

Holders of coal unaware of deal

BELUGA: Leaseholders learned of Taiwan arrangement after the fact.

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Leaseholders of Alaska's Beluga coal deposit say they were surprised by a trade agreement with Taiwan, announced by Gov. Frank Murkowski last month, that calls for large purchases of their coal. They weren't involved in the negotiations and said they learned about the trade agreement after it was signed and posted on the governor's Web site.

Personal financial links between the proposed Beluga development and state Attorney General Gregg Renkes are being investigated by former U.S. Attorney in Alaska Robert Bundy. Murkowski on Sunday appointed Bundy as an independent counsel after he learned that Renkes owned stock in and previously worked for a company that could benefit from the trade deal.

"We were totally unaware of this and taken completely by surprise," said James Feug, who heads Placer Dome's Anchorage office. Placer Dome, in conjunction with Anchorage-based Cook Inlet Region Inc., is one of two major leaseholders of Beluga coal. The other is PacRim Coal, headed by Anchorage businessman Bob Stiles.

"We have had no part in the deal. We have had no contact with anyone regarding the deal," Stiles said. "I read about it in the paper."

The deal is an agreement signed Sept. 16 between Taiwan and Alaska that calls for Taiwan to encourage one of its state-owned utilities to buy large volumes of Beluga coal if the material can be successfully upgraded at a competitive price. The trade agreement mentions a Denver company called KFx as the firm that has the technology to dry the high-moisture coal and make it marketable. A \$350 million coal-drying plant would have to be built at the Beluga deposit, 60 miles southwest of Anchorage.

Renkes' ties with KFx publicly surfaced last week. Although he had reported owning stock in KFx worth more than \$100,000 in public filings, Renkes said he never mentioned it to Murkowski. Nor, Renkes said, did he tell the governor that he had worked as a consultant for KFx and had other business dealings with KFx insiders before moving to Alaska from Washington, D.C., after Murkowski appointed him attorney general in December 2002.

Renkes has promoted KFx in at least two public appearances this year. He brought the company to the attention of Alaska's Office of International Trade, which organized two Taiwanese trade delegations to Anchorage, and reviewed the Taiwan trade agreement on behalf of the Department of Law, according to Margy Johnson, trade director.

Besides being caught off guard by the coal announcement, the leaseholders take a dim view of KFx, which has tried for more than 20 years to commercialize its technology, called K-Fuel.

"We've decided to go in a different direction," said Jim Chavis, Placer Dome's vice president of government relations. "We're not even looking at it seriously."



Renkes (Photo by AL GRILLO / The Associated Press)

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Chavis said Placer Dome's executives met briefly with KFx a couple of weeks ago after the trade agreement was signed in Anchorage.

"It was a very brief meeting. We are not in negotiations with them nor do we plan to be," Chavis said.

He would not elaborate other than to say Placer Dome is talking with another company that has a proven process to dry high-moisture coal. He said KFx's technology "just doesn't mesh with what we're doing."

Stiles said there are any number of coal-drying technologies on the market. As far as K-Fuel, it works in tests, but whether the process can be scaled up and made competitive is unknown, he said.

"Given an unlimited amount of money and time, you can get anything to work," he said.

Ted Venners, chief executive of KFx, was not available to comment, said Jamie Tully, who handles public relations for the company.

Stiles, who has been trying to sell Beluga coal for decades, said Taiwan's state purchasing laws require that any coal supplier be up and running, producing 1 million tons, for at least a year before a state-owned utility will buy the coal.

"Which means that in order for the deal to work as outlined in the memorandum of understanding, someone has to build that plant on spec," he said.

Ron Miller, head of the Alaska Industrial Development and Export Authority, a state lending agency, said he met with some executives from Taiwan and KFx when they visited Alaska last March. He explained AIDEA's bonding authority to finance big projects but made no commitments. KFx's technology isn't far enough along to be convincing, he said.

"It's an unproven technology. I wish them all the luck in the world, but it's not something I would recommend to our board," Miller said.

Both Johnson and the leaseholders said that, ultimately, whether a deal comes together is based on economics, and no amount of government encouragement can make it happen if the finances don't work.

As a general rule, it's best to involve leaseholders as early as possible in negotiations leading to a trade agreement, said John Shively, former natural resources commissioner.

"Even if you couldn't bring them in from the beginning, you'd probably want to tell them before you put it on your Web site," Shively said.

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