



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

August 20, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Arch Petroleum, Inc.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-5099

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-419427505*) dated July 6, 2004 on behalf of the operator Arch Petroleum, Inc. ("Arch"); and (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file on Division Administrative Order SWD-338: all concerning Arch's request for an unorthodox replacement oil well location within a former standard 40-acre oil spacing and proration unit in the Langlie-Mattix (Seven Rivers-Queen-Grayburg) Pool (37240) comprising the SW/4 SW/4 (Unit M) of Section 16, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

It is the Division's understanding that initial development of Langlie-Mattix oil production within this 40-acre unit commenced in August, 1956 when Resler & Sheldon recompleted the Kelly State Well No. 3 (API No. 30-025-10742), located at a standard oil well location 660 feet from the South and West lines (Unit M) of Section 16, into the Queen-Grayburg formations. Langlie-Mattix production ceased from this well in June, 1987, and in 1988 Penroc Oil Corporation converted this well into a saltwater disposal well (see Division Administrative Order SWD-338, dated May 9, 1988).

It is further understood that the SW/4 of Section 16 is a single state lease issued by the New Mexico State Land Office (State Lease No. E-04958) in which all leasehold ownership is common as to all depths above 3,800 feet.

It is further understood that such unorthodox location is necessitated for geologic and engineering reasons. This replacement well at the proposed unorthodox oil well location will enable Arch to further develop and deplete the Langlie-Mattix reserves within this state lease that might not otherwise be recovered.

Arch Petroleum, Inc.

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By the authority granted me under the provisions of Division Rule 104.F (2), the following described well to be drilled at an unorthodox oil well location within this former 40-acre Langlie-Mattix oil spacing and proration unit comprising the SW/4 SW/4 (Unit M) of Section 16, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby approved:

**Kelly State Well No. 5
1310' FS & WL.**

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael E. Stogner", is written over a horizontal line.

Michael E. Stogner
Engineer/Hearing Officer

MES/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe