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One Williams Center, Suite 4100
Tulsa, Oklahoma 74172

May 20, 1998

VIA OVERNIGHT MAIL

RECEIVED

MAY 21 1998

Environmental Bureau
Oil Conservation Division

Mr. Bill Olson
Hydrogeologist, Environmental Bureau
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

RE: Public Service of New Mexico's Requests
for Changes at Certain Remediation Sites

*Cont'd from 6/25
to 8/20*

Dear Mr. Olson:

As you know, on June 30, 1995 (the "Closing Date"), Public Service Company of New Mexico, Sunterra Gas Gathering Company, and Sunterra Gas Processing Company (hereinafter referred to collectively as "PNM") and Williams Gas Processing - Blanco, Inc. (hereinafter referred to as "Williams" or "Williams Field Services") closed a Purchase and Sale Agreement. Pursuant to that Agreement, Williams purchased certain gas gathering and processing assets from PNM. The parties also made certain agreements wherein PNM retained certain environmental liabilities at certain specified sites.

PNM has requested that the New Mexico Oil Conservation Division ("OCD") make certain changes in its remediation obligations as to three of those sites and in support, offers certain information about Williams's alleged activities and draws conclusions therefrom. This letter is written because Williams has knowledge about its own activities at those sites which contradicts PNM's statements and renders PNM's conclusions inaccurate. Additionally, and most disturbingly, Williams had, by letter dated April 23, 1997 to Ron Grossarth of PNM, informed PNM of the facts surrounding the Honolulu Loop Drip Site alleged "release" which PNM failed to include in its correspondence with the OCD. A copy of same is marked as Exhibit "A" and is attached hereto for your reference.

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1. PNM Letter to Bill Olson dated March 23, 1998 concerning the Honolulu Loop Drip Site requesting change in the groundwater monitoring program status.

The following statement was made by PNM.

"2. As the potentially responsible party, William Field Services (WFS) be requested by NMOCD to determine the lateral and vertical extent of contamination and perform any remedial actions associated with **hydrocarbons released during [the] September 1996 pipeline replacement activities.** . . ." (Emphasis added).

PNM, in its indemnification claim to Williams dated March 14, 1997, alleged that it believed that a release occurred when Williams cut the drip out of the pipeline. In its response, (see Exhibit "A"), Williams rejected that claim and set forth the facts surrounding the process whereby the drip had been cut out of the line. Therefore, as of April 23, 1997, PNM was aware of William's denial that any release had occurred and the statements of those individuals involved in the activity.

Additional investigation between April 23, 1997 and this date continues to verify that no release occurred. Williams has spoken with the individuals who were responsible for cutting the drip out of the line and replacement of a segment of the pipeline and each has confirmed that no release occurred. The following individuals have been contacted and interviewed: Russell Smith (former PNM employee, now employed by Williams); Sam Houston (Williams' project coordinator); Joe Chacon (Diamond D Construction foreman) and his crew; and Clayton Post (Schmitz Construction driver of the vacuum truck. Roy Burnham (PNM employee) was also present but has not been interviewed. Williams is in the process of obtaining signed affidavits from these individuals and will produce them upon written request by either PNM or the OCD. Other environmental personnel for Williams that may have any knowledge about the activities at the site have also been questioned and were not aware of any release.

A memo dated April 29, 1998 to Ed Hobday, Williams' manager of the Torre Alta Area systems, from Russell Smith describes the activity that took place on September 10, 1996. A copy of the memo is marked as Exhibit "B" and is attached hereto for your reference. Our internal, ongoing investigation likewise verified the facts as set forth in the Smith memo. To summarize the incident, when the drip was cut out of the line, Schmitz Construction pumped approximately 4 barrels of liquid directly from the line into a vacuum truck. No liquid from the drip and/or the line was permitted to touch the soil; therefore, the activity could not have been the source of any soil or groundwater contamination whatsoever.

