

## Renkes mixed personal, state business

**TAIWAN: Documents show Alaska's attorney general was at the heart of effort to sell coal and coal-drying technology.**

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Newly released documents show that, despite his earlier denials, Attorney General Gregg Renkes used his position to push a \$1 billion coal export deal with Taiwan and promote the participation of KFx Inc., a company in which he owned stock and was buying and selling shares.

Since early October, when his stock ownership and personal ties to the company became public, Renkes has strenuously denied that he played any significant role in discussions between state and Taiwanese government officials about the purchase of Beluga coal and the use of KFx coal-drying technology.

But hundreds of e-mails, letters, memos, phone logs, press conference transcripts and other communications released by the Murkowski administration in response to a public records request from the Daily News show that the attorney general was deeply involved in structuring the coal deal and promoting KFx as a key player.

The documents show that Renkes:

- Brought KFx to the attention of state trade officials;
- Flew to Taiwan to promote the Beluga project;
- Served as host to Taiwanese representatives visiting Alaska;
- Wrote to the Taiwanese, under the governor's signature, pitching the benefits of KFx technology;
- Prodded state officials to keep the deal moving forward; and
- Rewrote a trade agreement between Taiwan and Alaska in a way to significantly benefit KFx.

Renkes is a confidant of Gov. Frank Murkowski and was his aide in Congress for 12 years. He came under conflict-of-interest scrutiny in October after the Daily News revealed details of his personal stake in KFx. Not only was Renkes an active stockholder, he had consulted for the company and owned a business with a KFx lobbyist, who was a KFx co-founder and the brother of its



Alaska Attorney General Gregg Renkes, center left, was among those aboard the Alaska Railroad's run from Portage to Grandview and back during a Nov. 5, 2003, visit between Taiwanese President Chen Shui-bian and Alaska Gov. Frank Murkowski. Visiting Taiwanese officials and business leaders met with Alaskan counterparts in train cars individually dedicated to themes such as seafood, agriculture, tourism, and energy and natural resources. (Photo by Erik Hill / Daily News archives 2003)



Alaska Attorney General Gregg Renkes leaves a news conference Oct. 4 after talking about his financial ties to KFx Inc., a Denver company hoping to participate in a

chief executive. Because KFx was integral to the coal project, Renkes stood to profit if the mega-deal went through.

Beluga coal project. (Photo by AL GRILLO / The Associated Press)

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The attorney general disclosed his KFx investments in filings with the Alaska Permanent Fund Corp. and the Alaska Public Offices Commission. Renkes said he didn't tell the governor of his KFx interests; a Murkowski spokesman said the governor was caught off guard by the news.

Renkes' disclosures to the Permanent Fund, where he is one of six trustees, show he bought and sold KFx stock in the months leading up to the signing of an Alaska-Taiwan coal agreement Sept. 16. On that day, he owned \$122,485 worth of KFx, making it by far his biggest personal financial asset, according to the disclosures.

After the Daily News reported Renkes' ties to KFx, Murkowski appointed former federal prosecutor Robert Bundy to investigate whether Alaska's top legal official violated state ethics rules.

State law bars public officials from using or attempting to use their office for personal gain. They may not "use state time, property, equipment, or other facilities to benefit personal or financial interests" and they may not take any official action to "affect a matter in which the public officer has a personal or financial interest," the law says.

Penalties for violations can range from a reprimand to fines to dismissal.

"I have been in full compliance with the law and the spirit of the law," Renkes said Oct. 4.

'I WILL DRAFT THAT'

In late September, in the face of public questions about his KFx stock and his role in the coal project, Renkes said he wasn't the deal maker, it wasn't his mission to promote KFx and that he distanced himself from the trade negotiations.

But among the newly released documents is an exchange of e-mails between Renkes and Ida Yao, the state's trade representative in Taiwan, that contradicts his public statements. In an April 30 e-mail, Renkes instructed Yao to copy him on all Beluga coal related communications to the governor.

"He is relying on me to manage all aspects and contacts related to this project," Renkes wrote.

The documents show that he did just that.

According to the records made available so far, Renkes' earliest involvement in the Beluga coal deal can be traced to Nov. 5, 2003, when he joined Murkowski and scores of Alaska and Taiwanese business people on a train ride to Grandview, south of Girdwood on the rail line to Seward.

