

August 01, 2006

KFX: Waiting for Godot, Part Deux.

On July 31, 2006 KFx Inc. (Amex: KFX \$15.12) announced that the first K-Fuel delivery by railroad, scheduled to depart from the KFx plant in Gillette, Wyoming by the end of July "to a previously announced customer in Ohio," had not shipped out on schedule. According to KFx, the reason was that "the train was temporarily delayed due to flooding in the Ohio region last week."

This is the fourth delay of K-Fuel shipment by railroad. The shipment totals just 7 days worth of production. On January 2, 2006 KFx claimed that the plant would begin delivering K-Fuel to customers by railroad transport in February 2006.

According to the Federal Energy Regulatory Commission, all Powder River Basin Coal is transported out of the Powder River Basin by the Union Pacific Corporation ("UP") and Burlington Northern Santa Fe Railway ("BNSF"). Gillette, Wyoming is in the Powder River Basin ("PRB") and is serviced by the Orin Line, which is jointly owned and operated by the UP and BNSF railroads. However, all dispatching and scheduling for the Orin Line is handled by the BNSF.

The BNSF line terminates in Chicago and PRB coal is transported from there on, by other railroads. BNSF denied any delays en route to Chicago due to flooding, or any other delays in any other parts of the country attributable to flooding.

Although northeastern Ohio, specifically Lake County, has experienced heavy flooding during the past two weeks, none of the major railroads reported service disruptions or delays due to flooding in Ohio.

Nine major freight railways operate in Ohio. Six of the largest carriers in the area denied any delays or disruptions of service due to flooding. The Wheeling and Lake Erie Railway ("Wheeling") and Norfolk Southern Railway, as well as the Ann Arbor Railroad, Canadian National, Camp Chase Industrial Railroad, and CSX Transportation all denied any incidents of flood-related disruptions or delays in recent weeks due to flooding in the Ohio area.

Only one confirmed delay was reported by a railroad due to flooding. The Wheeling had a 12-hour delay due to flooding in Norwalk, Ohio, on June 21, 2006. Service by the Wheeling was restored completely within 12 hours.

Considering these facts, it is intriguing that the flooding in Ohio would be used as an excuse for KFx's delay in shipping what it calls its first load of K-Fuel.

KFx has issued press releases announcing anticipated delivery of K-Fuel to customers via railroad transport for over a decade now. On August 29, 1995 KFx announced that construction was underway on its first incarnation of the Gillette, Wyoming plant and also announced that a "product sales contract" had been signed to deliver K-Fuel to the Ohio Valley Electric Corporation. The first version of the Gillette plant subsequently burnt down. Over a decade later, in October 2005 KFX announced a new plant in Gillette would begin producing K-Fuel by year's end and would

perform a test burn by December 2005, at a Black Hills Power & Light Company-owned plant in Wyoming.

The test burn was postponed until March 2006 as the manager of the Wyodak plant, where the test burn was to take place, announced that he needed to wait until he could stockpile enough K-Fuel to run his very small plant for an entire day.

When KFx announced the postponement of the test burn in January 2006, the company also stated that "in February, the plant can begin shipping processed coal by rail." That sort of track record makes you wonder what exactly KFx's customer, First Energy Corp., will get if, and when, it receives its K-Fuel, and how much it has cost KFx's shareholders to put-on the KFx Deux show.

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