

SYNTHETIC FUELS CORPORATION PROGRESS TO DATE
WITH INDICATIONS FOR THE FUTURE

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Synthetic Fuels Corporation

Thank you and good morning. I always feel at home in Pittsburgh -- because it was home for the 4-5 years I worked at the Bureau of Mines -- Brucecon Station.

I'm not going to give a long talk this morning because I'd like to leave time to answer your questions. I will review for you what the SFC is trying to do, how it is going about it, how far we've gotten, and what next steps are likely.

I'm very pleased to be with you this morning -- because you are the people with the knowledge and the experience which, in the final analysis, will determine whether or not America develops an effective, commercial synthetic fuels industry at this time.

I know there's been some doubt. I'm sure some of you wonder just how strong is the Corporation's commitment to synfuels development. Let me assure you, it is a firm and full commitment. In his confirmation testimony, the Chairman of the Corporation, Ed Noble, spelled out clearly the mission of the Corporation: The accelerated development of a private sector, economically competitive, diversified United States synthetic fuels industry.

The Synthetic Fuels Corporation will act as a catalyst to stimulate development and diversified growth of this new industry. We do not support an R & D operation. We were not intended by the Congress as a sponsor for demonstrations of technology. Rather, the SFC was established to bridge the gap and to assist private industry in assuming the risks inherent in setting up any first-of-a-kind commercial operation, particularly with projects as large and expensive as those contemplated.

We can provide that edge which will enable this new industry to come on line more rapidly and to develop greater diversity in its resource base and greater effectiveness in its use of technology. We can provide this edge by assisting the private sector in its financing of the plants and by helping assure market competitiveness of synfuel products during the critical early years of operation.

Synthetic fuels can be an important part of our domestic energy mix. They can contribute significantly to our economic and national security. And precisely because we do need synthetic fuels, and because the first projects are going to be so determinant of future development, we must take a very prudent and careful approach.

The Corporation itself will be small, intense, and relatively short-lived. We are assembling a professional staff of the highest calibre. We

will not likely ever reach the level of 300 professionals authorized for the Corporation because the quality of our people will eliminate need for great quantity. The SFC will be project-oriented. We will select mature and economically feasible projects which need assistance to get off the ground, and support private development and management of them. These projects will stand as examples of cost-effective construction, management, and production.

As successful examples, the projects will attract additional private sector investment and encourage industry growth. And then, with a diversified, commercially competitive synfuels industry established, we will be able to close the Corporation as anticipated by statute, and all go home with the sure knowledge of a job well done.

Now, if I've made this sound easy, believe me, I know it is not -- but it is possible, with a tremendous amount of hard work and cooperation and dedication from a few of us and a lot of you.

The Corporation will support the private sector in its initial, risk-heavy efforts to construct and operate first-of-a-kind commercial scale synfuels plants, most of which have individual estimated costs running to billions of dollars.

The Corporation can provide financial assistance to project sponsors in several forms, including:

- 0 Price guarantees to protect against unexpected declines in world energy prices;
- 0 Purchase agreements for all or part of the plant output;
- 0 Loan guarantees and loans of up to 75 percent of initial project costs; and
- 0 Joint ventures as a limited partner for up to 60 percent of a project module.

Incidentally, the Energy Security Act gives higher priority to contingent forms of assistance.

The Corporation received 63 proposals in response to its first solicitation of bids, nearly all requesting contingent forms of assistance and reflecting considerable diversity in resource base, technology, and geography. In terms of resource base, 14 are oil shale projects, 16 are coal gasification, 20 are coal or peat liquefaction, and 10 are tar sands and heavy oil projects. We also have a coal-oil mixture project, a solid fuel additive from coal project, and a hydrogen from water project. Proposed projects are located in 24 states, with the heaviest concentration in Colorado, with 10, and Utah, with 9.

The proposed technologies are highly varied. For instance, among the 14 oil shale proposals, 11 retorting technologies are represented. Similarly, there are 9 coal gasification technologies proposed to prepare medium BTU gas, high BTU gas, hydrogen, and synthesis gas from bituminous and sub-bituminous coals, lignite, and peat.

We have conducted an initial review of the 63 proposals to identify legal eligibility questions and additional information requirements. Letters regarding these matters were sent to the sponsors early last month, requesting ~~the detailed information that will allow our staff to begin evaluations and~~ ultimately recommend to the board which projects merit consideration for assistance.

In addition, present thinking is to recommend to the board that the corporation send out a supplemental solicitation. This would divide the initial solicitation into categories by, for instance, natural resources, and it would include initial evaluation criteria and production targets generally and for each category. As supplemented, the solicitation would contemplate competition within each category and among categories and the board could make multiple awards or one or no award. Simultaneously, a second solicitation would be issued, under which new proposals could be submitted.

We earlier formulated draft project evaluation criteria. We have received public comment on that initial draft and have incorporated the comments into the revised proposed criteria. This will be presented for approval when the board is in place. About half of the comments came from those who had submitted proposals; the others were split between public service groups and state, local, and federal government agencies.

In developing project criteria, we considered the primary goal of actual production of synthetic fuels to displace imported oil and the absolute requirement that the Corporation remain supplemental to the private sector in financing projects. Accordingly, we must necessarily look to projects which are sufficiently mature so that the financial and technical risks are definable, credible, and acceptable. Projects must hold promise of future economic viability. A financial projection, based on reasonable and agreed assumptions, must indicate that a project will be able to repay capital and show a return on investment by selling its product in the marketplace.

Naturally, competence of management is essential to the success of synfuels projects and so will be an important consideration of the Board. Experience, past project success, and degree of preparation for the present synthetic fuel proposal will all be valid areas for inquiry.

In addition and equally important, the Board will be looking closely at the impact each of these projects will have within the local community and beyond. We are well aware that a given project may have significant social and/or environmental effects and we expect project sponsors to work very closely with the affected states and communities to minimize any negative impacts.

There is no reason this cannot be done. Certainly, none of us wants to increase the probability of environmental problems. Neither do we want to be forever dependent on foreign power favors, fortuitous circumstances (or military firepower) to provide our country with adequate energy supplies.

We need to develop a private sector, market competitive synthetic fuels industry in America, to assure us of greater energy sufficiency, economic stability, and national security. The Synthetic Fuels Corporation is committed to this goal, and to achieving it as rapidly and economically as possible, with the least disruption to the free market and the least risk to taxpayers' dollars.

The Chairman, the Officers, and the staff of the Corporation want to work closely and cooperatively with all of you in the private sector. We want to assist, not obstruct. The basic investment and management must be yours. So also will be the success. At the Corporation, we want to help you achieve this success -- quickly, effectively, and in full service to the best interests of our country's economic growth and national security.

Thank you.