If Land Man Fails, West's Coal Deposits Will Stay in Ground

Newton Steele Seeking Leases From Texas Landowners; Shotguns & Devil's Agents

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HUNTSVILLE, Texas—Newton Steele recalls with a chuckle the time he stood on an East Texas farmer's porch and waved a scrap of paper in the farmer's face.

"I want you to sign this," he said, puffing on a six-inch cigar, "and you know what it's going to do? It's going to give me the right to tear down your house and your fences and dig a hole over your entire land 100 feet deep. Total destruction."

That was three years ago, when most Texas farmers knew very little about coal. They know more about it now, so the 45-year-old Mr. Steele no longer has to rely on shock value. "Tell us how you're going to make us rich," one landowner urged him on a recent visit.

Mr. Steele is an independent land man. Along with some 1,500 others like him, he is a vital link in developing the vast Western coal deposits that are counted on to slow the depletion of U.S. oil and gas reserves. His job, as an energy or utility company's first contact with landowners, is selling them on the idea of leasing their coal to the company, which expects someday to strip-mine it.

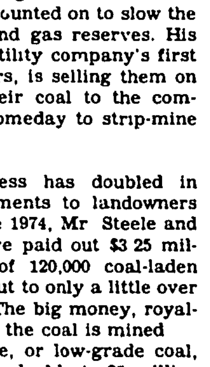
Payments Up Sharply

Mr. Steele's business has doubled in three years, and payments to landowners have quadrupled. Since 1974, Mr. Steele and a dozen associates have paid out $3.25 million to 1,500 owners of 120,000 coal-laden acres. That averages out to only a little over $2,000 per landowner. The big money, royalties, comes later, when the coal is mined.

Production of lignite, or low-grade coal, in Texas is expected to double to 25 million tons annually by 1980. Production of somewhat higher-grade coal in Montana and Wyoming, which already totals about 23 million tons a year, or 3.5% of the nation's output, is expected to jump perhaps sixfold by then.

Years ago, much coal leasing around the U.S. was done by prospectors armed with pocket change to buy drilling options. These men searched out coal reserves, then assembled lease packages called "plays" to sell to production companies. But pocket change won't do anymore, and the location of most coal reserves is well-known, so Mr. Steele works at the whim of big-name clients. He won't reveal his clients' names, but firms holding lignite leases in Texas include Shell Oil Co., Phillips Petroleum Co., Dow Chemical Co., Tenneco Inc., Exxon Corp. and a raft of big utilities.

Companies decide, based on drillings, what areas they want to lease. Then they hire men like Mr. Steele and his associates. These men determine who the landowners are, obtain their signatures on leases and, before any money changes hands, authenticate their titles to the land.



Land men really aren't anything new to the West; for years, Mr. Steele and others have haunted the region, seeking oil and gas leases. But coal is a new ball game. Coal, unlike oil and gas, must be leased in large uninterrupted chunks to make strip mining economical, so each company tries to arrive first and cut out the competition by signing an area's biggest landowners. And unlike coveted petroleum leases, coal leases are sometimes about as easy to peddle in these parts as beer in church. In the past, Mr. Steele says, he has closed as many as 21 oil and gas deals in one day, but "in the coal business I've had to go back 21 times on one customer."

One reason: It just isn't easy for a landowner to accept "total destruction." The fact that, even after good reclamation, "the land won't look like it did when he was a boy" is a frequent roadblock, Mr. Steele says. Also, because it takes so long to get the coal out, leases are typically for 15 to 30 years, compared with three to five years for oil and gas, and a landowner often dreads losing control of his land for that long: He won't be able to live there once mining starts (oil and gas operations are far less disruptive); and if he wants to sell the land, he may have a hard time doing so even if mining hasn't started—because of the possibility that mining eventually will come.

Having Your Cake

To solve those problems, Mr. Steele, a rotund, smooth-talking native Texan who used to practice law, drives 3,000 miles a month, spreading what he calls "education" among landowners. He concentrates on the land atop two 25-mile-wide, banana-shaped bands of lignite that curve from Texarkana in East Texas to near Laredo on the Mexican border.

On this particular afternoon, he chats about local high-school football with Mr. and Mrs. Frank Davis of Conroe, "to get them relaxed." Then, drifting into business talk, he tells them a coal lease on their 160 acres

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"means you can have your cake and eat it too."

For a 15-year lease, he offers them a bonus of $20 an acre just to sign plus, starting in the sixth year, a $10-an-acre "advance royalty" if mining hasn't started. Just before mining starts, the Davises will get $300 to $500 an acre more for the land actually to be disturbed. Once mining starts, their royalty will be 6% of the coal's selling price They will get their reclaimed land back four years after mining ends. Mr. Steele figures their total cash take at, conservatively, $250,000, and he notes that it can be treated as a capital gain.

