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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 7<sup>th</sup> 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 7<sup>th</sup> 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.

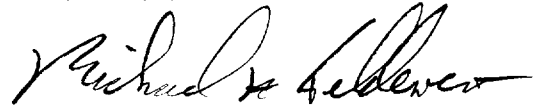
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SANTA FE, N.M.

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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,

A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written in a cursive style.

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

03:18P Capstone Oil & Gas.  
MAR-26-2001 MON 10:49 AM TYP LHRV  
Mar-26-01 07:34A Capstone Oil & Gas.

FMA NO. 915 682 4498  
915 682 4498

214 West Tamm  
Suite 400 (Zip 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. 4<sup>th</sup> 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.

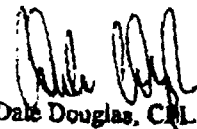
Pursuant to our phone conversation on Friday, March 23, 2001, David H. Arrington Oil & Gas, Inc., PO Box 2071, Midland, Texas 79702 is proposing to recompleat the captioned well in the Strawn formation, which is a non standard location.

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. 12221 Exhibit No. 3  
Submitted by: David Petroleum Corporation  
Hearing Date: December 16, 1999

David H. Arrington Oil & Gas, Inc.

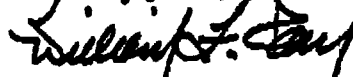
December 15, 1999

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