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Vol: XI, Issue: 3  
February 06, 2008

## U.S. DOE Dumps FutureGen

The U.S. Department of Energy (DOE) announced January 30 that it is pulling out of the \$1.8 billion government-industry FutureGen integrated gasification combined cycle (IGCC) project and will instead use its funds to help finance multiple commercial scale IGCC plants around the U.S.

“Under this strategy, DOE will join industry in its efforts to build IGCC plants by providing funding for the addition of CCS technology to multiple plants that will be operational by 2015,” DOE said.

“This approach builds on technological research and development advancements in IGCC and CCS technology achieved over the past five years and is expected to at least double the amount of carbon dioxide sequestered compared to the concept announced in 2003,” DOE said in its latest statement on FutureGen (see: [link to source document](#)).

In reaction, the industry-led FutureGen Alliance said that DOE’s characterization of the project is “inaccurate” (*see related stories, this issue*).

DOE issued a Request for Information (RFI) that seeks industry’s input by March 3, 2008, on the costs and feasibility associated with building clean coal facilities that achieve the intended goals of FutureGen.

“Following this period and consideration of industry comment, DOE intends to issue a Funding Opportunity Announcement – or competitive solicitation – to provide federal funding under cooperative agreements to equip IGCC (or other clean coal technology) commercial power plants that generate at least 300 megawatts, with CCS technology aimed at accelerating near-term technology deployment,” DOE said.

“Under this plan, DOE’s investment would provide funding for no more than the CCS component of the power plant – not the entire plant construction, compared with the FutureGen concept announced in 2003 where the federal government would incur 74% of rising costs. This would allow for commercial operation of IGCC power plants equipped with CCS technology to begin as soon as the plants are commissioned, between 2015 and 2016.”

Four FutureGen proposed sites – two in Illinois and two in Texas – “may be eligible to host a commercial-scale IGCC plant with CCS technology,” DOE said.

“The site analysis and characterization data at these sites may be applicable to future environmental analyses under this restructured approach. More than one site may be selected as a host for the commercial

demonstration of CCS technology and DOE encourages applicants to include these four sites in their consideration for this restructured approach.

“Also, the FutureGen Alliance’s 13 member companies may compete with all the other applicants.”

-- Jack Peckham

## **Bush Requests \$648 Million in Clean Coal Funds for 2009**

On the same day last month that the U.S. Department of Energy (DOE) announced it was exiting the FutureGen project, DOE Secretary Sam Bodman said that U.S. President George Bush’s budget request to Congress asks for \$648 million for the DOE Office of Fossil Energy’s advanced coal technology research, development and demonstration program for Fiscal Year (FY) 2009.

“The FY09 budget requests \$407 million for coal research – including development of more efficient gasification and turbine technologies, innovations for existing coal power plants, and large-scale CCS injection tests - and \$241 million to demonstrate technologies for cost-effective carbon capture and storage for coal-fired power plants – including \$156 million for the restructured FutureGen approach and \$85 million for DOE’s Clean Coal Power Initiative,” DOE said.

“This \$648 million request represents a \$129 million increase from the President’s FY2008 request and is the largest amount requested for DOE’s coal program in more than 25 years.”

## **Peabody Takes Stake in GreatPoint Gasification Technology; Joint Focus on SNG Project**

Peabody Energy, the world’s largest private-sector coal company, on January 25 announced taking a minority stake in GreatPoint Energy, developer of a coal-to-synthetic natural gas (SNG) gasification technology.

“GreatPoint Energy is commercializing its proprietary ‘bluegas’ technology that converts coal, petroleum coke and biomass into ultra-clean pipeline quality natural gas while enabling carbon capture and storage,” Peabody said.

“As part of the agreement, Peabody and GreatPoint Energy will evaluate the potential for development of joint coal gasification projects using Peabody reserves and land.”

GreatPoint added that “as part of the agreement, Peabody will be a preferred coal supplier to GreatPoint Energy and the parties expect to jointly develop coal to natural gas manufacturing facilities at or near the Peabody mines, with a focus on the Powder River Basin area.”

Massachusetts-based GreatPoint Energy (*see 10/3/07, 9/19/07 Gasification News*) uses a single-stage catalytic gasification process to create SNG that is 99.5% pure methane and can be transported throughout North America utilizing the existing natural gas pipeline infrastructure, Peabody noted.

