

Deficit Woes Spur Drive to Kill Synfuels

Congress sought to develop petroleum substitutes on a crash basis in 1980 when it set up the U.S. Synthetic Fuels Corporation (SFC). Five years later, the drive to foster a range of commercial-scale technologies is about to grind to a halt. Undercut by falling oil prices, management crises, and weakening congressional support, the SFC has become a bargaining chip to be played in Capitol Hill deliberations on the 1986 budget.

To keep a few of the proposed oil-shale, heavy oil, and coal projects supporters of the SFC program, Occidental Petroleum Corporation, Tenneco SNG, Inc., and other companies involved in projects awaiting SFC aid are mounting a last-ditch lobbying campaign. They hope that a pact to allow Congress to rescind up to half the corporation's remaining \$7.9 billion in federal loan and price guarantee authorities, will permit a few more synthetic fuel projects to proceed. At present the SFC has letters of intent to provide \$6.23 billion in loan and price guarantees to seven projects.

But salvaging the sinking SFC may be impossible. Senator Ernest F. Hollings (D-S.C.), a veteran member of the Senate Budget Committee, advised members of the National Council on Synthetic Fuels gathering at Hilton Head, South Carolina, on 11 April, that endangered human-resource programs have first priority. "Bill Gray (chairman of the House Budget Committee) can't go back to downtown Philadelphia," says Hollings, "and tell the hungry and poor that he has cut their school lunches and feeding programs so they can have a synfuels plant somewhere."

For years the SFC's false starts, management practices, and mini-scandals involving corporation directors have frustrated both the Congress and industry. After 4 years it has committed just \$720 million to two projects. Despite the interminable delays in making project awards, companies insist that quitting now would be a mistake. "We have got this opportunity to develop these technologies with commercial modules and get good data as to the environmental effects of each . . . Why can't industry and government get together now and do something in a calmer period," asks Forest Poska, director of development and technology for the Standard Oil Co. (Sohio).

In 1984 Sohio withdrew from the Paraho-Ute and White River oil-shale projects. However, Sohio and other companies that have ceased pursuing SFC financial aid—at least for the moment—insist that a continuing federal role in synthetic fuels is essential. If industry's momentum is brought to a halt, he says, resolution of many scale-up and environmental questions will be deferred until there is an energy crisis or prices skyrocket. "It would be a disaster if the SFC is cut off," says Poska.

Most emerging synfuel technologies that are scaled up to commercial-size modules in the future, says Dwain Spencer of the Electric Power Research Institute, will require loan guarantees or direct capital support from the federal government. "I hope that in the context of Congress's actions they (legislators) consider the need for both capital formation and operating cost subsidies," adds Spencer, vice president of EPRI's advanced power systems division.

Despite the merits of these arguments, industry officials admit they may not carry much weight this year. The quasi-

government corporation, which was established under the Energy Security Act of 1980, has been testing the patience of Congress for several years and has expended much political capital. In fact, the SFC has been in deep trouble since last year when Congress stripped away \$7.4 billion of its \$14.9 billion in loan and price guarantee authority.

Congressional opponents led by Representative Mike Synar (D-Okla.), chairman of the Government Operations' oversight subcommittee, and Representative Howard Wolpe (D-Mich.) in the House, along with Senator William Proxmire (D-Wis.), in 1984 sought to slash the corporation's budget to \$3 billion or less. Their campaign was aided by Office of Management and Budget Director David A. Stockman and the White House personnel office. The coalition forced formidable SFC supporters such as House Majority Leader James Wright (D-Tex.), Senate Energy Committee chairman James McClure (R-Idaho), and Senate Budget Committee chairman Pete Domenici (R-N.M.) to strike a compromise.

In exchange for the funding cuts, the White House pledged to fill enough vacancies on the corporation's seven-member board to restore an operating quorum. Down to the minimum four members needed for conducting business, the SFC in April 1984 lost its operating quorum after SFC president Victor M. Thompson, Jr., resigned following disclosures that he tried to get an SFC project sponsor to invest in his troubled Oklahoma bank. Eight months earlier, then-president Victor A. Schroeder was forced out of office in the wake of conflict-of-interest allegations. Schroeder continues to serve as a board member.

When the White House finally nominated three new board members in late November, industry officials hoped the SFC would move quickly on project awards. But former Representative Tom Corcoran (R-Ill.), a strong critic of the corporation until he joined the SFC board in November as its vice chairman, is moving slowly. He wants to delay some awards to study opportunities for scaling down proposals such as Occidental Petroleum's Cathedral Bluffs oil-shale project.

Similarly, SFC Chairman Edward E. Noble, long criticized by industry for his cautious approach, says the changing political winds will not hasten the pace of the corporation's evaluation process. "If the Congress acts before we are ready," says Noble, "then some things just won't get done."

The SFC could make awards in the next few months on the \$2.1 billion Great Plains Coal Gasification project in Beulah, North Dakota. Now complete, the sponsors are seeking about \$1 billion in price guarantees to reduce operating losses. The Forest Hills heavy oil and Seep Ridge oil-shale projects also could land loan and price guarantees of \$60 million and \$45 million, respectively. But Noble admits that time is growing short.

With a majority of the House Budget and Energy and Commerce committees backing his bill to kill the SFC, Representative Synar is confident a majority of the House will vote with him. And with the Senate facing tough budget decisions, he is betting that the SFC's traditional supporters there will find it equally difficult to defend the 4-year old corporation.—MARK CRAWFORD