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Thus, PNM's conclusion that Williams may have a remediation responsibility in connection with the cutting out of the drip from the pipeline activity is impossible to sustain. PNM has not alleged any other third party activity that could have possibly resulted in any other release occurring at the site. Therefore, PNM appears to believe that Williams would not only participate in permitting an unreported release to occur but would also, attribute false statements from those individuals involved in the activity. That Williams would never do. Williams would suggest that PNM would be better served in objectively analyzing its data in order to find the remaining, apparently, unremediated historical contamination, instead of attempting to shift its responsibilities to others.

2. PNM Letter to Bill Olson dated March 31, 1998 concerning the Hampton 4M Site and the existence of free product and groundwater contamination.

The following statement was made by PNM.

" . . . As the product is not the result of PNM operations prior to June 30, 1995, PNM has placed Burlington and Williams Field Services on notice that PNM will be seeking cost recovery from the responsible party for actions concerning free product and groundwater investigation and remediation activities performed at this site. . . ."

Williams currently operates the gathering system and dehydration facility at this site with a collection tank and does not permit discharges. There is no discharge pit. Williams knows that its operation has not caused any release and Williams has no knowledge of any upset causing any release or any release caused by Burlington Resources ("Burlington") since it took ownership. Based on this knowledge, Williams has also rejected PNM's claim of indemnification concerning this site.

However, Williams does agree with PNM's statement that free product contamination, regardless of where it occurs, is not the responsibility of PNM (or Williams), but of the producer. Williams believes that the data indicates that operator releases have occurred because of the presence of free product. However, the data does not demonstrate when those releases may have occurred. In that Williams has no knowledge concerning any releases by it or Burlington since the Closing Date, then the only reasonable conclusion that may be reached is that the releases occurred prior to the Closing Date.

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3. PNM letter to Bill Olson dated April 3, 1998 concerning the Florence Z 40 Site and the existence of free product and groundwater contamination.

The following statement was made by PNM.

" . . . PNM will be placing Amoco and Williams Field Services on notice regarding the discovery of free product and groundwater contamination at this site. PNM will be seeking cost recovery from the responsible party for actions concerning free product and groundwater investigation and remediation activities performed to date at this site. . . ."

Williams currently operates the gathering system and dehydration facility at this site with a collection tank and does not permit discharges. There is no discharge pit. Williams knows that its operation has not caused any release. Williams has no knowledge of any upset causing any release or any other release caused by Amoco since it took ownership. Based on this knowledge, Williams has also rejected PNM's claim of indemnification concerning this site.

However, Williams does agree with PNM's statement that with regard to the presence and remediation of free product beneath the well pad, PNM (and Williams), by contract with producers, is not responsible for the discharge of free product. Free product belongs to the producers, even when it is discharged under conditions of system upset. Therefore, free product contamination, regardless of where it occurs, is not the responsibility of PNM (or Williams), but that of the producer.

Williams believes that the data indicates that operator releases have occurred because of the presence of free product. However, the data does not demonstrate when those releases may have occurred. In that Williams has no knowledge concerning any releases by it or Amoco since the Closing Date, then the only reasonable conclusion that may be reached is that the releases occurred prior to the Closing Date.

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I trust that you will find the above information helpful in responding to the requests made by PNM concerning the above-referenced sites. Should you have any questions or need additional information, please do not hesitate the undersigned or Mr. Bill von Drehle at (713) 215-4064.

Very truly yours,



Joyce Trew
Senior Attorney

BJT/

Enclosure

cc: (w/enclosure)

Collin Adams, Esq. - PNM
Maureen Gannon - PNM
Ron Johnson - PNM
Toni Ristau - PNM
Mark Sikelianos - PNM
Valda Terauds - ESI Albuquerque

Ed Hasely - Burlington Resources
Buddy Shaw - Amoco

Roger Anderson, NMOCD
Denny Foust, NMOCD-Aztec

Keith Manwell, Jicarilla Environmental Office

cc: (w/o encl.)

Ingrid Deklau - Williams
Ed Hobday - Williams
Tom O'Keefe - Williams
Lonny Townsend, Esq.
Bill von Drehle - Williams

THE WILLIAMS COMPANIES, INC.