GreatPoint earlier nabbed venture-capital investment funds from Dow Chemical, Khosla Ventures, AES, Suncor Energy and Citi Sustainable Investments.

“GreatPoint Energy has completed highly successful testing in a pilot facility in Des Plaines, Ill., and is commencing engineering for the first commercial project,” Peabody said.

Added Rick Bowen, Peabody’s Senior VP: “Using GreatPoint Energy’s technology to turn coal into natural gas while capturing carbon will provide a clean coal-based alternative to expensive natural gas imports, while using Peabody’s industry-best reserve position.”

Peabody said it’s pursuing SNG projects “to help build energy security and ease reliance on expensive natural gas imports.”

Peabody also is a participant in the near-zero-emissions “Future Gen” integrated gasification combined cycle (IGCC) project in the U.S., as well as “GreenGen” in China, “Coal21” in Australia and the Asia-Pacific Partnership, which seeks innovative ways to slash greenhouse emissions.

– Jack Peckham

## **Sasol Resumes Normal Transportation Fuel Production**

South Africa's Sasol Synfuels resumed normal production on Jan. 29 after four days of reduced output. Sasol reduced production in response to a request by South African electrical utility Eskom for load cuts.

"While doing everything possible to optimise electricity consumption, it is essential to resume full operation of the Synfuels value chain in order to maintain supplies to customers. For the last few days upstream operations have been running at somewhat reduced loads but we have been able to maintain full supply of final products by utilising intermediate component stocks," Sasol executive director Benny Mokaba said.

## **Gas to Liquids News**

### **Kuwaiti Investor Buys 15% Stake in Synfuels International; GTL Plant Coming Soon**

Aref Energy Holding (51% owned by Kuwait government investment arm) just took a 15% stake in Dallas-based Synfuels International, Synfuels announced February 5.

Aref is a listed company in the Kuwait stock market with capital of \$300 million. It's a subsidiary of Aref Investment Group, with capital of \$3 billion, Synfuels said.

The 15% stake means a \$28.5 million cash infusion into Synfuels. The deal also includes an option to acquire another 10% of Synfuels stock, plus exclusive rights to market the Synfuels technology in the Middle East, as Synfuels president Thomas Rolfe told *Gasification News* in an interview.

According to Synfuels, “the deal includes plans to build the first commercial gas-to-liquids [GTL] plant based on the new technology, which converts natural gas to liquid petroleum products such as clean burning, affordable high-octane gasoline or other valuable and useful hydrocarbon products.”

A Synfuels demonstration plant has operated near Texas A&M University since 2005.

Synfuels now sees the possibility for its first commercial plant to come on-line by late 2009 or 2010, in a Mideast location, Rolfe added.

Flared, vented and stranded natural gas could be converted to gasoline, jet fuel, and diesel relatively cheaply via the Synfuels process, the company explains.

"The idea for converting natural gas to a liquid has been explored for a number of years. Many organizations have attempted to perfect the process, but until now, none have achieved the conversion at a commercially viable level," said Tareq Al Wazzan, CEO of Aref Energy Holding.

"With this cutting-edge and completely scalable technology, Synfuels has proven that they can make dramatic changes in our ability to utilize millions of cubic feet of natural gas."

Synfuels traces its technology to “an idea conceived by Dr. Kenneth R. Hall, PhD, and developed in cooperation with Texas A&M University and the Texas Engineering Experiment Station (TEES).”

In contrast to conventional Fischer-Tropsch GTL technologies, “the Synfuels technology breaks free of these industry standards and focuses on efficient high-temperature natural gas conversion into acetylene, which is then converted into ethylene at moderate pressures and temperatures,” the company said.

“By passing the ethylene through a catalytic reactor, it is finally converted into products such as gasoline and jet fuel. And as a result, the Synfuels yield of usable products is significantly higher than a traditional Fischer-Tropsch plant.”

Kuwait is investigating a possible Synfuels plant opportunity near Kuwait City, Rolfe explains.

The so-called West Field there currently flares between 20-40 million cubic feet/day of sour gas, causing air pollution in the nearby city.