Such figures sound even more impressive when contrasted with tales of stubborn holdouts who lost money. Mr. Steele often tells landowners of one holdout who lost $40,000 in bonus payments while negotiating for a higher royalty. An agreement was finally reached, but right about then the company learned that it had erred and that the coal's quality was too low. "So I withdrew my offer."

On 85% to 90% of Mr. Steele's customers, basic "education" works. But first, his stamina is often severely tested. He recalls his hardest sale, to a really tough customer said to have once spurned aid after a knife fight because he didn't believe in stitches Mr. Steele read the lease aloud to him four times, and changes had to be made frequently Among other things, Mr Steele says, "we exempted 90 of his 800 acres—the family burial ground, his air strip and his home." The ordeal took 19 visits.

Hardly anything will persuade some landowners. On a fall afternoon, an elderly farmer whose 325 acres the land man badly craves—"it's in the gut of our area"—still holds out after a year of negotiation even though "I'm a poor man, I could use the money." Mr. Steele observes later: "One of the problems with that man is that he loves his land He's lived there all his life, and his Daddy did, too"

In some cases the rub is a landowner's exalted idea of his coal's value; other times it is dislike for land men. To avoid being turned down prematurely, Mr Steele usually doesn't phone ahead But he did call one prospect who had "put a shotgun right up against" a fellow land man Mr. Steele told him, "I have to talk to you or I'll lose my job" He added that if the landowner pulled a gun, nothing Mr. Steele did then should be misinterpreted "Whatever I do, I'm trying to leave" The man chuckled, and eventually signed.

Mr. Steele didn't press another landowner, "who told me people like me were agents of the devil, and if I came out there, he'd shoot me I just didn't go"

A Promise Comes True

Irrational fears aside, there are perfectly good reasons for landowners to be cautious For one thing, strip-mine reclamation hasn't been tested in all parts of the Texas coal country For another, land men's offers vary so much that it's hard for an owner to pick the one that fits his needs best A $300-an-acre bonus certainly sounds better than a $20-an-acre bonus, but suppose the bigger bonus carries a 30-year lease and the smaller one a 15-year lease A shorter lease may mean greater seriousness about mining—and only mining means royalties. The longer lease may never be exercised; a better fuel than lignite may be developed before 30 years is up. On the other hand, if the landowner needs cash now, he might take the 30-year offer anyway.

The pressure of competition can foster unethical pitches. One coal geologist recalls a land man's promising a reluctant landowner that his bonus would be a "gift" because the company didn't intend to mine there. The promise came true when the company let its lease lapse, but the land man hadn't known that that would happen. (The same geologist says Mr. Steele is "reputable.")

Stubborn landowners can drive land men to unorthodox approaches. On his third visit with Mrs. May Ellis, Steele associate Pete Van Horn tries a new tack to convince Miss May, as he calls her, that she won't lose her small pension if she accepts a bonus. He proposes that she deed her 200 acres to her daughters, who would then sign a lease and "slip you the money." But the suggestion backfires as the nearly destitute woman, who lives in an isolated clapboard shack, exclaims, "I wouldn't do that. That's dishonest." The embarrassed land man finds himself imploring her, in vain, to consider "the love you have for your daughters; a deed, that's a gift of love."

Once the selling is done, the land man has 20 days to verify the landowner's title, tracing deeds back to the pioneer who was given the land by Mexico or Texas. The job is especially tedious in Texas, where land grants were irregularly shaped, often overlapped and were measured in varas, 33-inch lengths of rawhide. But it is a vital task. Mr. Steele recalls nearly accepting a lease on 156 acres whose deed was so out of order that it could have resulted in some previous owners becoming partners entitled to a fifth of any coal profits

Piano Interrupts Pitch

The work dictates a flexible personal life. To be near coal, Mr. Steele and his family moved 450 miles from his home in Midland, Texas, to a condominium in Huntsville. Mr Steele works seven days a week, often after hours. One recent eight-hour visit ended, unsuccessfully, at 4 a m , the rancher-prospect's normal piano-practicing hour

But the job has advantages Although he won't give details, Mr Steele takes home considerably more than the $45,000 annually his associates do. And he likes his work, because it's measurable, "like a bricklayer's." A graduate of the University of Texas, Mr. Steele quit practicing law 10 years ago for land work because, after going broke in a real-estate venture, "I needed to make more than I was worth" He later formed his present company, Steele & Associates, as an oil- and gas-leasing concern, and located it at Midland in oil-rich West Texas.

His associates aren't exactly employes; they are other land men for whom he arranges work and who agree not to compete against him for a year after they leave him. Energy companies tend to dismiss land men, as well as recruit them, on a day's notice, and Mr. Steele's associates say that without him they would spend 25% of their time seeking their own work.

Mr. Steele hopes ultimately for enough capital to start his own production company, probably in oil. But coal leasing is his main activity now, and he figures it will be for another year or two, until Texas coal is mostly "leased up." He hasn't any objection to being called a promoter, "because that's what I am." Like many promoters, though, he claims to serve a higher purpose. "Right now," he says, that's trying "to break the stranglehold of the Mideast."