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Clean-coal entrepreneur has less-than-clean history

By Matthew Brown
 Associated Press Writer

ROUNDUP, Mont. — Success has for years lurked just around the corner for John Baugues Jr., a coal mining entrepreneur who arrived here in 1995 after starting and folding a string of mines in his native Tennessee.



Stockpiled coal sits next to idled equipment March 1 at the Bull Mountain mine south of Roundup, Mont. The mine is the site of a proposed \$1.5 billion coal-to-liquids plant, but financing troubles and lawsuits have delayed the project. AP PHOTO/Matthew Brown

Taking control that year of Bull Mountain Land Co., which has an estimated 340 million tons of coal lodged deep in the mountains south of Roundup, Baugues' future at last looked secure.

Then his biggest customer dropped him. His operating permit was revoked for environmental violations. Lawsuits from disgruntled investors stacked up, and Baugues' attempts to find new financing repeatedly came up dry.

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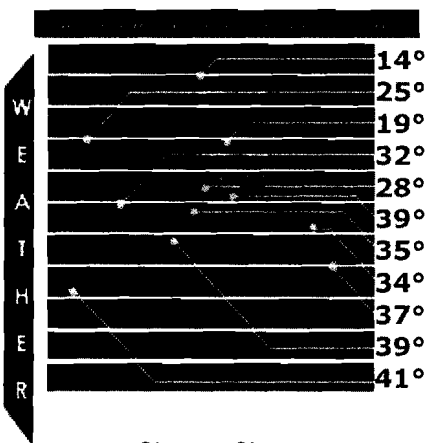
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Now, after languishing in the coal industry's wilderness for more than a decade, Baugues sees a chance at professional redemption through a \$1.5 billion coal-to-liquids plant proposed for Bull Mountain. It would be among the first in the country to convert coal into cleaner-burning fuels, for power generation and transportation.

The project has been touted aggressively by Montana Gov. Brian Schweitzer in his campaign to ease America's dependence on foreign oil. It's backed by industry heavyweight Arch Coal, which has a 25 percent stake in one of the partners in the project.

A checkered past

But in Baugues — with his checkered history and a trail of disgruntled creditors stretching back to Tennessee — Schweitzer has found a questionable champion.

Schweitzer testified before a congressional committee in late February that up to 2 billion barrels of imported oil could be replaced each year with coal-based fuels. That would require building 250 plants on the scale of the Bull Mountain proposal.

Yet while another coal-to-liquids project in neighboring Wyoming moves forward, Bull Mountain is on hold until Baugues and his partners resolve outstanding litigation and demonstrate the mine can produce enough coal to supply the plant.

To move forward, Baugues and his partners, Greenwich, Conn.-based Airlie Group, must finally swing the big deal that has eluded Baugues for so many years. He spent the a week in late February trying to persuade New York investors to sink almost \$300 million into an operation that even Baugues acknowledges has a spotty record.

Airlie, which declined comment, has final say over the deal after investing more than \$100 million into Bull Mountain during the past two years. But Baugues remains the public face of the endeavor and depicted himself as heavily involved in the financing negotiations.

The \$300 million would go toward building a 35-mile rail link to the remote mine site and to expand mining operations more than 30-fold — work considered crucial to the proposed plant.

"It's been a tough road, but this time we're ahead of the curve," Baugues said in one of several interviews about his project and business dealings. "We have all the (railroad) right of ways. We have all the permits. The business fundamentals are good. It's just a damn fight."

His detractors, including creditors and coal industry insiders, are doubtful. Baugues has developed a reputation for promising major investments that never came to fruition. Also, hanging over Bull Mountain is a \$20 million obligation to a group of 400 small investors who sued to get their money back. A second creditors' lawsuit is set for trial in May. At least two more have been settled for undisclosed sums.

"Airlie and Baugues have soured a lot of relationships," said Gregory Bartko, an Atlanta attorney representing the 400 investors in a federal lawsuit. "They kept having to make more money, more money, more money ... It's just a continual new story every three to six months."

Meanwhile, the mine itself abruptly ceased operations Feb. 27. Citing tight finances and a weak coal market, Bull Mountain laid off 50 workers indefinitely.

Following the idling of the mine, Schweitzer's economic development chief, Evan Barrett, made clear the administration's support has its limits. "The private side of this thing has to take care of itself," he said. Once ownership of the mine is determined, Barrett said, the administration will work with whomever is in control to advance the clean-coal project.

That contrasts with Schweitzer's comments at October's unveiling of the Bull Mountain plant proposal, which he declared "a great day for Montana" and "a major step in converting into a reality America's hope for an alternative to imported oil."

A spokeswoman for DKRW Advanced Fuels, Arch Coal's partner, said the coal-to-liquids project is "delayed" until Bull Mountain's legal and financing issues are resolved. A second DKRW coal-to-liquids project, in Medicine Bow, Wyo., is scheduled to begin construction later this year, spokeswoman Sandy Fruhman said.

Baugues said the shutdown of the mine was temporary and Bartko's clients will be paid when the \$300 million in financing is arranged. He rejected any notion that he has

found great wealth in the project to date, and said he makes no effort to hide Bull Mountain's past troubles.

"I just lay it out on the table and explain it," he said. "It's not a shell game ... I've never gained one bit from being in this project financially. I hope to, but not yet."

Coal gains and loses favor

Despite Baugues' upbeat claim that he is "on the cusp" of a deal, industry analysts describe the outlook for a sale as uncertain.

Coal-to-liquids projects have received a substantial political boost in recent months, including legislation sponsored by presidential hopeful Sen. Barack Obama, D-Ill., that offers them substantial tax breaks.

But the industry as a whole is contracting. While coal enjoyed a boom when oil prices skyrocketed two years ago, lower oil prices more recently have dulled its attraction, said Matthew Thurmond, a coal analyst with Zacks Investment Research in Chicago. The prospects for coal-to-liquids have turned into an "economics game": Does it make sense to pursue coal if oil is relatively cheap again?

In the case of Bull Mountain, potential investors also will be looking at the mine's — and Baugues' — rocky history.

Since 2005, the Airlie Group has attempted to shore up the mine's reputation by bringing in industry veteran John DeMichiei. DeMichiei, whose 40-year career included 17 years at the federal Mine Safety and Health Administration, has drafted a new mining plan, secured permits for the planned expansion and worked to smooth relations with state officials who oversee the operation.

"What we've done is add a degree of credibility to the exercise," DeMichiei said.

In the coal industry, there is consensus that Bull Mountain has great potential. It has a 30-year supply of good-quality, easily accessible coal, found in a contiguous seam just 400 feet beneath the surface.

Its problems are ones of perception, said Jim Thompson,

who tracks the industry for the newsletter Coal and Energy Price Report.

"All people can do when they look at an operation is to look at its potential and look at its track record," he said. "Given the difficult track record, you're going to have to sell them on the potential. And it's always harder to sell potential than it is to sell results."

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