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August 8, 1976

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Dear Representative:

Earlier in this term of Congress the House voted against synthetic fuel loan guarantees by a margin of 263-140. That was no accident. The House knew it was poorly conceived legislation, the beginning on the road of continual subsidy for a technology not yet ready for commercialization, the first step in Rockefeller's \$100 billion-EIA mistake and a butress for OPEC's rip-off leverage on domestic energy pricing. The House emphatically rejected that loser.

Now, a few folks at the urging of ERDA and the White House have resurrected syn-fuel loan guarantees and associated "burps" and are attempting to force it (HR 12112) onto the floor next week, so late in this session that it could not be examined by the Senate or considered in Conference--it would have to be attached to some other bill, probably the ERDA authorization. After the House voted down last year's \$6 billion proposal, ERDA established a new Office of Commercialization for synthetic fuels which has been working ever since to obtain Congressional approval of the synfuels subsidy program. Some folks must have alot ridding on this bill to push so hard.

The taxpayers understand why this \$4 billion loan guarantee legislation is being hustled through Congress at the last minute, in spite of the disadvantages:

--The fuel produced by the plants getting the loan guarantees will be priced at about \$20 per barrel for synthetic petroleum and \$4 per mcf for synthetic gas, over twice the market price for these fuels currently.

--The fuel produced by 1985 will produce less than 1% of our national consumption.

--ERDA has already entered contracts, nearly \$100 million worth, for research and development plants using second generation syn-fuel processes. This loan guarantee legislation was generated specifically to guarantee the <u>commercialization</u> of first generation plants.

--Such programs are a quick way of attaining Federal involvement in all energy production, private industry dependence upon the Federal coffers and eventual nation-alization.

--The proposed program will be a great encouragement to OPEC. Since the price of these synfuels will be 2 to 3 times higher than the price of oil or natural gas, OPEC will use the Congressionally-inflated domestic energy cost which gives justification to OPEC for its rip-off price. OPEC will be meeting soon to discuss further price increases; they can tie their price to the synfuel escalator and see their profits and our prices and inflation go sky high.

--Last year Mr. Parsky, Deputy Secretary of the Treasury, warned that "More economical projects, including more economical domestic energy projects, will be 'crowded out' by the forced diversion of funds to the less economic synfuel projects... Once one energy project is subsidized, others will seek similar treatment, including some, like the Alaska Natural Gas project, which should be economically viable."

--The GAO, in an August 1976 report on the synfuel bill said, "Synthetic fuels production is not cost effective in that the total cost of output is not price competitive with foreign oil. Nor does it look attractive on the basis of present knowledge when compared to other technologies on an actual, or incremental, price basis." (P. iii -- See additional GAO Report excerpts on the back) --Jimmy Carter had this to say regarding the proposed program;

A decision to subsidize the production of fuels for which there is no genuine market -- for example, the synthetic fuels commercialization now before Congress -- would divert capital away from the production fo useful energy and create even more pressure to raise the price of all energy. A commitment to initiate synthetic fuels industries in the water-short states of the West, instead of in Midwestern states closer to adequate water supplies, would sacrifice water needed for the growth of industry and agriculture in the Pacific Northwest, norther Plains or Colorado River basin.

-- According to the Scientists' Institute for Public Information, the shale retorting process produces 300 million gallons of waste water containing cancer-linked compounds and 300 tons of carcinogenic materials in waste products per year.

--In addition to the energy R&D already under ERDA contract, the House this term passed several energy production bills including the Energy Policy and Conservation Act and the FEA extension bill which contained numerous programs for increased energy availability. w folks at the urging of

--Since this bill's program has already been heard and rejected this Congress and since it is the Leadership's expressed goal to adjourn the first week in October, it appears imprudent to have this bill, and the three dozen or so amendments already printed in the Record, go to the floor for what will surely be a devisive, confusing and perhaps prolonged debate.

-- The synfuel plants will predominantly be in the West, that region of the country will suffer significant environmental effects, and the rest of the country will not benefit from the energy produced.

Its not difficult to understand why Congress voted down these loan guarantees last year. Its equally easy to see why Congress should vote against them again. H.R. 12112 and its synfuel plan is neither prudent nor necessary legislation.