The scenic trip down Turnagain Arm was arranged by the Alaska trade office to fete Taiwan's president, Chen Shui-bian, and his entourage during a 24-hour stopover they made here on their way to New York. The train trip and hospitality at Alyeska Resort was a way to court new business, including development of Alaska's vast coal reserves.

The invited guests included Ted Venners, chief executive of KFx, and his brother, John, a KFx lobbyist, neither of whom attended, according to Margy Johnson, director of the state Office of International Trade.

On Nov. 14, Renkes bought 3,000 shares of KFx stock, increasing his total to 15,000 shares. On Dec. 1, he purchased another 500 shares.



Patricia Eckert is a specialist in the Office of International Trade, Office of the Governor. (Photo by Bill Roth / Anchorage Daily News)

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On Jan. 4, Renkes flew to Taiwan as a delegate of the National Association of Attorneys General. While there, he met with Taiwanese officials to discuss Beluga coal, according to a gift disclosure he filed.

On Jan. 15, five days after returning from Taiwan, Renkes responded to an e-mail from state trade specialist Patricia Eckert. He told her that "a lot of ground work needs to be done by me asap to pull the key commercial people together around the development concept."

Eckert had offered to invite Taiwanese officials to Alaska to pursue the project. The trade office has "a standard letter we use for this," Eckert wrote.

Renkes declined.

"They're expecting an official letter from the governor," Renkes replied. "I will draft that."

Renkes suggested that persuading the Taiwanese to make long-term, large-scale purchases of low-quality coal from an undeveloped mine could be a tough sell.

"The difficulty here is that in this case we do not have a commercial project ready to sell a product. Instead, we have a greenfield project concept," he wrote in the Jan. 15 e-mail.

On Jan. 20, Renkes sold 1,500 shares of KFx. He sold another 1,000 shares Feb. 3, and 500 more Feb. 10.

## HUGE COAL RESOURCE

Beluga is a massive, untapped storehouse of coal. The field, 60 miles west of Anchorage, holds more than 1 billion tons of proven coal reserves. The actual reserves could be as high as 10 billion tons, according to state estimates. Because of its size and proximity to Cook Inlet, Beluga is described as the world's largest low-sulphur coal deposit close to tidewater. The Murkowski administration sees it as a promising development project.

But Beluga coal is subbituminous, meaning it's wet and has low heat value. Of every four containers of Beluga coal, one is essentially water. Reducing that moisture is key to finding customers, which in turn would justify development of Beluga.

KFx says it has an economical method of drying commercial quantities of coal. The process, called K-Fuel, appears to work in the laboratory and in test burns, but it has never been successfully employed in an industrial setting. The company needs a big customer willing to sign a large-scale contract.

"Taiwan is that buyer," Murkowski said in a newspaper column about Beluga published in October. He noted that Taiwan's national electric utility, TaiPower, could use up to 4 million tons a year.

KFx "has a patented process of using pressure and temperature to convert high-moisture coal into a form that Taiwan can use," Murkowski wrote. "This 'K-Fuel' process really works."

## WHO AND WHAT IS KFX?

KFx is the brainchild of two brothers from South Dakota: Ted and John Venners.

Ted, who was formerly in real estate, in 1978 developed a coal mine called Fort Union in Gillette, Wyo. A few years later, he and John teamed up to start a clean-coal business called Energy Brothers Inc. The goal was to convert subbituminous coal from the Powder River Basin into high-energy fuel.

Energy Brothers set about commercializing a coal "dewatering" process developed at Stanford Research Institute in the 1970s. They called it K-Fuel.

Since the early 1980s, the brothers have tried to make K-Fuel a commercial product. Their company's name and partnerships have changed over the years, but one thing has not: The brothers have yet to make money from

commercial sales of K-Fuel.

They have had some serious failures, including a \$68 million plant in Gillette that opened in April 1998 and closed in June 1999 because of operational problems, according to filings with the U.S. Securities and Exchange Commission.

In the late 1980s, KFx defaulted on a \$11.7 million loan, which led to a lawsuit by the state of Wyoming in 1994. The state settled with KFx and received the last of the money owed in 2001, according to The News-Record, the Gillette newspaper.

"When you do something like this, you're going to make a lot of mistakes. I'll admit it. I've made them. But I've learned a lot," said Ted Venners in an interview with the Daily News last week.

