FAIRBANKS – Providing hundreds of millions of dollars in subsidies for a refinery near Fairbanks that would convert coal into diesel fuel would be a poor use of public funds and provide far fewer economic benefits than a similar investment in renewable energy and energy efficiency, according to a preliminary economic analysis of the proposal.

Conducted by the New Mexico-based Center for Sustainable Economy, the analysis examined the assumptions made by proponents of the coal-to-liquid plant in Fairbanks, including the Fairbanks Economic Development Corp.

According to the author of the report – titled “Economic Feasibility of Coal to Liquids Development in Alaska’s Interior” – building the plant makes little sense from the perspective of both private investors and use of public dollars from the state of Alaska or the federal government.

“From a public benefits standpoint, it would be hard to justify the enormous public subsidies that will be required to get a coal-to-liquids plant up and running in Alaska’s Interior,” said Dr. John Talberth, principal author of the report. “When all public and private costs are taken into account and more realistic assumptions about coal prices, plant availability, and other key variables are made it seems clear that public costs will exceed benefits by a wide margin.”

Previously, both the FEDC and the U. S. Department of Energy’s National Energy Technology Laboratory had funded their own studies of the feasibility of the Fairbanks CTL project. But according to the CSE analysis, those studies were full of inconsistencies and assumptions tilted strongly in favor of getting the plant built. Among the CSE’s key findings:

• Both the FEDC-funded study, conducted by Hatch Ltd., and the NETL report failed to demonstrate the public benefit of building the plant, and both indicated that feasibility for private investors is only possible with significant public subsidies.
• Both reports suggest that investing public funds in CTL development is unjustified from an economic perspective
• The FEDC-funded study, in particular, omitted significant costs that, if included, would make key economic indicators even less favorable. It failed to factor in the costs of carbon capture and storage, transportation and natural resource damages, financing costs, owner costs and taxpayer costs, as well as other private and public costs.
• The FEDC study assumes the plant will operate 24 hours a day, 365 days a year, an unrealistic assumption given the complexity of the technology, Alaska’s unique geographic setting and the fact that this is the first time CTL will be used in Alaska.
• CTL development would generate far fewer net public benefits than a similar investment in renewable energy and energy efficiency.

Both the FEDC and NETL reports also make other assumptions that put an unrealistic luster on the CTL plant. For example, both studies assume a coal price of $1 per BTU, while owners of the Usibelli Mine put that price in the $1.50 to $2 range. According to the CSE report, using correct coal prices would add $100 million to $200 million per year in operating costs above what the FEDC study estimated. The FEDC study also assumed that the plant would be able to export electricity to local utilities to generate revenue. However, with carbon capture and storage technology in place, all of that power would be needed internally.

“These are dangerous assumptions to make about economic viability considering the huge capital investments required up front,” said Jessie Peterson, local issues and energy coordinator for the Northern Alaska Environmental Center. “Clearly, if FEDC is going to spend any more public money studying coal-to-liquids, these assumptions need to be revisited. Subsequent studies should also be focused on public benefits, not profitability for private investors.”

However a far better use of public funds, the report suggests, would be to invest in renewable alternatives such as hydropower, wind, solar, fuel and energy efficiency and conservation because such investments are far less energy intensive, enjoy high benefit-cost ratios and minimize natural resource damages such as carbon emissions.

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Copies of the full report are available online at:
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