So, a Synfuels plant – designed to handle relatively small amounts of gas feedstock (20 million cubic feet/day) – could be employed to produce about 1,800 to 2,000 barrels/day of sulfur-free gasoline, or a 50-50 split of gasoline and jet fuel, or a yield of 30% diesel and 70% gasoline/jet fuel.

Unlike conventional FT GTL plants, the Synfuels plant would be vastly cheaper – about \$75 million for an 1,800 b/d plant, Rolfe said. Bonus: Synfuels plants could be constructed in about 18 months, versus years for typical FT GTL plants, he said.

Assuming flared gas has a feedstock value of 50 cents/1,000 cubic feet (Mcf), then manufacturing cost of gasoline via the Synfuels process would be less-than \$30/barrel, he said. In contrast, FT GTL processes today cost at least \$10/barrel more, he said.

Even if natural gas feedstock costs are as high as \$3.50/Mcf, the Synfuels process still would be competitive with crude-based gasoline at \$120/barrel, he explained.

Making jet fuel or diesel would be a little more expensive, because those fuels require higher-pressure processing, he added. But those processes still would yield products at a cost near \$30/barrel if gas feedstock is only 50 cents/Mcf.

Besides land-based plant applications, barge-based offshore applications also are seen feasible in areas with waves up to 10 feet, he said. That would rule out the North Sea, but would include Gulf of Mexico and Arabian Gulf areas, he added. – *Jack Peckham*

## Coal to Liquids News

### U.S. Air Force Pitches CTL Plant in Montana

The U.S. Air Force laid out a plan for a \$1 billion-\$4 billion privately financed coal-to-liquids (CTL) plant at Malmstrom Air Force Base in coal-rich Montana, to be built within the next four years.

However, the plan as laid out by Air Force Assistant Secretary William Anderson is already drawing ire from environmental groups over the CO<sub>2</sub> issue. Anderson said the developers of the plant would have to capture carbon dioxide emissions for sale to industry, *AP* reported.

The Air Force says the CTL plant plan is to be explored through its Enhanced Use Lease (EUL) program, which intends to build partnerships between the military and private industry by leasing underutilized military assets to private entities for development.

The output from the plant would help the Air Force use synthetic Fischer Tropsch jet fuel. FT fuel has been successfully tested in military aircraft over the past year.

The Air Force has previously stated that by 2016, it wants to use a synthetic jet fuel blend for up to 50% of the fuel used by its domestic fleet.

Among the companies believed to have attended a Jan. 31 industry forum that was closed to the press, are: Chevron, ConocoPhillips, Shell, Rentech and Sasol.

## Carbon Storage

### U.S. State Attorneys General Call upon FTC to Set Carbon Offsets Guidelines

Ten U.S. state attorneys general ask the U.S. Federal Trade Commission (FTC) for guidelines and more oversight of the \$100 million carbon offsets and renewable energy certificates (REC) markets.

Such markets are ripe for abuse, they contend.

Led by the Vermont Attorney General, the group sent a Jan. 25 letter (*click the link below*) to the FTC, outlining concerns about:

- What constitutes a "real" offset of carbon.
- Whether the offset would enable a project that otherwise would not be built, or would the offset be generated by a new project with lower emissions than the vast majority of existing projects?
- The sale of renewable energy certificates as 'carbon offsets'.
- Benefit quantification, as there is currently no common standard for quantifying emissions reductions.
- How to avoiding double-counting of offsets.

The letter recommended that the FTC do some research on what consumers expect they are buying when purchasing a carbon offset; research the disclosure practices of the carbon offset sellers; educate consumers on carbon offsets and REC's and their relationship to climate change and to enforce the laws already on the books regarding overly general representations related to carbon offsets and RECs.

The attorneys general said the guidelines were needed as some expect the market for carbon offsets and RECs will multiply 40-fold over the next four years.

The letter was signed by attorneys general in Arkansas, California, Connecticut, Delaware, Illinois, Maine, Mississippi, New Hampshire, Oklahoma and Vermont.

--Suzanne McElligott

## Integrated Gasification Combined Cycle News

### FutureGen Alliance Says It Will Continue With Mattoon

The CEO of the FutureGen Alliance, Mike Mudd, told *Gasification News* that his group plans to go ahead and build an integrated gasification combined cycle (IGCC) plant with carbon capture and sequestration in Mattoon, Ill., despite the loss of the U.S. Department of Energy (DOE) support from the plan.