From 2001 to 2003, KFx generated \$78,306 in total revenue against \$63.4 million in losses, according to SEC filings.

KFx recently started building a new K-Fuel plant in Gillette. The facility was supposed to cost \$41 million and begin production in the first quarter of 2005. In a recent filing with the SEC, KFx pushed the start date back to the summer and increased the cost to \$48 million.

Despite the setbacks, Venners remains optimistic. A series of recent changes bode well for KFx, he said. The company has acquired expertise and new equipment from a South African company that has designed and built many coal gasification plants around the world, he said. In addition, the price of coal is on the rise, which helps offset the costs of the drying process.

"We have the margins where we can afford to make a profit," he said.

Tighter environmental restrictions on air emissions combined with new tax credits for companies that develop clean-burning fuel also work in KFx's favor, he said.

Venners said he has put every asset he owns into making KFx a success and, after 20 years, failure is not an option.

"We're committed to making it work," he said.

KFx is a public company traded on the American Stock Exchange. Its market value is about \$900 million.

## THE SALES PITCH

State trade director Johnson said she believes the KFx technology holds promise for coal development in Alaska. It was Renkes, Johnson said, who first told her about KFx and suggested she "take a look at this."

The state began seriously courting the Taiwanese in the early part of 2004.

On Feb. 18, Renkes wrote an e-mail to Yao that spelled out what he wanted to accomplish from a visit to Alaska in March by major Taiwanese coal buyers from TaiPower and China Steel:

"My objective for their visit is to make them comfortable with the nature of the coal fuel product they would receive, the technology that would produce the product ...," Renkes wrote. The product in question was Beluga coal upgraded by KFx, and the technology was the K-Fuel drying process.

"I would like the TaiPower and China Steel officials to return to Taiwan prepared to recommend to the government that they send a letter to Gov. Murkowski expressing their intent to work with the State of Alaska and the appropriate business organizations to secure 10 million tons of upgraded coal fuel per year and possibly participate in the construction of mine and port facilities," Renkes said.

Two days later, on Feb. 20, Renkes wrote to Steve Chen, an official with the Taiwan Ministry of Economic Affairs, to set up the trip.

"Please advise Ms. Yao as soon as you can of the tentative travel schedule so that I can make the necessary arrangements in Alaska," Renkes wrote.

On March 5, a delegation of six Taiwanese businessmen arrived in Alaska to meet with state trade representatives and five executives of KFX. The documents provided by the Murkowski administration do not show how or when KFX representatives were brought into the Beluga coal discussions.

#### RENKES' TIES TO KFX

The key player on behalf of KFX in the Beluga coal deal is John Venners.

Venners is a consultant to KFX. His firm, Venners & Company Ltd., receives an \$18,000-a-month fee from KFX, according to recent SEC filings. While his brother, Ted, runs the operational side, John handles government relations for the company.

Before starting his lobbying firm, which focuses on energy issues, John Venners worked as an aide to an Interior Department secretary and served as director of congressional relations for the Federal Energy Office, according to his biography.

"John has been in Washington for over 30 years," Ted Venners said.

In addition to lobbying, John Venners serves as managing director of Kanturk Partners, a recently formed Hong Kong-Washington business that has said it hopes to finance the construction of a K-Fuel plant at Beluga. The principals of Kanturk are major KFX shareholders and relatives, according to e-mails between David Fu, a Kanturk partner, and John Venners.

Venners and Renkes have declined to offer details about how they met and their relationship over the years. Venners did tell the Daily News that the two have known each other for about 16 years. From their work histories, it appears that during many of those years they traveled in overlapping government and business circles in Washington, particularly those focused on energy.

Renkes worked as an energy committee staffer for Sen. Frank Murkowski from 1995 to 1998. After leaving that job, he started his own Washington lobbying firm, The Renkes Group Ltd. One of the firm's clients was KFX.

In 2001, Renkes accepted 25,000 shares of KFX stock as payment for \$91,250 in professional services provided to the company, according to SEC filings.

In December 2002, when newly elected Gov. Murkowski selected Renkes as his attorney general, Renkes and Venners owned homes on the same street in McLean, Va.

The two also co-owned a business called Reliable Power Inc. Renkes remained a director and shareholder of Reliable after becoming attorney general, according to his 2004 disclosure report to the Alaska Public Offices Commission. The only other Reliable director listed in public documents is John Venners, who recently said Renkes is no longer involved with the company.

