

September 2, 2004

2004 SEP 2 PM 3 58

BY HAND DELIVERY

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
Energy, Minerals & Natural Resources Department
1220 South St. Francis Drive
Santa Fe, NM 87504

Re: Application for Loco Hills GSF for Approval of its Stage I and II Abatement Plans and Best Management Practices Plan and an Exemption to Division Rule 50, Eddy County, New Mexico.

Dear Mr. Fesmire:

For months Loco Hills GSF has been attempting to obtain regulatory approval for a clay-lined pit that would enable it to improve its operation at the gas storage facility it operates in Eddy County New Mexico. The improvements would include not only a more efficient storage of propane and butane at the site but would also address contamination of groundwater caused by a prior operator, thereby restoring water quality under the site.

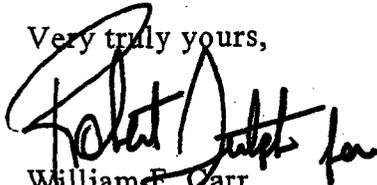
During the course of this effort Loco Hills GSF has experienced numerous delays including, for example, changes in the regulatory scheme. These delays have put at risk Loco Hills' plan to proceed with this project and subjecting it to a loss of both the desired economic and environmental benefits.

Loco Hills GSF has not attempted to avoid any part of the state regulatory scheme. It met with the Division in early August and requested that its application go directly to hearing before the Oil Conservation Commission. The application set for hearing on September 9 is the result of what Loco Hills understood to be the outcome of that meeting.



If the concerns of the Division that are now contained in its Motion to Dismiss had been expressed earlier, Loco Hills would not have filed its application for the September 9 hearing. Now that Loco Hills is aware of these concerns, it has decided not to oppose the Motion to Dismiss.

Very truly yours,


William F. Carr
of Holland & Hart LLP

WFC:keh
Enclosures

cc: Gail MacQuesten
Mitchel Johnson
Randall Hicks