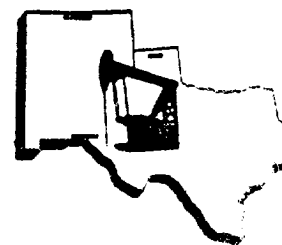


Desert States Energy, Inc.

Exploration & Production

125 EAST BAJA • HOBBS, NEW MEXICO 88240 • (505) 397-3502



December 26, 1991

Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Attention: Mike Stogner

RE: No. 1 Morgan Elizabeth State
920 FSL 1310 FEL of Section 13
T-11-S, R-27-E, Chaves Co., NM

Dear Sir;

Pursuant to our telephone conversation of 12/26/91, I am staking an unorthodox 40 acre location at the above legals. By doing this I also realize that on January 23, 1992 I will be required to appear in Santa Fe at the OCC hearing. I feel the proposed location will recover reserves otherwise unrecoverable if the well(s) were drilled on standard 40 acre proration units. Prior to drilling this well, we will get a letter from the offset operator stating he will not oppose us at the hearing. This operator owns the acreage to the north, south, and west. A record check indicates that the land to the east is open. Should anything change we will notify you immediately.

As per rule 12-10, letters to the offset operators will be sent out prior to December 30, 1991. This should assure us that these letters are in place 21 days prior to the hearing.

If you need additional information, please feel free to call at (505) 392-5516.

Sincerely,

Mark D. Clarke

original mailed: 12/26/91