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Uranium and Energy Resources

Compliance Energy eyes 'dual-fuel' power plant

By Anthony Vaccaro

Develop metallurgical coal mines, get a "dual-fuel" power plant up and running, and continue to operate a thermal coal mine: it sounds like a big to-do list for a junior company. But Compliance Energy (CEC-V, CPYCF-O) thinks it can pull it all off.

The Vancouver-based mining company -- and potential energy producer -- sees a unique opportunity in B.C.'s coal and lumber assets.

"With the market the way it is for metallurgical and thermal coal, and the need for new energy supplies and resources, the three-pronged approach seems appropriate," says Compliance president and chief executive John Tapics.

The company's Basin coal mine is already in operation, but is only producing at roughly one third of its 150,000-tonne-per-year target. Part of the reason for the reduced output is the difficulty in securing thermal coal contracts in the Pacific Northwest region.

But if the company can convince the B.C. government of the merits of its proposed power plant, it will be able to create a market for the coal at Basin and at the same time, help the province deal with its growing mountain pine beetle problem.

That's because the plant would not only burn coal from Basin, but it would also incinerate infested lumber from the surrounding area.

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COMPLIANCE ENERGY

Collecting bulk sample bags from a refurbished adit at the Raven coal deposit on Vancouver Island.

With some 87,000 sq. km of forest infested by the beetles last year in B.C. and Alberta, the B.C. government has been left to scramble for ways to deal with a massive lumber surplus.

Compliance thinks its plan is to build a 49-MW plant would be the right solution.

The plant has projected capital costs of \$200 million and the company says it can generate revenue in the neighbourhood of \$42 million annually.

The company will find out if the government accepts its proposal in August.

On the other side of the coin are the company's metallurgical coal assets.

Metallurgical coal has a higher value due to its use in steel making. It sells in the US\$98-US\$100 range. Thermal coal is only used for generating heat and thus is sold at a discount. It sells for roughly US\$50 per tonne.

Compliance has metallurgical coal assets on Vancouver Island by way of its Raven and Bear deposits.

Raven currently has a 38.5-million-tonne resource at roughly 14,000 btu per lb.

Compliance expects to have a feasibility study completed by 2008 and it plans to produce 1 million tonnes of coal per year by 2009. Ideally, Tapics says, it would form a joint venture with a steel company, thus securing contracts for the coal.

While the Bear project is just 10 km away from Raven, and could be developed in conjunction with it, the project is on hold until more work is done at Raven. Bear's estimated resource of 8.5 million tonnes at roughly 13,000 btu per lb. is not compliant with National Instrument 43-101.

Basin's future

If its power plant proposal is not accepted by the government, the company will have to work hard to secure contracts for the thermal coal coming out of Basin.

With a 400,000-tonne-per-year wash plant already in place, the motivation to find such contracts will be strong.

The resource estimate at Basin stands at 19 million tonnes of raw coal, but the B.C. government has published the estimated global coal resource potential for the basin to be 240 million tonnes of in situ coal.

While such a large resource represents opportunity, it also represents the company's biggest risk. Because of a lower selling price than metallurgical coal,

transportation costs are a significant factor in securing contracts. The company must find buyers in the region to be able to offer competitive pricing.

Compliance says demand will drive the coal production levels at Basin, and that it is working on finding the most cost-effective modes of transportation.

While some investors will always be wary of companies without a specific focus, Tapics says that although Compliance is primarily a coal play, he sees a forward integration of energy as a natural fit.

That progression would mirror Tapics' own development. A mining engineer by training, Tapics spent four years as president and chief executive of the Alberta Electric System Operator and 11 years as an officer at TransAlta (TA-T, TAC-N).

[Table of Contents](#) | [Email to Friend](#) | [Comment on Story](#)

[Top of Page](#)