

Alaska Attorney General's letter

(Published: December 5, 2004)

May 7, 2004

Dear Secretary General Kang:

I have recently made arrangements to travel to Taiwan for the inauguration of President Chen Shui-bian. So that we might meet during my visit and advance the prospects for a secure Alaska coal supply for Taiwan, I would like to more specifically address the issues raised in your April 20, 2004, letter.

It was with much pleasure that I personally received your technical delegation and asked Alaska Attorney General Gregg Renkes to oversee their visit to our state. I value greatly the friendship of Taiwan and its people and the interest the President and you have expressed in establishing a long-term energy security relationship between Alaska and Taiwan. We understand that any energy security project must be "mutually beneficial," requiring the coal product produced from Alaska coal to meet TaiPower and China Steel price and quality requirements. This is why we included the presentation on KFx clean coal processing technology during the visit by your delegation in March. This technology is well suited to Alaska subbituminous coal and previous tests have shown it can produce a coal product that meets your power industry's specifications. We fully understand that meeting TaiPower and China Steel coal price and quality requirements are prerequisites to any discussions of cooperation.

Your letter raises several other issues I would like to address:

Alaska coal from the Beluga deposit processed by the KFx technology is equivalent to the bituminous coal TaiPower is currently using. You are correct that the Alaska Beluga coal is subbituminous and does not meet TaiPower and China Steel's requirements. However, the KFx processing technology removes a majority of the moisture from the raw coal, which eliminates the possibility of spontaneous combustion during shipping. The reduced weight and volume also reduce the cost of transportation and storage. As an added benefit, the KFX process also reduces pollutants (up to 90 percent of mercury and up to 30 percent of sulfur and nitrogen) and waste disposal. K-Fuel requires no retrofitting of existing plants, and in most cases, eliminates the need for post-combustion scrubbers.

Private commercial parties are prepared to develop the Alaska Beluga coal resource based on Taiwan's long-term commitment. KFx Corporation (the owner of the patents for the coal processing technology) and its financial partner Kanturk Partners have expressed their willingness and capability to build a plant in Alaska adjacent to the Beluga coal deposits in the Cook Inlet adjacent to tidewater that can supply Taiwan's requirements with an upgraded coal product. This coal resource should not be confused with the high quality bituminous coal from the Arctic for which lack of access makes development farther in the future. It is important to understand that while the Beluga coal resource is easily accessed and vast in quantity, the necessary mining, port, and KFx processing facilities have not been developed. KFx/Kanturk partners, in cooperation with an established coal mining company, will finance and build the necessary facilities without any commitment of Taiwanese funds. Approximately three years will elapse before this Alaska coal product will be ready to ship to Taiwan. All that is required is a long-term commitment by Taiwan to utilize the processed coal product.

KFx/Kanturk partners has assured me that K-Fuel is price competitive with the bituminous coal that TaiPower is currently using. The KFx Wyoming plant is not yet in full production; therefore, you are correct that "commercial market verification" is still required. However, previous test burns from demonstration plants have proven the technology is sound. To eliminate any risks for Taiwan, the KFx/Kanturk Partners joint venture has told me that

they are willing to propose the following:

- During project development, Taiwan can verify the processed coal product specifications by testing coal product created by processing Alaska Beluga coal at the KFx plant in Wyoming. If this product does not meet TaiPower's specifications, Taiwan is under no obligation to take any delivery.
- Kfx/Kanturk Partners is willing to guarantee a "first right of refusal" for a tonnage and a period of time that Taiwan specifies, initially matching the spot market price, which later can be modified and renegotiated to medium and long-term supply contracts with pricing that reflects the term of the contract. It is our understanding that TaiPower currently purchases approximated one third of its supply from the spot market; therefore, if the Alaska coal product does not meet requirements, Taiwan has not lost opportunities in terms of either supply or pricing differentials. However, if the Alaska coal product does meet Taiwan's requirements, Taiwan will have the benefit of a long-term supply guarantee, which could be very important for Taiwan's national security.
- In return, the KFx/Kanturk Partners ask that Taiwan make a long-term commitment for a minimum of seven million tons per year of coal product, if and only if this coal product meets Taiwan's specifications and is price competitive.

I hope this information helps clarify any concerns you may have. TaiPower, China Steel, and KFx/Kanturk Partners can arrive at the details and commercial terms. I hope that you will facilitate their further discussions. I look forward to seeing you and President Chen Shui-bian during my upcoming visit to Taiwan and to having further dialogue about how we might collectively advance this exciting Alaska/Taiwan energy security relationship.

Sincerely yours, Frank H. Murkowski Governor