Venners was once accused by the SEC of manipulating KFX's stock price over a 15-month period in 1997 and 1998. Regulators said he artificially raised the closing price of KFX stock. While neither admitting nor denying guilt, Venners agreed to pay a \$10,000 fine in 2000.

#### CAUTIOUS BUYERS

At the conclusion of the Taiwanese visit to Alaska in March, Renkes led a news conference in Anchorage to draw public attention to the coal project. KFX's director of projects, Rick Van Zyle, spoke about how K-Fuel could be

the key to launching Beluga development.

Renkes continued to trade KFx stock, selling 500 shares March 22, and buying 500 shares April 6.

On April 20, the Taiwanese wrote to Murkowski to express reservations about buying Beluga coal.

In the letter, Kang Ning-Hsian, senior adviser to Taiwan President Chen Shui-Bian, said the coal did not meet his country's quality requirements. He also questioned whether the costs of upgrading it would make the coal too expensive.

Murkowski responded May 5 with a three-paragraph letter. The letter was drafted by Alaska trade officials and simply thanked the Taiwanese for coming to Alaska, saying it was good to hear they were interested in further exploring coal purchases.

Two days later, Murkowski sent a second letter to Kang. This one was much longer and written by Renkes.

The letter responded in detail to Kang's reservations. In it, Renkes urged Taiwan to commit to the Beluga project and touted KFx as the solution to quality concerns.

"The KFx processing technology removes a majority of the moisture from the raw coal," Renkes wrote, "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."

Renkes also tried to ease Kang's concerns that K-Fuel had never been proven in a large-scale commercial plant, as would be needed at Beluga.

"... Previous test burns from demonstration plants have proven the technology is sound," he assured Kang.

That same week, on May 4, Renkes bought another 300 KFx shares.

Murkowski visited Taiwan from May 19 to 21 to attend the presidential inauguration and hold meetings on coal and other trade matters. Present at a May 21 breakfast meeting was John Venners.

In a memo to Murkowski before the governor left for Taipei, Renkes told him, "Venners will be able to provide all the necessary details at your breakfast."

In the same memo, Renkes reminded Murkowski, "We are confident the Beluga coal can be processed by KFx to meet or exceed" Taiwan's specifications.

Sometime shortly after the May 21 meeting, Venners wrote in longhand on hotel stationery the first draft of what would become the Alaska-Taiwan coal agreement signed on Sept. 16.

With the proposed agreement, Venners enclosed a note to the governor:

"Dear Frank,

"I have taken the liberty of drafting the attached in hopes of moving things along. The technocrats will continue throwing up roadblocks unless there is a directive from the top. Perhaps Gregg can dress it up a little."

DRESSING IT UP

Yao, the state trade representative in Taiwan, wrote to Renkes on May 21 to say Venners' presence at the Taipei meetings had helped overcome Taiwanese skepticism about the Beluga project.

"Gregg, I had a good talk with Mr. Venners yesterday afternoon, before went to TaiPower. I felt that the results for the two meetings he attended may score as fruitful, through there are still steps that need to be crossed," Yao wrote.

Over the next several months, Renkes and Venners both worked on the text of the trade agreement, state documents show.

On June 15, Renkes bought another 100 shares of KFx.

Venners' original draft of the trade agreement called for Taiwan to buy at least 4 million tons a year, for two years, of Beluga coal processed with KFx technology.

On Aug. 3, Renkes purchased another 200 shares of KFx.

In several e-mail exchanges with Yao and trade director Johnson, Renkes and Venners worried that the coal deal was losing steam.

On Aug. 5, Renkes wrote Yao, urging her to persuade Kang to commit.

"Ida, I assume you have seen the letter from Kang dated July 28. He lists four priorities. Signing a commitment to utilize Alaska coal resources is not one of them. Since signing a commitment was the original reason for the trip, I hope that this objective is preserved."

On Aug. 9, Yao wrote to Renkes, trade specialist Eckert and trade director Johnson, asking them to look at Venners' latest draft of the proposed trade agreement.

The draft called on the Taiwanese government to "instruct" companies such as TaiPower and China Steel to buy the upgraded K-Fuel Beluga coal, and committed the Taiwanese to purchase a minimum of 4 million tons a year for 10 years.

Venners, in an Aug. 16 e-mail, also prodded Yao to get specific commitments from the Taiwanese.

