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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 29, 1999

VIA FACSIMILE

William F. Carr, Esq.
P. O. Box 2208
Santa Fe, New Mexico 87504

James Bruce, Esq.
P. O. Box 1056
Santa Fe, New Mexico 87504

Re: Stipulation and Waiver of Objection

NMOCD Case No. 12181

Application of David H. Arrington Oil and Gas, Inc.

for an unorthodox well location and simultaneous dedication

Lea County, New Mexico.

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 12181 Exhibit No. 10
Submitted By:
Arrington Oil & Gas Company
Hearing Date: May 13, 1999

Gentlemen:

The following represents David H. Arrington Oil and Gas, Inc.'s proposed settlement of your client's objections to the New Mexico Oil Conservation Division approval of the unorthodox well location for Arrington's Mayfly "14" State Com Well No. 1 to be located 330 feet from the North and West lines of Section 14, Township 16 South, Range 35 East, Lea County, New Mexico which is currently set for hearing on August 5, 1999:

(1) The Division has advised and Yates and Arrington have agreed that the Mayfly well is adjacent to and currently subject to inclusion in the Northwest Shoe Bar-Strawn Pool. Thus, the well will be at a standard location within a 40-acre spacing unit and therefore not subject to any penalty for any Strawn production attributable to this pool. In the event this well is later placed in a different pool, then the parties will discuss what, if any, penalty will apply.

(2) Yates has proposed and Arrington has agreed to a 50% production penalty for this well any gas production from any of the deep gas formations subject to 320-acre gas spacing;

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(3) Arrington will ask that the Division order contain the Division's current method for semi-annual deliverability testing and producing a penalized gas well;

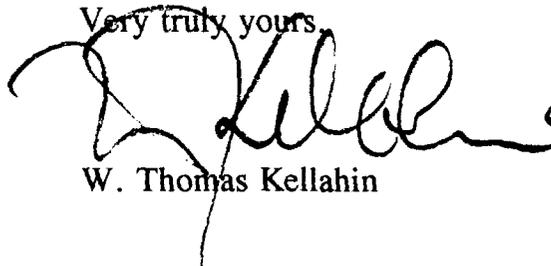
(4) Arrington will provide Yates, Ocean and Nearburg with a set of the electric logs for this well;

(5) Yates and Ocean will file a withdrawal of objection in this case; and

(6) Nearburg will appear at the hearing but will not affirmatively assert any objection nor will it cross examine witnesses or submit any evidence or statement in opposition into the record.

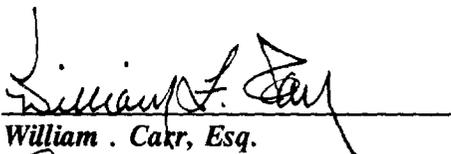
On behalf of your respective clients, I would appreciate you each signing a copy of this letter and returning it to me by facsimile as confirmation of this settlement. If this settlement is not acceptable to any of your clients, please call me.

Very truly yours,



W. Thomas Kellahin

APPROVED:



William J. Carr, Esq.



James Bruce, Esq.

cfx: David H. Arrington Oil and Gas, Inc.