

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,387
)
IN THE MATTER OF CASE 12,387 BEING)
REOPENED PURSUANT TO THE PROVISIONS OF)
DIVISION ORDER NO. R-11,374, WHICH ORDER)
PROMULGATED TEMPORARY SPECIAL POOL RULES)
FOR THE SOUTHEAST ARENA BLANCA-ENTRADA)
POOL IN SANDOVAL COUNTY, NEW MEXICO,)
INCLUDING PROVISIONS FOR 160-ACRE)
SPACING AND PRORATION UNITS AND)
DESIGNATED WELL LOCATIONS)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 14th, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 14th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

OIL CONSERVATION DIV
01 JUN 28 AM 8:38

I N D E X

June 14th, 2001
Examiner Hearing
CASE NO. 12,387

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Applicant's	Identified	Admitted
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A P P E A R A N C E S

FOR THE DIVISION:

DAVID BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR PENWELL ENERGY, INC.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

RICHARD EZEANYIM
Chief Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:20 a.m.:

3 EXAMINER CATANACH: Okay, let me call Case
4 12,387, in the matter of Case 12,387 being reopened
5 pursuant to the provisions of Division Order Number
6 R-11,374, which order promulgated temporary special pool
7 rules for the Southeast Arena Blanca-Entrada Pool in
8 Sandoval County, New Mexico.

9 Call for appearances in this case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe office of Holland and
12 Hart, L.L.P. We represent Penwell in this matter, and I
13 have a statement and an affidavit to tender.

14 EXAMINER CATANACH: Okay. Any additional
15 appearances in this case?

16 Okay, Mr. Carr, is it Penwell Energy?

17 MR. CARR: Penwell Energy, Inc.

18 EXAMINER CATANACH: Inc., okay.

19 Okay, you may proceed, Mr. Carr.

20 MR. CARR: Mr. Catanach, Penwell Energy, Inc.,
21 was the original Applicant in this case. The case was
22 heard on April 20th, 2000, and Penwell sought an order
23 creating a new pool in the Entrada formation in Sandoval
24 County, New Mexico, for its Eagle Springs 8 Federal Well
25 Number 1. The well was drilled at an unorthodox location.

1 That location had previously been approved by Order Number
2 R-11,331.

3 What Penwell sought was temporary pool rules that
4 provided for 160-acre spacing in the Entrada formation and
5 approval of a nonstandard spacing unit comprised of the
6 west half of the northeast quarter and the east half of the
7 northwest quarter of Section 8. What they had found was a
8 small isolated sand-dune structure, and the testimony was
9 that one well -- the one well they had should drain the
10 entire structure.

11 The ownership in this section and the offsetting
12 section toward which the unorthodox location encroaches is
13 common. A hundred percent of the working interest is in
14 Penwell and the royalty interests are identical.

15 The order granted the Application of Penwell and
16 required that the case be reopened so that operators could
17 come in and show if the temporary rules should be made
18 permanent. At the time of the hearing a year ago, the well
19 was producing at approximately 135 barrels of oil per day,
20 and since that time has declined to 35 barrels of oil a
21 day.

22 Penwell has several similar situations in the
23 immediate area, and what they have found is, when they put
24 a sub-pump in the well they can increase the producing
25 capability by 600 to 700 percent. And if they do that,

1 they can effectively drain this entire structure with this
2 well.

3 But to put a sub-pump in, you need electrical
4 power. And they are about six miles from the nearest line.
5 It will cost about \$35,000 a mile to extend the line, and
6 the line, once extended, will be used not just by Penwell
7 but by others.

8 And they have for the last seven months been in
9 active negotiations with the Jemez Mountain Electrical
10 Co-op for the extension of the line. They have made
11 progress, they're hopeful that they can -- They're waiting
12 for meetings of the Co-operative, but they think in the
13 next meeting or two it will be approved, they can then lay
14 the line, put the pump in and then at that time start the
15 process and be -- really now they're where they were a year
16 ago.

17 And for that reason they're requesting that the
18 temporary rules stay in place for an additional year. They
19 will get the line in, put the sub pump in the well, and
20 then if the case could be reopened in May of 2002, they
21 would be prepared at that time to present evidence that
22 would either show the temporary rules should be made
23 permanent or they should be terminated.

24 I have an affidavit from William Pierce. He was
25 the witness a year ago in the Penwell case. It's an

1 affidavit that addresses each of the points which I've just
2 reviewed for you, and it's been marked as Penwell Exhibit
3 A, and I would like to offer it for inclusion in the record
4 today.

5 EXAMINER CATANACH: Okay, Exhibit Number A will
6 be admitted as evidence in this case.

7 MR. CARR: And that's my entire presentation in
8 this matter.

9 EXAMINER CATANACH: Okay. Anything else, Mr.
10 Carr?

11 MR. CARR: Nothing further.

12 EXAMINER CATANACH: Okay, there being nothing
13 further in this case, Case 12,387 will be taken under
14 advisement.

15 MR. CARR: Thank you, Mr. Catanach.

16 (Thereupon, these proceedings were concluded at
17 11:24 a.m.)

