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## KFx's coal deal powers dispute

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Low-profile Denver energy firm KFx Inc. suddenly is awash in publicity after a plan to sell Alaskan coal to Taiwan blew up amid claims of insider dealing and conflicts of interest, but the company chief executive maintains that the claims are false or exaggerated.

KFx's patented technology converts dirty, low-quality coal to clean, energy-rich coal by squeezing and cooking moisture and pollutants out of it.

Critics of KFx have long questioned the firm's inability to commercialize the technology. The company has never turned a profit in its 20-year history and has lost \$59 million over the past four years.

Yet KFx claims that it is about to turn the corner with the help of new equipment, bolstered by high coal prices that finally make its "K-Fuel" product economically feasible.

Controversy erupted last week after KFx issued a press release saying it had agreed to license its technology to Kanturk Partners, a Washington, D.C., firm that would use the process to sell Alaskan coal to Taiwan electric utilities.

The problems focused on three issues:

KFx was blistered in a Sept. 29 Wall Street Journal column that said the company failed to disclose in the release that Kanturk included two KFx shareholders and the brother of KFx chief executive Ted Venners.

The release also failed to note that the brother, John Venners, paid a \$10,000 fine in 2000 to settle SEC accusations that he fraudulently manipulated KFx's stock price. John Venners neither admitted nor denied the charges.

The Anchorage Daily News reported Oct. 1 that Alaska Attorney General Gregg Renkes, who had been promoting the coal-to-Taiwan deal, is a KFx shareholder and had once served as a paid adviser to the firm.

Alaska Gov. Frank Murkowski appointed an independent counsel to investigate Renkes' ties to KFx and to determine if he violated state ethics laws.

Since the controversy flared, KFx's once high-flying stock price has plummeted. After reaching a record high of \$11.05 in April, the shares fell 34 percent through Wednesday before rising Thursday with an 18-cent gain to \$7.51.

Ted Venners, 56, said he believes securities law does not require KFx to disclose the close ties between Kanturk and KFx.

Furthermore, he said, having the licensing partners and his brother hold KFx stock and options is a positive, not a negative.

"There is no favoritism to anybody," he said. "For somebody to pay us a large licensing fee (\$40 million) before we are commercialized is an impressive vote of confidence.

"Anybody who wants to give us \$40 million, I don't care whose brother it is."

Ted Venners said he has invested \$16 million of his own money in KFx. The company's board of directors includes James Schlesinger, former U.S. secretary of energy, secretary of defense and director of the CIA.

Venners is particularly irate that the source of much of the criticism is from New York investor Manuel Asensio, a controversial short-seller who profits by betting that stock prices will fall.

Asensio said he's aware of at least 15 failed ventures in which KFx tried to work deals with customers that would lead to commercial-scale production of the improved coal.

"I've been watching them make promises to their investors for 20 years, and they've failed in everything they've attempted," Asensio said. "It's a very questionable company with very questionable management.

"What happened in Alaska was unconscionable," he said.

"Clearly, any reasonable, unbiased observer would have a lot of questions about how they conducted this transaction."

Asensio said neither he nor his firm, Asensio & Co. Inc., hold short positions in KFx, so he could not benefit from his criticism and the falling stock price.

But Venners said he believes that Asensio has ties to hedge funds that have short-sold KFx stock.

"Somebody's ox was getting gored by our rising share price, and so they started this campaign," he said.

Venners said KFx has broken ground on a \$50 million plant near Gillette, Wyo. - a project that will allow KFx to produce K-Fuel in commercial quantities at lower costs.

Janet Gellici, executive director of the American Coal Council, said rising coal prices could help KFx's chances of success.

Gellici said eastern U.S. coal prices that have reached as high as \$60 a ton make it economically efficient for buyers to purchase KFx fuel derived from cheaper coal in Wyoming's Powder River Basin.

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