"Ida, I think we should concentrate on what we can expect as a result of this trip. If we can't deliver spec product at competitive prices there isn't any obligation on the part of the Taiwanese. I hope they are sincere on taking this to the next level (signing the agreement) so we can justify this whole effort," Venners wrote.

## RUNNING OUT OF TIME

With the Taiwanese trade mission due to arrive in weeks, the state and Taiwanese were still far apart on terms for a commitment to purchase coal.

On Sept. 9, a week before the signing ceremony, Renkes sent to Taiwan a version of the agreement that he had rewritten. His cover letter noted that he had made several "minor but important changes" that "will legally allow the State of Alaska to sign the agreement."

Some of the changes were a boon to KFx.

The new draft doubled the amount of coal the Taiwanese would buy, requiring them to direct government-owned utilities to purchase up to 8.8 million tons a year "on a long term basis." In addition, Renkes added language committing the Taiwanese to encourage other Taiwanese companies to buy Beluga coal processed by KFx.

The Taiwanese responded with a letter on Sept. 14, two days before the scheduled signing ceremony, saying their government was "not in a position to direct a state utility company to make a firm commitment to purchase the processed coal." The government could only in "good faith use its best efforts to recommend" that state utilities consider the coal purchases.

The Taiwanese also removed language that Renkes had inserted that said the Taiwan government was encouraging Beluga development. Taiwan "does not have an adequate basis to encourage such development," Kang explained.

In the end, Alaska and Taiwan signed a "memorandum of understanding" in which Taiwan said it would use its "best effort" to get its utilities to "consider" Beluga coal. If the quality were good enough and the price competitive, Taiwan would consider long-term purchases of up to 4.4 million tons a year.

## RENKES IN TROUBLE

Since the story of his investment in KFx broke, Renkes has sold all his shares in the company, according to his Permanent Fund disclosures. His spokesman, Mark Morones, said the attorney general donated the profits to charity and moved his other stock holdings into a blind trust.

Renkes has declined to speak about the coal project since early October. Murkowski, through his spokesman, said in September that he wasn't aware that Renkes owned KFx stock. Murkowski also refuses to discuss the matter.

Sen. Hollis French, D-Anchorage, said it's difficult to understand why Renkes is still on the job, based on "this indisputable case of conflict of interest."

"The decisions he made over the course of the last year are so far afield from what we expect from an attorney general, he should step down today. And if he doesn't resign, Governor Murkowski should ask for his resignation," French said at a Nov. 9 news conference in Anchorage.

At his Oct. 4 press conference, at which he took no questions from reporters, Renkes said he disclosed his potential conflict to trade director Johnson and "drew a line that I could not and did not go beyond. I made it clear to the director that in order to avoid any conflict of interest, I could not direct, approve, or take any official action that might benefit KFx and I did not.

"I am comfortable that my involvement in very preliminary government-to-government trade discussions did not violate the ethics act nor compromise the integrity of the office to which I have been appointed. I believed this when I was asked by the governor to provide assistance and I believe this now."

Renkes has dismissed the call for his resignation.

Other Murkowski administration officials have repeatedly declined to comment on Renkes' conduct, citing instructions from the governor's chief of staff, Jim Clark.

Clark said it would be a "terrible injustice" to judge Renkes' actions until after the Bundy investigation concludes.

Bundy has been reviewing documents and taking sworn statements from people associated with the Beluga project. He has declined to predict when he will submit his report to the governor.

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## Renkes, Murkowski close

Gregg Renkes is a member of Gov. Frank Murkowski's inner circle. The two have worked closely together for well over a decade.

Renkes served as staff director for the U.S. Senate Energy and Natural Resources Committee from 1995 to 1998, when then-Sen. Murkowski was chairman. Before that, he worked as chief of staff and chief counsel to Sen. Murkowski.

Renkes also ran the Murkowski's 1992 and 1998 campaigns for re-election to the Senate and Murkowski's 2002 gubernatorial campaign. After Murkowski won the governorship, he appointed Renkes to be attorney general,

Alaska's top legal officer.

Besides chief of staff Jim Clark, Renkes is considered the governor's most trusted adviser.

Republican political strategist Curtis Thayer has described Renkes as Murkowski's alter ego. Former Wasilla Mayor Sarah Palin says Renkes told her his relationship with the governor and his wife, Nancy, is like family.