

**Fax Transmittal  
Cover Sheet**

MODRALL SPERLING

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

Modrall Sperling  
Roehl Harris & Sisk, P.A.

Bank of America Centre  
Suite 1000  
500 Fourth Street NW  
Albuquerque,  
New Mexico 87102

**Please deliver the following pages to:**

Name: **Steve Henke, BLM Farmington** 505-599-8998+

**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

PO Box 2168  
Albuquerque,  
New Mexico 87103-2168

Tel: 505.848.1800  
Fax: 505.848.9710  
www.modrall.com

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

THIS MESSAGE IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL, AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone, and return the original message to us at the address above via the U.S. Postal Service. Thank you.

San Juan Coal Company



BHP Billiton Limited  
300 West Arrington, Suite 200  
Farmington, New Mexico 87401 USA  
Tel +1 505 598 4350 Fax +1 505 598 4300  
bhpbilliton.com

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.

A member of the BHP Billiton group  
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

**San Juan Coal Company**



BHP Billiton Limited  
300 West Arington, Suite 200  
Farmington, New Mexico 87401 USA  
Tel +1 505 598 4350 Fax +1 505 598 4300  
bhpbilliton.com

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**

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.

A member of the BHP Billiton group  
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