



MODRALL SPERLING

**Fax Transmittal
Cover Sheet**

Page 1 of 5
Date: February 7, 2003
Client/Matter #: 14993-179

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Roehl Harris & Sisk, P.A.

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**Carston Goff, Deputy State
Director, BLM NM State Office** 505-438-7435+

**Arthur Arguedas, Dept. of
Interior Solicitor** 505-988-6217-

**Lori Wrotenbery, Chairman,
State of NM OCC** 505-476-3462✓

**Jennifer Prokup, Secretary
NM EMNR Dept.** 505-476-3220

Pat Lyons, NM State Land Office 505-827-5766

Carol Leach, NM EMNR Dept. 505-476-3220

Tom Mills, NM EMNR Dept. 505-476-3220

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From: **WALTER STERN**

Comments:

Please find attached to letters.

W0279173.WPD

If you have any problem receiving our fax, please call 505.848.1800 Ext. 1619

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San Juan Coal Company



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February 5, 2003

Richardson Operating Company
1700 Lincoln, Suit 1700
Denver CO 80203

Dear Mr. Richardson,

San Juan Coal Company Gas Recovery Proposal

As you are aware, the BLM and the New Mexico State Land Office have leased overlapping resources (coal & coal-bed methane) to separate parties in the San Juan Coal Company "SJCC" coal lease area. SJCC has been developing its San Juan Underground mine for the past several years. Through those efforts SJCC continues to learn about conditions in the mine and the characteristics of the coal formation and the associated coal bed methane.

In order to conduct its mining operations safely, SJCC is required to maintain good air quality at all work sites in the mine, and has designed a mine ventilation system for that purpose and to properly and safely vent gasses liberated during mining.

The amount of gas in the current mining area to date is low enough to be adequately managed with the existing mine ventilation system. However, if areas are encountered that have a high enough gas content, SJCC may be unable to remove all of the gas given the maximum capability of the mine ventilation system as designed. If such areas are encountered, additional de-gassing techniques may need to be employed. To investigate the potential of de-gassing techniques, SJCC plans to conduct test de-gassing activities in advance of mining. Since relatively new technologies will be used, and this is the first time this has been attempted in this basin, a number of de-gassing technologies may be tested and utilized depending upon their economic and safety effectiveness. Initially we are planning to test a horizontal in-seam drilling technology. Other technologies, such as vertical to horizontal drilling, may be evaluated for economic and technical viability in the future.

To the extent that SJCC determines that it is safe, economic, and practicable for mining purposes to conduct de-gassing activities, and if any gas is collected and delivered to the surface by SJCC, SJCC would like to make that gas available for your gathering and disposition. While SJCC cannot commit at this time to the location(s) where such gas may be available, or to the quality and quantity of such gas, SJCC stands prepared to work with you to attempt to resolve any technical, regulatory, and operational issues encountered in gathering this gas.

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which is headquartered in Australia
Registered Office: 600 Bourke Street
Melbourne Victoria 3000 Australia
ABN 48 004 028 077
Registered in Australia

SJCC also is investigating another potential source of gas. To understand this source some background information may be helpful. The longwall mining method utilized by SJCC recovers large blocks (panels) of coal. After the coal is removed, the material above the removed coal breaks up and caves into the void area creating a "gob" zone. The panel is then isolated from the rest of the mine so the oxygen content of the atmosphere in the panel can be reduced to eliminate the possibility of heating, combustion, or explosions. Nitrogen may be injected initially to reduce safety risk. Some gas liberated from the gob zone or lower horizons may be collected in gob vent bore holes. The gob vent bore holes will be managed so that the oxygen deficient atmosphere is not compromised. Due to density segregation, it is conceivable that the gas obtained from the gob vent bore holes may be primarily methane.

SJCC would like to make available to you any gas that is generated from the gob vent bore holes that can be gathered without compromising the sealed panel atmosphere, and without affecting other safety considerations. While SJCC can not commit to the quantity, quality (an increased nitrogen content may exist), or timing of any gob vent bore hole gas, SJCC is prepared to work to resolve any technical, regulatory, and operational problems that may be encountered in gathering any gas generated at the gob vent bore holes.

SJCC is making this proposal with the hope that it may provide a path to allowing improved recovery of the resources in question and provide a positive step in resolving all issues, while permitting SJCC to mine coal and meet its long term contract obligations. SJCC understands from previous conversations that you may prefer a buyout to an on-going relationship for simultaneous mineral development. SJCC is prepared to discuss reasonable buy out arrangements as well.

Please contact me if there are any questions or to initiate discussions on these matters. San Juan Coal Company is very interested in resolving this conflict in a mutually agreeable manner.

Yours sincerely,



Evan Jones
Vice President, San Juan Coal Company

Cc: Steve Henke BLM – Farmington Field Office
Carston Goff Deputy State Director BLM NM State Office
Arthur Arguedas Department of Interior Solicitor
Lori Wrotenbery Chairman, State of New Mexico Oil Conservation Commission
Jenifer Prokup Secretary, NM Energy, Minerals, and Natural Resources Department
Patrick Lyons Commissioner, NM State Land Office

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February 5, 2003

Dugan Production Corporation
709 E. Murray Drive
P.O. Box 420
Farmington New Mexico, 87499-420

Dear Mr. Dugan,

San Juan Coal Company Gas Recovery Proposal

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