125193

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Status Of The Great Plains Coal Gasification Project--May 31, 1984

The Great Plains coal gasification project in North Dakota was 99 percent complete and essentially on schedule on May 31, 1984. Cumulative project costs were $164 million less than originally estimated for this date, primarily due to reduced material, interest, and subcontractor costs.

On the basis of reduced energy price forecasts, Great Plains in September 1983 projected large after-tax losses and negative cash flows from plant operations. To alleviate these losses, Great Plains applied to the U.S. Synthetic Fuels Corporation for additional financial assistance. On April 26, 1984, the Corporation outlined its intentions to award Great Plains up to $790 million in assistance. As of August 10, 1984, the Corporation had not finalized the Great Plains assistance agreement.

125193

GAO/RCED-84-85
SEPTEMBER 18, 1984

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207876

To the President of the Senate and the
Speaker of the House of Representatives

This is the sixth report on the loan guarantee for an alternative fuels demonstration project awarded to Great Plains Gasification Associates. The report is required by the Department of Energy Act of 1978--Civilian Applications (Public Law 95-238). We obtained information on the status of the project, including its economic viability. Except where noted, the report discusses the status through May 31, 1984.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Energy; the Chairman, U.S. Synthetic Fuels Corporation; and other interested parties.

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

STATUS OF THE GREAT PLAINS
COAL GASIFICATION PROJECT--
MAY 31, 1984

DIGEST

In January 1982 the Department of Energy (DOE) awarded a $2.02 billion loan guarantee to Great Plains Gasification Associates, a partnership of five companies, to build the nation's first commercial plant producing synthetic natural gas from coal. The Great Plains project, being built in North Dakota, comprises a gasification plant, a coal mine, and a pipeline connecting the plant to an interstate network of natural gas pipelines. (See p. 1.)

The project's total estimated cost is $2.76 billion. The Department of the Treasury's Federal Financing Bank agreed to lend Great Plains up to $2.02 billion, which DOE agreed to guarantee. Great Plains agreed to finance the rest--up to $740 million--from its own resources. (See p. 1.)

Great Plains' economic outlook is less optimistic than in January 1982; it now projects sizable losses based on projections of declining energy prices. As a result, Great Plains in September 1983 requested price-guarantee assistance from the U.S. Synthetic Fuels Corporation (SFC).[1] As of August 10, 1984, SFC had not finalized Great Plains' assistance request. (See pp. 7 and 8.)

This is the sixth in a series of semiannual GAO reports required by the Department of Energy Act of 1978--Civilian Applications (Public Law 95-238) on the Great Plains project. GAO reviewed

--the status of the project's construction and operational startup activities and costs for the 6-month period ending May 31, 1984, and

--the status of SFC's proposed price guarantee assistance.

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[1]With a price guarantee, the government agrees to pay the difference between a minimum price per barrel and the market price of the project's product if the market price is lower than the minimum price.

GAO/RCED-84-85
SEPTEMBER 18, 1984

PROJECT CONSTRUCTION IS ESSENTIALLY ON SCHEDULE; COSTS ARE LESS THAN EXPECTED

As of May 31, 1984, overall progress of the plant was 99 percent complete and on schedule, according to information Great Plains provided DOE. This is about a 2-week improvement over the schedule slippage GAO reported as of November 30, 1983. Coal mine development on May 31 was ahead of schedule and pipeline construction was complete. Costs incurred through that date were $1.68 billion--$164 million less than Great Plains estimated would be spent by that time. The $164 million difference was attributed to reduced material, subcontractor, and interest costs and higher than expected labor productivity. (See p. 4.)

Great Plains' project administrator, ANG Coal Gasification Company, expects to meet the December 1, 1984, full gas production date set out in the loan guarantee agreement. Furthermore, on July 28, 1984--3 days ahead of schedule--ANG transported gas for sale from the plant to the interstate network of natural gas pipelines. (See pp. 5 and 6.)

ECONOMIC VIABILITY

During 1983 projected decreases in energy prices made the project's economic outlook much less optimistic than in January 1982, when the loan guarantee agreement was signed. Great Plains revised its economic projections (using current dollars) to reflect the price decreases and reported to DOE that

--the project would incur a $1.2 billion loss rather than realizing an income of $2.2 billion by 1996 and

--the sponsors would be required to invest $1.3 billion over 10 years to keep the project solvent instead of the $86 million over 3 years originally projected.

Its sponsors stated that the reduced economic prospects in the initial years of operation would negatively affect their regular business operations, would increase their cost of capital, and would drain the parent companies' funds. To alleviate these concerns, Great Plains in September 1983 applied to SFC for price-guarantee assistance under the Energy Security Act (Public Law 96-294). (See p. 7.)

On April 26, 1984, Great Plains and SFC signed a letter of intent[2] outlining the terms of possible SFC assistance. The letter states that SFC would provide price guarantees of up to $790 million (in current dollars) for up to 10 years. During the first 3 years of the price guarantee period, Great Plains' partners would invest $100 million in the project (over and above the amount it agreed to contribute under the DOE agreement) and would use all of their after-tax cash from the project to make accelerated payments on the DOE-guaranteed loan. Thereafter, until the DOE-guaranteed loan is fully repaid, Great Plains would use 90 percent of its cumulative after-tax cash to repay the DOE-guaranteed loan. After the loan is repaid, Great Plains would share 70 percent of the after-tax cash with SFC up to a maximum of $1.58 billion (in current dollars). (See p. 8.)

Since April 27, 1984, SFC's board of directors lacked the quorum needed to act on Great Plains' assistance agreement. No new members had been appointed as of August 10, 1984. Further, SFC's plans to award financial assistance to Great Plains could be affected by a number of legislative proposals which, if enacted, would sharply curtail SFC's funds and activities. (See p. 8.)

In May 1984 Great Plains submitted a revised economic analysis to DOE, including the impact of SFC's proposed price-guarantee assistance. As of August 1984 DOE had not completed its assessment of this analysis. Since SFC's proposed assistance causes a restructuring of the project's financial terms and conditions, DOE was updating its computer program that performs sensitivity analyses of the project's economics and Great Plains' ability to repay its guaranteed debt. GAO plans to evaluate DOE's analyses during the next 6-month review. (See pp. 8 and 9.)

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GAO received comments from DOE, SFC, and ANG Coal Gasification Company, Great Plains' project administrator. Generally, they agreed

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[2]A nonbinding statement documenting the financial terms negotiated by SFC staff and Great Plains management. The letter also discusses the various conditions that Great Plains must meet before SFC's board of directors will consider approving financial assistance.

with the material presented and offered clarification in their specific areas. Their remarks are incorporated where appropriate.

Contents

ILLUSTRATIONS

ABBREVIATIONS

ANG	ANG Coal Gasification Company
Btu	British thermal unit
DOE	Department of Energy
GAO	General Accounting Office
OIG	Office of the Inspector General
SFC	U.S. Synthetic Fuels Corporation

CHAPTER 1

INTRODUCTION

The Department of Energy Act of 1978--Civilian Applications (Public Law 95-238)--authorizes the Department of Energy (DOE) to provide loan guarantees for alternative fuel demonstration projects. The Secretary of Energy awarded the first--and only--loan guarantee under the act to Great Plains Gasification Associates, Detroit, Michigan, on January 29, 1982, for up to $2.02 billion (about 75 percent of the estimated $2.76 billion cost) for a project to produce synthetic natural gas from coal. The act also requires the Comptroller General of the United States to audit recipients of the guarantees and to report to the Congress every 6 months on the status of the loan.[1]

The Department of the Treasury's Federal Financing Bank agreed to lend Great Plains up to $2.02 billion, which DOE agreed to guarantee. Great Plains was to finance the remaining costs with its own equity. As of May 31, 1984, the most recent date for which data were available at the time of our review, Great Plains had borrowed $1.17 billion, and the Great Plains partners had contributed $463 million. The loan and guarantee are "nonrecourse," meaning that DOE's recourse is limited to the project assets if Great Plains defaults.

The Great Plains coal gasification plant will be the nation's first commercial-scale facility producing synthetic natural gas from coal. The project has been designed to produce 137.5 million cubic feet of synthetic gas per day, the equivalent of about 23,000 barrels of oil.

The facility, being built in Mercer County, North Dakota, has three components: a gasification plant, a lignite coal surface mine, and a pipeline connecting the plant to an interstate network of natural gas pipelines. The synthetic gas is produced through a process that uses crushed lignite coal. Smaller pieces of coal not used in the process will be sold to a steam-powered, electricity-generating plant owned by Basin Electric Power Cooperative, located next to the coal gasification plant. Basin Electric has agreed to buy about one-half of the coal mine production and share proportionally in the mine's development cost and related facilities.

PROJECT COST AND OWNERSHIP

As of May 31, 1984, the project's estimated completion cost was $2.76 billion. This included $1.74 billion to build the gasification plant, coal mine, and pipeline; $296 million for financing costs during construction; and about $728 million for management reserve and contingencies to provide for unanticipated cost

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[1]Our previous reports are: EMD-82-55, Mar. 6, 1982; GAO/EMD-82-117, Sept. 14, 1982; GAO/RCED-83-112, Apr. 8, 1983; GAO/RCED-83-212, Sept. 20, 1983; and GAO/RCED-84-113, Mar. 22, 1984.

overruns. Of this total, the Federal Financing Bank can lend (and DOE can guarantee) up to $2.02 billion. Great Plains agreed to contribute up to $740 million of its own equity.

Great Plains Gasification Associates--a partnership of five companies--owns the project. The partners and their percentage of equity are as follows:

	Percentage of equity
Tenneco SNG Inc. (controlled by Tenneco, Inc.)	30
ANR Gasification Properties Company (a subsidiary of American Natural Resources Company)	25
Transco Coal Gas Company (a subsidiary of Transco Companies, Inc.)	20
MCN Coal Gasification Company (a subsidiary of MidCon Corporation, formerly Peoples Energy Corporation)	15
Pacific Synthetic Fuel Company (a subsidiary of Pacific Lighting Corporation)	10
Total	100

PROJECT MANAGEMENT AND OVERSIGHT

Great Plains appointed the ANG Coal Gasification Company (ANG),[2] Detroit, Michigan, as project administrator. ANG is responsible for the day-to-day planning, engineering, design, and construction of the gasification plant, pipeline, and coal mine. Great Plains provides overall direction to ANG through a management committee composed of representatives from each of the partners.

The Lummus Company and Kaiser Engineers, Inc., are the prime contractors for engineering, procurement, and construction of the gasification plant. The Coteau Properties Company, a subsidiary of North American Coal Corporation, is responsible for developing and operating the coal mine. ANR Pipe Line Company, formerly Michigan Wisconsin Pipe Line Company, provided construction management services for the pipeline.

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[2] ANG is a wholly owned subsidiary of American Natural Resources Company.

At the federal level, DOE's Office of Oil, Gas, Shale, and Coal Liquids, Office of the Assistant Secretary for Fossil Energy, monitors the Great Plains project. DOE headquarters delegated responsibility to its Chicago Operations Office for the day-to-day monitoring of the project, which includes determining that a reasonable assurance of debt repayment exists.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to (1) update information on the status of the project and ANG's operational startup activities as of May 31, 1984 (the most recent date for which data were available at the time of our review) and (2) determine the status of Great Plains' attempt to obtain additional financial assistance from the U.S. Synthetic Fuels Corporation (SFC). We made our review between March and July 1984 in accordance with generally accepted government auditing standards. We covered the project's progress from November 30, 1983 to May 31, 1984.

The information provided is based partly on interviews with DOE officials in Washington, D.C., and Chicago, Illinois; SFC officials; and ANG officials in Detroit, Michigan, and Mercer County, North Dakota. We reviewed (1) Great Plains' monthly and quarterly reports submitted to DOE, (2) DOE's reports, (3) DOE's monitoring of operational startup activities, (4) the letter of intent between SFC and Great Plains, and (5) Great Plains' May 29, 1984, cash flow projection. We could not, however, determine the impact of SFC's proposed price-guarantee assistance on Great Plains' ability to repay its guaranteed debt because DOE was updating its computer program and had not assessed the project's economics with the price-guarantee assumptions.

We obtained comments on this report from DOE, ANG, and SFC. Generally, they agreed with the material presented and offered clarification in their specific areas. Their remarks are incorporated where appropriate and are shown in appendixes I, II, and III, respectively.

CHAPTER 2

PROJECT STATUS AS OF MAY 31, 1984

Progress on the coal gasification plant was essentially on schedule as of May 31, 1984. ANG officials said that they expect to meet the scheduled December 1, 1984, date for full gas production set out in the loan guarantee agreement.

Great Plains reported to DOE that total project costs as of May 31 amounted to $1.68 billion--about $164 million less than Great Plains initially estimated would be spent as of that date. Funds received from both the Federal Financing Bank and the project partners totaled about $1.63 billion. Great Plains borrowed $1.17 billion and the partners contributed $463 million.

On the basis of forecasts of decreased energy prices, Great Plains' economics have declined significantly since the projections of January 1982, when the loan guarantee agreement was signed. In September 1983, therefore, Great Plains applied to SFC for price-guarantee assistance. On April 26, 1984, Great Plains and SFC reached preliminary agreement on the terms of possible assistance. As of August 10, 1984, the final agreement had not been concluded because SFC's board of directors lacked the quorum necessary to act on financial assistance awards.

PHYSICAL PROGRESS

The gasification plant, including engineering and procurement, was 99.2 percent complete on May 31, compared to a planned 99.5 percent completion that ANG targeted for that date. The coal mine was about 89 percent complete, compared to a planned 87 percent target. The pipeline was completed in August 1983.

Gasification plant progress

The schedule slippage on the gasification plant has improved since our last report.[1] As of November 30, 1983, the plant was about 2 weeks behind schedule. On May 31, 1984, the plant was on schedule. Using a composite weighted-value percentage, Great Plains reports the extent of plant completion as follows:

Activity	Weighted percentage of total plant	Planned percentage complete	Actual percentage complete	Percentage actual ahead (behind) planned
Engineering	11.20	11.17	11.20	0.03
Procurement	42.11	42.11	42.10	(0.01)
Construction	46.70	46.23	45.86	(0.37)
Total	100.01[a]	99.51	99.16	(0.35)

[a]Exceeds 100 percent due to rounding.

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[1]Status of the Great Plains Gasification Project (GAO/RCED-84-113, Mar. 22, 1984).

The plant's components were in varying stages of completion. The core of the facility--the building and equipment used in gasifying coal--was 96 percent complete. The environmental effluent treatment system was 95 percent complete, while off-site development was 100 percent complete. ANG officials said that they expected to finish construction of the plant by its scheduled date--December 1, 1984.

Coal mine progress

Development of the coal mine was about 2 percent ahead of schedule. The following table shows the weighted-value percentages of mine completion:

Activity	Weighted percentage of total mine	Planned percentage complete	Actual percentage complete	Percentage actual ahead (behind) planned
Engineering	15.0	15.0	15.0	--
Procurement	20.0	12.6	14.4	1.8
Construction	65.0	59.2	59.7	0.5
Total	100.0	86.8	89.1	2.3

Coal mine development was ahead of schedule because equipment was delivered earlier than expected and construction of a second dragline had been accelerated. Mine development work remaining to be done includes completing a second dragline and procuring additional equipment.

Pipeline progress

Great Plains plans to transport its gas through a 34-mile pipeline from the gasification plant to an existing interstate pipeline. Contruction of the pipeline began in May 1983 and was completed in August 1983--2 months ahead of schedule.

OPERATIONAL STARTUP

Great Plains has a coordinated construction and operations startup program to ensure that the December 1, 1984, full gas production date is met. Priorities have been established to test and accept the facility on a system-by-system basis and turn it over to the operations staff in an orderly manner. This process started in August 1983. To accomplish this transition ANG (1) established a task force consisting of operations and construction officials to ensure that schedules are met, (2) meets daily with contractor personnel, and (3) reports weekly to ANG management on the status of the activities.

According to DOE, operational planning and startup activities were progressing satisfactorily; they expect ANG to achieve production by December 1, 1984. Further, ANG's plant manager for operations told us that operational planning and startup activities were proceeding without major problems. As of May 31, Great Plains reported that its operations division had accepted 90 percent of the systems compared to ANG's scheduled 91 percent. In addition, 741 of the planned 768 operations personnel (97 percent) had been hired.

As part of its operational startup activities, ANG has tested 7 of the 14 gasifiers, has produced gas to reduce by 6 percent the amount of natural gas it purchases for the plant's boilers, and has tested two of the major by-products recovery units. As of June 16, 1984, seven gasifiers had been tested and considered operational. ANG expects to test the remaining seven gasifiers between July and November 1984. In addition, two by-product recovery units were put into operation during May--the phenol recovery and the ammonia recovery units. The phenol produced is being stored for future use as boiler fuel; the ammonia is being sold.

On July 28, 1984--3 days ahead of schedule--ANG transported about 20 million cubic feet of gas (equivalent to about 3,400 barrels of oil) for sale from the plant to the interstate network of natural gas pipelines.

PROJECT COSTS

Great Plains originally estimated that project costs would total $1.84 billion as of May 31, 1984; actual costs, however, were $1.68 billion--about $164 million less than estimated. Of this $164 million difference, $27 million was attributed to activities scheduled to be performed by this date that had not been performed due to the slight schedule slippage. The remaining $137 million resulted from, among other things, (1) lower than expected costs for materials, commodities, and equipment, (2) lower than expected interest expenses resulting from a more favorable interest rate, (3) some subcontracts being awarded at lower amounts than originally budgeted, and (4) higher than expected labor productivity in some construction areas.

Funds received totaled $1.63 billion. Of that amount, the Federal Financing Bank lent $1.17 billion and the partners contributed $463 million in equity.

DOE AUDITS OF COSTS

In a previous report[2] we recommended that DOE initiate audits to determine the eligibility of costs incurred by Great Plains that are included in the amounts DOE guaranteed. In response to our recommendation, DOE's Office of the Inspector General (OIG) began to audit the eligibility of costs in November 1982.

As of May 31, 1984, the OIG had completed four audits covering costs incurred every six months from the start of the project

[2] Status of the Great Plains Coal Gasification Project--August 1982 (GAO/EMD-82-117, Sept. 14, 1982).

through November 30, 1983. We reported on the results of the first three audits in our last two reports.[3] As of August 10, 1984, the Inspector General had not issued a report on its March 1984 audit covering June through November 1983.

PROJECT ECONOMIC VIABILITY

In January 1982 both Great Plains and DOE projected a favorable economic outlook for the project. Great Plains' revised cash flow projections prepared in March and September 1983, however, showed a substantial decline in the project's economic viability caused by reductions in the forecast prices of energy. The revised projections indicated more years of losses and a need for the partners to provide substantially more funds to keep the project solvent. Specifically, the September projection (in current dollars[4]) indicated that

--the project would incur a $1.2 billion loss rather than realizing an income of $2.2 billion by 1996 and

--the sponsors would contribute $1.3 billion over 10 years to keep the project solvent rather than contributing $86 million for 3 years.

Great Plains estimated that the project would be in a positive after-tax cash flow position after 12 years and that the project's economics could be favorable over the long term. We calculated that over the first 20 years of operation beginning December 1984 the project could realize a 13 percent internal rate of return. Great Plains' sponsors, however, stated that the large net losses and negative after-tax cash flow during the initial years of operation pose too great a risk for the possibility of long-term profitability. Further, these losses, compounded by the risk of even lower energy prices, would have a negative impact on the partners' regular business operations, would reduce their consolidated earnings, would increase their cost of capital, and would drain their funds. Consequently, to avoid these results, Great Plains in September 1983 applied to SFC for price-guarantee assistance under the Energy Security Act (Public Law 96-294). Great Plains said that the guarantee was needed to reduce the sponsors' risks to "reasonable" levels and to reduce the prospects of near-term losses to justify continued involvement in the project.

On January 5, 1984, SFC issued a solicitation for coal or lignite gasification projects seeking financial assistance. The

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[3]Status of the Great Plains Coal Gasification Project--Summer 1983 (GAO/RCED-83-212, Sept. 20, 1983), and Status of the Great Plains Coal Gasification Project (GAO/RCED-84-113, Mar. 22, 1984).

[4]Year of expenditure or as spent dollars.

only proposal received was from Great Plains.[5] Following a period of negotiation, Great Plains and SFC signed a letter on April 26, 1984, outlining the general terms and conditions of possible assistance. The major elements follow:

--SFC would provide up to $790 million (in current dollars) in price guarantees for up to 10 years. The guaranteed amount would be the difference between the guaranteed price and the market price of the gas sold. The guaranteed prices of $10 per million Btu's[6] for the first 3 years and $7.50 per million Btu's for the remaining 7 years would be adjusted monthly for inflation.

--During the first 3 years the parent firms of the Great Plains partners would contribute $100 million (over and above the amount they agreed to contribute under the DOE agreement) and use all of their after-tax cash from the project to make accelerated payments of the DOE-guaranteed loan. Thereafter, until the DOE-guaranteed loan is fully repaid (estimated to be 10 years), the parent firms would use 90 percent of the cumulative after-tax cash to repay the loan. After the debt is paid, Great Plains would share profits with SFC--70 percent of the after-tax cash over the remaining useful life of the project (another 15 to 20 or more years), to a maximum of $1.58 billion (in current dollars).

Completion of final negotiations for price-guarantee assistance was expected by July 1, 1984. Final action, however, requires approval by SFC's board of directors. On April 27, 1984, one member of the board resigned, leaving it without a quorum. As of August 10, 1984, no new members had been approved; the board could not, therefore, finalize Great Plains' agreement. Additionally, SFC's plans may be affected by various congressional actions to rescind up to $11 billion of SFC's unobligated funds. SFC initially had about $14.9 billion to fund synthetic fuels projects. This amount was reduced, in effect, to $14.06 billion by the Deficit Reduction Act (Public Law 98-369, June 1984). The other legislative actions would reduce SFC's unobligated funds even further.

DOE is required to continually assess Great Plains' ability to repay its guaranteed debt. Complementary to this, Great Plains is required to annually submit a cash flow projection to DOE on the project's economic viability. On May 29, 1984, Great Plains submitted a revised cash flow projection that reflected the project's economic outlook based on SFC's proposed price-guarantee

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[5]Coal or lignite gasification projects capable of producing at least 10,000 barrels of crude oil equivalent by 1990 could have applied to SFC for assistance.

[6]A British thermal unit (Btu) is the quantity of heat required to raise the temperature of 1 pound of water 1 degree Fahrenheit at a specified temperature.

assistance. As of August 10, 1984, DOE had not completed its assessment of Great Plains' cash flow report. Since SFC's proposed assistance causes a restructuring of the project's financial terms and conditions, DOE was updating its computer program that performs sensitivity analyses of the project's economics and Great Plains' ability to repay its guaranteed debt.

Although DOE's analyses have not been completed, we noticed that Great Plains changed several assumptions used in previous cash flow projections. For example, Great Plains changed the assumed inflation rates and energy price projections and included production tax credits.[7] ANG officials said that they did not believe that the sponsors could meet the eligibility requirements to qualify for 100 percent of the production tax credits. However, on February 29, 1984, the Great Plains partners petitioned the Internal Revenue Service for a formal ruling on the project's eligibility to take at least some of these tax credits. According to ANG, on August 1, 1984, the Internal Revenue Service provided a favorable ruling for the project's sponsors, having a positive impact on the projected after-tax cash flow at least through the year 2000. We plan to assess Great Plains' most recent cash flow projection and DOE's analysis of it during our next 6-month review.

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[7]The Crude Oil Windfall Profit Tax Act of 1980 (Public Law 96-223) authorizes production tax credits; they apply to qualified fuels sold between January 1, 1980, and December 31, 2000.

Department of Energy
Washington, D.C. 20585

AUG 15 1984

Mr. J. Dexter Peach
Director, Resources, Community, and
Economic Development Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the GAO draft report entitled "Status of the Great Plains Coal Gasification Project" - September 1984. DOE has no formal comments. Comments of an editorial nature have been provided directly to members of the GAO audit staff.

Sincerely,

Martha Hesse Dolan
Assistant Secretary
Management and Administration

ANG Coal Gasification Company
Project Administrator—Agent
Great Plains Gasification Associates
600 Renaissance Center, Suite 1100
Detroit, Michigan 48243

August 14, 1984

Mr. Dexter Peach
UNITED STATES GENERAL ACCOUNTING OFFICE
Resources, Community, and Economic
Development Division
Washington, D.C. 20548

Dear Mr. Peach:

Enclosed, please find a marked copy of your draft on the status of the Great Plains Coal Gasification Project. This marked copy is being furnished to you with substantive comments for your consideration in response to your letter to Mr. Mermer dated August 7, 1984. (See GAO Note.)

If you have any questions, please feel free to call me at 313/446-6209.

Sincerely,

Robert Dziedzic
Robert Dziedzic
General Auditor

RD/pae
Enclosure

cc: Messrs. R. E. Boulanger
W. J. Lundberg
M. G. McCombs
N. F. Mermer
L. Charon

GAO Note: ANG's comments provided factual clarification of the information presented. The suggested changes are incorporated in the report.

Tenneco SNG Inc • ANR Gasification Properties Company • Transco Coal Gas Company • MCN Coal Gasification Company • Pacific Synthetic Fuel Company

United States Synthetic Fuels Corporation
2121 K Street, N.W. Washington, District of Columbia 20586 Telephone: (202) 822-6600

August 13, 1984

Mr. J. Dexter Peach
Director
Resources, Community and
Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to review your draft report on the status of the Great Plains coal gasification project. We would propose the following clarifications and corrections:

(1) Public Law 98-369, the Deficit Reduction Act, reduced the funding available to the Corporation to $14.06 billion (of which approximately $13.25 billion remains available) not the $13.9 billion set forth on page 13 of the report.
(2) On pages v and 13, in the summary description of the proposed SFC assistance, the reference "For the remaining 7 years" should be changed to "Thereafter, until the DOE-guaranteed debt is fully repaid".
(3) The profit-sharing limitation of $1.58 billion, referred to on pages v and 13 of the report, should be restated to read "up to an amount equal to $1.58 billion in March, 1984, dollars". The limitation on profit-sharing payments, which flow to the U.S. Treasury, will escalate over time with inflation and is operative over the full life of the project, which may differ from the 15-20 years cited in the report. (The sponsors project a 25-year economic life.)

Because of possible confusion over terminology, we suggest that "current" dollars also be defined as "as-spent, or year-of-expenditure" dollars in the text of the report.

Finally, the report indicates that the GAO has not yet evaluated the project's ability to repay DOE-guaranteed debt, assuming SFC price supports. The Corporation's projections, based on arrangements we negotiated with the sponsors, indicate that all debt will be retired in 1992, some ten years ahead of the schedule established in the DOE loan guarantee agreement.

Again, we appreciate the opportunity to comment. Our staff is available for further detailed discussions of the draft.

Sincerely,

Edward E. Noble

Edward E. Noble
Chairman of the Board

(301659)

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