Sincerely yours,

lay brock

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An Evaluation of Proposed Federal Assistance For Financing Commercialization of Emerging Energy Technologies

by General Accounting Office (excerpts)

Synthetic fuels production is not cost effective in that the total cost of output is not price competitive with foreign oil. Nor does it look attractive on the basis of present knowledge when compared to other technologies on an actual, or incremental, price basis.

Serious questions exist regarding any national commitment at the present time to uneconomic, high-cost supply technologies which substantially exceed the cost of imported oil. Certainly, larger commitments to building complex, highly capital-intensive energy sources will result in less incentive in future years to develop alternative lower cost energy sources. In addition technologies producing energy that costs more than energy from imported oil would put exporting countries in a position to increase energy prices. (p.iii)

However, synthetic fuels technologies appear to us to be the only ones which could need all three levels of financial assistance -- front end money, construction assistance, and product price supports. Essentially, this is because synthetic fuels technologies appear at this time unable to compete economically with conventional energy sources. (p. 24)

However, at this point, synthetic fuel technologies are the least economical of all the new energy supply technologies. (p. 34)

At 15 percent rate or return, the estimated regulated price of high-Btu synthetic gas--\$2.61 to \$3.20 per thousand cubic feet 1/ -- is about double the proposed FPC domestic price of new natural gas (\$1.42 per thousand cubic feet). Converted to the equivalent price per barrel of oil, the \$15 to \$18 per barrel price of high-Btu synthetic gas does not favorably compare with the \$12 current price.of foreign oil.

The Synfuel Interagency Task Force's report shows the price of oil from shale to be in the \$10 to \$18 per barrel range. However, some recent industry estimates of the expected cost of shale oil range up to \$18.90 per barrel. The Task Force's report and recent industry estimates project the price for synthetic oil from coal to be about \$20 to \$30 per barrel. (p. 36)

For Example, the cost of constructing an oil shale plant producing 50,000 barrels a day is estimated at \$1 billion. If the price of a barrel of oil from shale were to exceed the price of imported oil by \$5 a barrel, then an additional price subsidy of \$250,000 a day or about \$90 million each year could be required for just one small plant. (p. 45)

For example, loan guarantees have received much attention as a potential way of encouraging a variety of energy technologies. In general, loan guarantees would seem to best fit those circumstances where the technology has been known to work, is economical, and where the person wanting to make an investment in the economically attractive energy technology cannot do so primarily because of its financial constraints. By transferring some of the risk, loan guarantees tend to marginally reduce the interest costs of a loan and to assure the availability of financing which otherwise may not have been available.

Loan guarantees also may not be appropriate for target groups consisting of large firms with reasonable access to capital markets even if the energy activity in question is technically and economically feasible. Investment capital is normally available to such firms and their basic decision not to invest in a particular energy activity may be influenced primarily by the availability of attractive investment opportunities elsewhere. (p. 46)

Among the supply-increasing technologies considered, we found several technologies to be cost effective either in total or in particular geographic areas. These technologies are hydrothermal energy, municipal waste combustion systems, solar hot water and space heating, and tertiary oil recovery. Because they are cost effective, these technologies would be the most efficient to implement in the near future in terms of dollars expended now and in the near future on supplies of energy. (p. 47)

Synthetic fuels production--while technically feasible with first generation technologies--is not cost effective in that the total cost of output is not price competitive with foreign oil. Nor does it look as attractive when compared to other technologies, which we examined, on an incremental price basis.

There are also serious questions regarding any deep national commitment to uneconomic, high-cost supply technologies which substantially exceed the cost of imported oil; certainly, the deeper the commitment to building a broad industry infrastructure of highly capital intensive energy sources, the less the incentive in future years to support development of lower cost energy supply options. Further, for such high cost technologies, imported oil is likely to form a defacto price floor as opposed to its current role as an energy price ceiling. In such circumstances, the exporting countries could be in a better position to exert continued upward pressure on energy prices. (p. 48)

Given ERDA's basic objective and the present economic unattractiveness of first-generation synthetic fuel technology, we believe that, in lieu of providing Federal loan guarantees for billion dollar size "commercial" plants, efforts should be directed to research and development of improved synthetic fuels technologies and to meeting ERDA's objective of identifying and resolving socioeconomic, environmental, and regulatory problems. To meet this latter objective, it appears possible to gain adequate information from smaller plants under Government control. (p. 52)

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