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October 16, 2000

HAND DELIVERED

Michael E. Stogner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

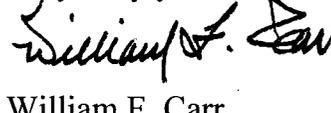
00 OCT 16 AM 2:33
OIL CONSERVATION DIV

Re: Amended Application of Penwell Energy, Inc. for Administrative Approval of an Unorthodox Well Location for ots Torreon Wash "36" State Well No. 1, 2143 feet from the South line and 1223 feet from the East line (Unit I) of Section 36, Township 20 North, Range 5 West, N.M.P.M., McKinley County, New Mexico.

Dear Mr. Stogner:

Pursuant to our recent conversation regarding the above referenced application, enclosed is an amended application which has been corrected to reflect the spacing for the Arena Blanca-Entrada Pool. If you have questions concerning the enclosed, please advise.

Very truly yours,



William F. Carr

cc: Mr. Bill Pierce
Penwell Energy, Inc.
1100 ARCO Building
600 North Marienfeld, Suite 1100
Midland, Texas 79701

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October 16, 2000

HAND-DELIVERED

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

00 OCT 16 AM 2:35
OIL CONSERVATION DIV

Re: *Amended Application of Penwell Energy, Inc. for Administrative Approval of an Unorthodox Well Location for its Torreon Wash "36" State Well No. 1, 2143 feet from the South line and 1223 feet from the East line (Unit I) of Section 36, Township 20 North, Range 5 West, N.M.P.M., McKinley County, New Mexico.*

Dear Ms. Wrotenbery:

Pursuant to the provisions of Division Rule 104 F adopted on August 12, 1999, Penwell Energy, Inc. hereby seeks administrative approval of an unorthodox well location for its Torreon Wash "36" State Well No. 1 at a point 2143 feet from the South line and 1223 feet from the East line (Unit I) of Section 36, Township 20 North, Range 5 West, N.M.P.M., McKinley County, New Mexico. There are no secondary objectives in this proposed well. A standard 40-acre spacing and proration unit comprised of the NE/4 SE/4 of Section 36 will be dedicated to the well in the Entrada formation, Arena Blanca-Entrada Pool.

The well will be drilled to a depth sufficient to test the Entrada formation. This location is unorthodox because it is governed by the Division Rule 104.B (1) which provide for oil wells on 40-spacing units to be located no closer than 330 feet to any outer boundary of the dedicated unit.

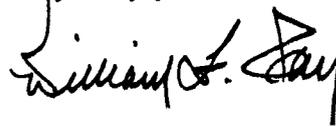
Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
October 16, 2000
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As you will see from the enclosed application, this unorthodox location is required by geological conditions in the Entrada formation. The location was selected based on a 3D seismic survey. Attached to the application is an Entrada Time Structure Map of the subject area which shows the proposed unorthodox location. This map demonstrates that moving to the proposed unorthodox location results in a substantial gain in reservoir quality rock.

Also attached is a plat as required by Rule 104.F (3) showing the subject spacing unit, the proposed unorthodox well location, the offsetting wells and the diagonal and adjoining spacing units. Penwell Energy, Inc. is the designated operator of all the immediately adjoining and diagonal spacing units in the Entrada formation toward which the unorthodox well location encroaches. Accordingly, there are no affected parties to whom notification of the application should be provided.

Your attention to this matter is appreciated.

Very truly yours,



William F. Carr
Attorney for Penwell Energy, Inc.

Enclosures

cc: Mr. Bill Pierce
Penwell Energy, Inc.
1100 ARCO Building
600 N. Marienfield
Midland, Texas 79701