



NEWS RELEASE

US DEPARTMENT OF THE INTERIOR ■ BUREAU OF LAND MANAGEMENT
NEW MEXICO STATE OFFICE ■ 1474 RODEO ROAD ■ SANTA FE NM 87505

For Immediate Release
September 29, 2003

Hans Stuart 505.438.7510
Gary Johnson 505.438.7595

BLM Helps Mediate Historic Gas and Coal Agreement

SANTA FE – Following years of litigation and administrative disputes, the Bureau of Land Management, San Juan Coal Company and Dugan Production Company have reached an agreement to allow underground coal development to continue near Farmington, New Mexico, which will provide coal to an adjacent electric generating station, while maximizing the amount of coalbed natural gas produced from the property under dispute.

After two days of mediated negotiation led by California-based mediator John Bates and months of groundwork, the parties agreed to resolve multiple Application for Permit to Drill appeals before the Interior Board of Land Appeals, compensating Dugan Production Company for undeveloped gas leases and providing the BLM with a share of the payment to compensate for lost royalties from natural gas recovery.

Without the mediated agreement, the coal supply for the power plant was mired in dispute. Hundreds of jobs in the local and Navajo communities and the power plant's electric capacity could have been adversely affected if a satisfactory solution for the mine, the sole source of coal for the plant, had not been found.

“All parties will benefit from this agreement, especially the public,” said Linda S.C. Rundell, State Director for the BLM in New Mexico. “It meets BLM’s financial, environmental, and energy goals while protecting jobs in the area. We’re proud to have helped mediate this settlement.”

The basis for the dispute was a conflict between pre-existing gas leases and new development plans for the coal mine. Although coal has been mined beside the electric utility for more than 20 years, the coal seam dipped to the point where economic limits of the surface mine were reached, requiring a new, underground operation. The gas in the conflict area is valuable, but the value of the coal (as measured by energy value and expected federal royalties) is expected to be more than ten times the value of the gas.



The agreement provides for a phase-out of gas production as coal mining approaches producing wells, thereby ensuring the maximum possible gas energy output before the wells must be plugged, abandoned, and the surface reclaimed. It also provides for coalbed natural gas recovery from pre-mining horizontal in-mine bore holes and post-mining vertical vent holes, and payment of federal royalties on gas that would otherwise be legally vented into the atmosphere as a safety precaution during coal mining.

The agreement also provides for pre- and post-mining production of gas that may be greater in volume than would be produced in the absence of mining. In addition to providing royalties, this provision of the agreement increases energy production and decreases air pollution significantly.

The BLM manages 13.4 million acres of public land in New Mexico and 47 million acres of federally owned mineral estate. The agency manages public lands and resources to sustain their health, diversity and productivity for the use and enjoyment of present and future generations.

-30-

EDITORS NOTE: The San Juan Coal Company has approximately 230 employees, well over half who are Native American, dedicated to coal mining operations. This translates into an annual payroll of about \$11.5 million. The San Juan Underground Mine is the sole source of coal for the San Juan Generating Station and provides the power plant with 6.5 million tons annually. The company has sunk costs of approximately \$150 million and pays \$52 million annually in federal-state royalties and taxes. Because this is a “mine-to-mouth” operation, [which means the coal supply is in close proximity to the generating station] any disruption in the coal supply would affect the generating station. The generating station is a 1,650 megawatt plant with over 400 employees and an annual payroll of \$27 million. The San Juan Generating Station [through the Public Service Company of New Mexico] pays approximately \$50 million in federal and state taxes annually. This mediated settlement ensures continuous operation of the San Juan Coal Mine, thereby guaranteeing economic stability within the local community.

