned attorneys, applies to the New Mexico Oil Conservation Division for an exception to the salt protection string requirements of Order No. R-111-P for its J.D. Federal 33 No. 1 Well which it proposes to drill as a wildcat well to test the Morrow formation at an unorthodox well location (see Division Case 11483) 660 feet from the North line and 2080 feet from the East line (Unit B) of Section 33, Township 21 South, Range 33 East, NMPM, Lea County, New Mexico, and in support of its application states:

1. Penwell has the right to develop the oil and gas minerals underlying the N/2 of Section 33, Township 21 North, Range 33 East, NMPM, on which it proposes to drill its J.D. Federal 33 No. 1 Well to test all horizons to the base of the Morrow formation.
2. The N/2 of Section 33 was located outside the boundaries of the Division's R-111 potash area until April 21, 1988, when the Oil-Potash Area was expanded by the Oil

Conservation Commission by Order R-111-P.

3. Order R-111-P provides in part:

Finding 22: Expansion of the R-111 area to coincide with the KPLA will bring under the purview of this order areas where potash is either absent or non-commercial and such areas should be granted less stringent casing, cementing and plugging requirements, at the discretion of the Oil Conservation Division District supervisor.

Decretory Paragraph C.(4): The Division's District supervisor may waive the requirements of Sections D and F which are more rigorous than the general rules upon satisfactory showing that a location is outside the Life of Mine Reserves (LMR) and surrounding buffer zone as defined hereinbelow and that no commercial potash resources will be unduly diminished.

4. The Division has granted applications of Mitchell Energy Corporation (Order R-10122, May 31, 1994) and Stevens & Tull, Inc. (Order R-10432-A, August 16, 1995) to delete the potash protection string for various wells to be drilled in Township 20 South, Range 33 East.

5. The proposed Penwell J.D. Federal 33 No. 1 Well is located in an area, like the area which was the subject of the Mitchell Energy Corporation and Stevens & Tull, Inc.'s applications, outside Life of Mine Reserves and surrounding buffer zones where there are no commercial potash deposits and no potash mining.

6. Penwell seeks an exception of the salt protection string requirements of Order No. R-111-P for its proposed J.D. Federal 33 No. 1 Well because:

- a. substantial savings in the cost of the subject wells will be realized by

deleting the salt protection string in this well; and

- b. the deletion of the salt protection string in this well will not unduly diminish commercial potash reserves in the area nor will it constitute a risk to miner's health or safety.

7. Approval of this application will afford Penwell the opportunity to produce its just and equitable share of the hydrocarbons under this acreage, will prevent the economic loss caused by the drilling of this well with an unnecessary salt protection string and will otherwise prevent waste and protect correlative rights.

8. WHEREFORE, Penwell Energy, Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on April 4, 1996 and, after notice and hearing as required by law, the Division enter its order waiving the requirements of Order No. R-111-P for salt protection string in its proposed J.D. Federal 33 No. 1 Well.

Respectfully submitted,

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