ONE WILLIAMS CENTER - TULSA, OKLAHOMA 74172

(918) 588-2588
FAX: (918) 561-6828

LONNY E. TOWNSEND
SENIOR ATTORNEY

Exhibit "A"

April 23, 1997

Public Service Company of New Mexico
Sunterra Gas Gathering Company
Sunterra Gas Processing Company
Alvarado Square
Albuquerque, NM 87158

Attn: Ron Grossarth

Re: Response to Indemnity Notice under Purchase and
Sale Agreement dated as of February 12, 1994
(the "Purchase Agreement") by and among Public
Service Company of New Mexico, et al. ("Sellers")
and Williams Gas Processing-Blanco, Inc. ("Buyer")

Dear Mr. Grossarth:

This letter is in response to Clyde Worthen's letter dated March 14, 1997, regarding the Honolulu Loop Line Drip located in Section 25, Township 26, Range 4, Unit B of the Jicarilla Apache Reservation. Mr. Worthen indicates that Sellers have a potential claim against Buyer arising out of discharges that may have occurred at the Honolulu Loop Line Drip.

All of the information we have collected indicates that any contamination of soil or water at the Honolulu Loop Line Drip is historical. At the time Buyer cut the drip out of the line, Schmitz Construction pumped approximately 4 barrels of liquid out of the drip with a vacuum truck. No liquid was spilled into the ditch when the pipe and drip were removed. Sam Houston, contract employee for WFS, Joe Chacon, foreman for Diamond D Construction, and Clayton Post, driver of the vacuum truck for Schmitz Construction, were all on site when the pipe and drip were removed. They have all confirmed that no liquid was spilled into the ditch at that time.

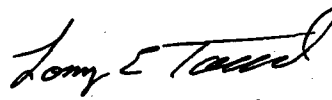
Public Service Company of New Mexico

April 23, 1997

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Based on the foregoing, Buyer rejects Sellers' claim for indemnification resulting from ground or water contamination at the Honolulu Loop Line Drip.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Lonny E. Townsend".

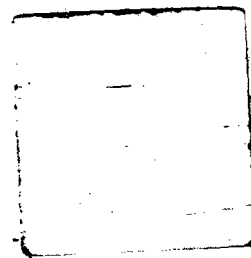
Lonny E. Townsend
Senior Attorney

LET/ser

cc: David F. Asmus, Esq.
Collin Adams, Esq.
Clyde F. Worthen, Esq.
Craig Rich, Esq.
Tom O'Keefe
Robin Prisk

hibit "B"

safe



BEGAN A PIT REMEDIATION PROJECT WITH PUBLIC
D. ONE OF THE DRIPS THAT HAD AN EARTHEN PIT
ON THE HONOLULU LOOP LINE IN THE TAPACITAS
ED THIS PIT AND WE FELT THAT WHEN THE PIT WAS
OVE THE DRIP ITSELF TO ELIMINATE ANY CHANCE OF
IT WAS REMEDIATED. WE DISCUSSED IT SEVERAL
OT ONLY WOULD WE CUT OUT THE DRIP BUT THAT
THE WASH ACROSS THE WASH AS A PREVENTIVE
AS NOT LEAKING. THE WORK WAS SCHEDULED IN

N EMPLOYEE OF MARK HARVEY, WHO MET ME AT
WERE GOING TO DO.

D CONSTRUCTION BROUGHT TO THE JOBSITE A
ARTED DIGGING THE WASH. THEY ALSO STARTED
THE OLD LINE HAD BEEN TAKEN OUT OF SERVICE
EVERYTHING BUT THE WELDS WAS JEEPED AND
WAS X RAYED, TAPED AND JEEPED AGAIN. IT WAS
IN. WHEN WE GOT READY TO CUT THE PIPE FOR
CTION STANDING BY WITH A VACUUM TRUCK. WE
HMITZ PULL ALL THE LIQUID FROM THE DRIP AND
CK, APPROXIMATELY FOUR BARRELS. THERE WAS
IPELINE WAS REMOVED FROM THE DITCH.

IT WERE MYSELF AND SAM HOUSTON, WHO WAS
WILLIAMS. JOE CHAGON THE FOREMAN FROM
HIS CREW. CLAYTON POST FROM SCHMITZ
UUM TRUCK AND ROY BURNHAM WHO WAS THE