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Michael H. Feldewert

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44488.0011

February 12, 2002

HAND-DELIVERED

David R. Catanach, Hearing Examiner
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87504

**Re: Case No. 12808
Application of David H. Arrington Oil & Gas, Inc. for
Approval of an Unorthodox Oil Well Location and
Simultaneous Dedication, Lea County, New Mexico**

Dear Mr. Catanach:

Enclosed please find the letter agreements between Yates Petroleum Corporation and David H. Arrington Oil & Gas Inc. that you requested at the February 7th Examiner hearing for the above referenced matter. As you will see, Yates and Arrington agreed to offsetting unorthodox well locations in Sections 11 and 14 with the understanding that a 50% production penalty would apply to any well located 330 feet from the quarter section lines and completed in formations requiring 660-foot setbacks.

Since the geology and engineering testimony presented at the February 7th Examiner hearing indicates Arrington's proposed re-completion of the Mayfly "14" State Com Well No. 7 in the Strawn formation will not affect Yates' correlative rights, this stipulation is no longer necessary. Arrington therefore intends to approach Yates about rescinding this contractual stipulation.

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HOLLAND & HART^{LLP}
ATTORNEYS AT LAW

David R. Catanach, Hearing Examiner
Oil Conservation Division
February 12, 2002
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I will apprise you shortly of the results of this effort.

Very truly yours,



Michael H. Feldewert

MHF/js

Enclosures

cc: Mr. Bill Baker (w/enclosures)
David H. Arrington Oil & Gas, Inc.
214 West Texas, Suite 400
Midland, Texas 79701

Mar-26-01 07:34A Capstone Oil & Gas.

214 West Tamm
Suite 400 (214 79701)
P.O. Box 2071
Midland, Texas 79702

DAVID H. ARRINGTON OIL & GAS, INC.

Area Code: 915
Phone: 682-6883
Fax: 682-4139

March 26, 2001

Yates Petroleum Corporation
Attn: Mr. Randy Patterson
105 S. 4th Street
Artesia, NM 88210

Re: Stipulation and Waiver of Objection
Unorthodox Well Location
Mayfly #7 Well
330' FNL and 330' FEL, Section 14, T16S, R35E
Lea County, NM

Gentlemen:

Reference is herein made to that certain letter dated December 15, 1999 from William F. Carr, attorney for Yates Petroleum Corporation ("Yates"), to David H. Arrington Oil & Gas, Inc. ("Arrington"), a copy of which is attached hereto.

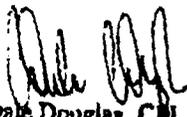
Pursuant to our phone conversation on Friday, March 23, 2001, David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702 is proposing to recomplete the captioned well in the Strawn formation, which is a non standard location.

The purpose of this letter is to set forth the understanding and consensus of both Arrington and Yates that the December 15, 1999 letter is still in force and effect. Please confirm this understanding by signing in the space provided below, and returning one copy of same via fax to my attention at 915-682-4498.

Should there be any questions or comments regarding this matter, please advise.

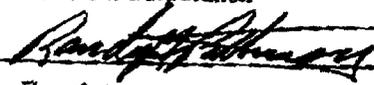
Yours very truly,

DAVID H. ARRINGTON OIL & GAS, INC.


Dale Douglas, CML

ACCEPTED AND AGREED:

Yates Petroleum Corporation

BY: 
3-26-2001

**CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS**

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
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E-MAIL: ccbaqa@ix.netcom.com

December 15, 1999

HAND DELIVERED

David H. Arrington Oil & Gas, Inc.
Post Office Box 2071
Midland, Texas 79702

Re: STIPULATION AND WAIVER OF OBJECTION
Unorthodox well location
R. T. Burns "ATL" Well No. 1
330 feet from the South and East lines
Section 11, Township 16 South, Range 35 East, NMPM
Lea County, New Mexico.

Dear Mr. Arrington:

Yates Petroleum Corporation requests that David H. Arrington Oil & Gas, Inc. waive objection to an unorthodox well location for the R. T. Burns "ATL" Well No. 1 which Yates proposes to drill at an unorthodox location 330 feet from the South and East lines of Section 11, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico upon the following stipulated terms and conditions:

- A. A production penalty shall be imposed on the R.T. Burns "ATL" Well No. 1 in any formation which is governed by Oil Conservation Division rules that provide for wells to be located no closer than 660 feet from the quarter section boundary. This penalty shall equal the percentage the well's bottomhole encroaches on the boundary based on a 660 foot minimum set back.

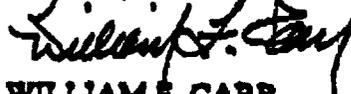
BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12291 Exhibit No. 3
Submitted by: David Petroleum Corporation
Hearing Date: December 16, 1999

David H. Arrington Oil & Gas, Inc.
December 15, 1999
Page 2

B. Yates will waive objection to a David H. Arrington Oil & Gas, Inc. unorthodox location in the NE/4 NE/4 of section 14, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico. Any well at an unorthodox location in said Section 14 shall be subject to a production penalty equal to the percentage the well's bottomhole location encroaches on the quarter section boundary based on a 660 foot minimum set back requirement. This production penalty shall be applied to the results of semi-annual deliverability test of the well conducted in accordance with requirements of the Oil Conservation Division.

Please sign a copy of this letter indicating the Waiver and Approval of David H. Arrington Oil & Gas, Inc. and return it to me as confirmation of this agreement.

Very truly yours,



WILLIAM F. CARR

Attorney for Yates Petroleum Corporation

APPROVAL AND WAIVER OF OBJECTION:

David H. Arrington Oil & Gas, Inc.

By: 

Title

WFC/md

cc: Mr. Randy Patterson