18 * * *

19 I do hereby certify that the foregoing
20 is a complete record of the proceedings in
21 the Examination Hearing of Case No. 12387
22 heard by me on June 11, 1968.
23 David Catanach, Examiner
24 Off Conservation Division
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 17th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION OF CASE
12387 WHICH IS BEING REOPENED PURSUANT TO
THE PROVISIONS OF DIVISION ORDER NO.
R-11374, WHICH ORDER PROMULGATED
TEMPORARY SPECIAL POOL RULES FOR THE
ARENA BLANCA-ENTRADA POOL IN SANDOVAL
COUNTY, NEW MEXICO.**

**CASE NO. 12387
(REOPENED)**

AFFIDAVIT OF WILLIAM A. PIERCE

STATE OF TEXAS)
) ss.
COUNTY MIDLAND)

William A. Pierce, being first duly sworn on oath, states as follows:

1. My name is William A. Pierce. I reside in Midland, Texas. I am a petroleum engineer employed by Penwell Energy, Inc. My responsibilities with Penwell include supervision of Penwell's efforts to develop the Entrada formation in Sandoval County, New Mexico.

2. I testified before the Oil Conservation Division at the April 20, 2000, Examiner Hearing in support of Penwell's application for an order:

- A. creating a new pool for the production of oil in the Entrada formation comprised of the N/2 of Section 8, Township 19 North, Range 4 West, NMPM, as a result of the discovery of oil in the Penwell Energy, Inc. Eagle Springs "8" Federal Well No. 1 (API No. 30-043-20949) which is located at an unorthodox well location (approved by Division order No. R-11331) 263 feet from the North line and 2548 feet from the East line (Unit B) of Section 8, Township 19 North, Range 4 West, NMPM, Sandoval County, New Mexico;

**PENWELL ENERGY, INC.
EXHIBIT "A"**

- B. promulgating Temporary Special Pool Rules and Regulations for this new pool to include 160-acre spacing and proration units with wells to be located no closer than 660 feet to any boundary of the dedicated unit; and
- C. granting an exception to the proposed rules to establish a non-standard 160-acre spacing and proration unit comprised of the W/2 NE/4 and the E/2 NW/4 of Section 8 for the Eagle Springs "8" Federal Well No. 1.

3. On May 17, 2001, the Division entered Order No. R-11374 granting the application of Penwell and directing that the case be reopened at an examiner hearing in May 2001 to provide operators in the Southeast Arena Blanca-Entrada Pool the opportunity to appear and show cause why the temporary special rules for this pool should not be rescinded.

4. The evidence presented in support of this application showed:

- A. the Eagle Springs "8" Federal Well No. 1 is located in an isolated sand dune structure within the Entrada formation;
- B. one well is capable of draining the entire structure which is comprised of approximately 194 acres; and
- C. all of Section 8 is a single Federal lease and all of Section 5, the affected offset acreage, is also a single federal lease. Penwell is the owner of 100% of the working interest in both of these federal leases and the royalty interests are identical under each lease.

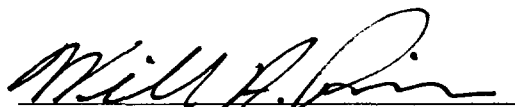
5. At the time of the April 2000 examiner hearing, the Eagle Springs "8" Federal Well No. 1 was capable of producing approximately 135 barrels of oil per day and no water. Today, the well produces at a rate of only 35 barrels of oil per day and 260 barrels of water. Based on the experience of Penwell with other Entrada wells in this general area, with the installation of a sub pump the well's oil and water daily production rate should increase by 600% to 700% which will enable it to effectively and efficiently drain this entire structure.

6. The needed sub pump cannot be installed in the well until an electrical power line can be extended to the well. A six mile line at a cost of approximately \$35,000 per mile is needed for this well. Negotiations have been underway with the Jemez Mountain Electrical Cooperative for the installation of this line for approximately seven months; and, although significant progress has been made with the cooperative for the installation of this line, no line has yet been installed.

7. Until a sub pump is installed and new production rates from the well achieved, the data needed to support permanent rules for this pool cannot be obtained.

8. A one year extension of the temporary rules promulgated by Order No. R-11374 will enable Penwell to obtain electrical power at the well site, install a sub pump in the well and obtain the data necessary to establish whether or not permanent rules are needed for the Southeast Arena Blanca-Entrada Pool.

FURTHER AFFIANT SAYETH NOT.


William A. Pierce

SUBSCRIBED AND SWORN before me on this 12th day of June, 2001.


Notary Public

My Commission Expires:

