United States General Accounting Office 135535

GAO

Testimony

For Release
on Delivery
Expected at
10:00 a.m. EST
Wednesday
April 13, 1988

Proposed Sale of the Great Plains Coal Gasification Project

Statement of
Keith O. Fultz, Senior Associate Director
Resources, Community, and Economic
Development Division

Before the
Subcommittee on Energy and Power of the
House Committee on Energy and Commerce

135535

041836

GAO/T-RCED-88-34A

GAO Form 160 (12/87)

SUMMARY OF KEITH O. FULTZ'S TESTIMONY
BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER,
HOUSE COMMITTEE ON ENERGY AND COMMERCE
ON APRIL 13, 1988

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Department of Energy's (DOE's) proposed sale of the Great Plains project. My testimony today will provide information about the project and present the results of our cash-flow analyses on (1) the government's estimated financial return if DOE retains ownership, (2) the estimated price needed to equal the project's retention value, and (3) the effect federal tax provisions would have on the federal budget if the project were sold for hypothetical prices ranging from $250 million to $700 million.

The Great Plains project was built by a partnership of five energy companies, at a cost of about $2.1 billion, of which $1.5 billion was financed by a DOE-guaranteed loan. In August 1985, the partners defaulted on the loan and DOE assumed ownership of the project. The project is operating very well, producing about 145 million cubic feet of synthetic gas a day. From August 1985 through December 1987, the project generated net revenues of about $100 million, exclusive of depreciation.

Under continued DOE ownership, our cash-flow analysis showed that net revenues would total about $1.5 billion over the project's 22-year operating life. The $1.5 billion would have a present value of about $569 million. For the government to be as financially well off from selling the project as it would be from retaining ownership, we estimated that the project would have to be sold for about $1 billion.

If the project were sold, it would continue to affect the federal budget during the next 22 years. To illustrate this effect, we calculated the net proceeds the government could receive using a series of hypothetical sale prices. For example, at a $350 million sale price, our cash-flow analysis showed that because of production tax credits of about $697 million and other tax concessions a private owner would be entitled to receive, the government would net about $68 million. The net proceeds would have a present value of about $56 million.

In summary, if DOE sells the Great Plains project, the government would, in effect, be trading the net revenues that it would receive from continued ownership for the net sale proceeds and tax revenues that it would receive over the operating life of the project. In the year of the sale, the federal deficit would be reduced, but over the longer term, a low sale price could increase the federal deficit because future cash and tax revenues would be less than the net revenues generated from continued DOE ownership.