The DOE, FutureGen's former partner in the project was slated to kick in 74% of the cost of plant, leaving the Alliance 24% of the bill (*see related story, this issue*).

"The Alliance recognizes that FutureGen is so important we must find a way to continue. We have the support of our member companies, we have the support of Illinois, and we have the support, I think in general, of the stakeholders who understand how important FutureGen is," he said.

Mudd also said he is not giving up on federal funding.

“And we also understand at the end of the day, Congress spends the money. Congress authorizes the money. Congress develops legislation that can make things happen. So we expect to work with Congress and with the Illinois delegation to make sure FutureGen continues as is at Mattoon and is adequately funded.”

The Alliance picked up support from the Illinois delegation via a [Jan. 30 letter to President George Bush](#) from Senator Dick Durbin (D-IL), signed by presidential hopeful, Sen. Barack Obama (D-IL) along with Representatives Tim Johnson (R-IL), Jerry Costello (D-IL), Ray LaHood (R-IL), Rahm Emanuel (D-IL), Peter Roskam (R-IL), Phil Hare (D-IL), Jan Schakowsky (D-IL), and Danny Davis (D-IL) calling on Bush to move forward with the FutureGen program despite objections raised by Energy Secretary Samuel Bodman.

The strongly worded letter to Bush also floated a motive for Bodman’s decision.

“Many have argued that this abrupt about face by Secretary Bodman was the direct result of the FutureGen Alliance choosing Mattoon, Illinois as the site, over Texas applicants. While we’d like not to believe this theory, there is no other plausible explanation,” the letter read.

But while the different factions of the federal government gear up for what may be a fight, Mudd admits that the FutureGen schedule is now in question.

“With that as our path forward, we will look at how to affect that with respect to the schedule. Time will be lost with our schedule now, but nevertheless, we intend to find a path forward to keep FutureGen viable and on track,” he said.

--Suzanne McElligott

## **FutureGen Alliance Contradicts U.S. DOE’s Reasons for Exit**

The FutureGen Alliance, a non-profit consortium of some of the largest coal producers and users in the world that was formed to partner with the U.S. Department of Energy (DOE) on the 275 MW integrated gasification combined cycle (IGCC) FutureGen project, says that the DOE has been less than truthful regarding its reasons for exiting the plan.

Alliance chief Mike Mudd told *Gasification News* that some of the allegations made by DOE with respect to why it chose to exit were “absolutely untrue.”

Additionally, the alliance put out a [Jan. 31 press release](#) countering some of the charges the DOE made against the project.

Regarding DOE’s assertion that its proposal for a 50/50 cost split for any construction expense over \$1.8 billion was rejected by the alliance (See *Gasification News*, Jan. 9, 2008), Mudd said that is “absolutely untrue.”

“They [DOE] had offered that, and the alliance was willing to accept a 50/50 cost share once the \$1.8 billion threshold was reached,” he said.

The DOE also had a problem with the alliance’s plan to mortgage the plant to raise its share of the funds via loans. But Mudd says the Energy Department should not have been surprised by the plan as it was a common procedure.

“The main point is, it is common practice for the title for a facility under a cooperative agreement with the DOE, like with all the CCPI [Clean Coal Power Initiatives] programs and clean coal technology programs, for the title to reside within industry rather than with the DOE,” Mudd said.

“The financing, it was to smooth out the cash flow. If you’ve been following construction curves, you know you hit some peak years. Well, what we want to do is use financing mechanisms to smooth out the contribution schedule for the alliance members.”

Regarding the DOE complaint that the estimated cost of the project has nearly doubled since inception, FutureGen's statement contends that while costs have risen, DOE's share of the building expense have gone up only moderately.

"Project costs have increased, but DOE's share has not doubled—not even close. When President Bush first announced FutureGen, the DOE share was \$800M. DOE's current estimated share is \$1.1B with the increase due to inflation.

A White House Official was quoted in *The New York Times* on December 17, 2007 as saying that the market for steel, concrete and power plant components has "just gone through the roof globally," the Alliance pointed out.

What's more, DOE's contribution would have been reduced by contributions from foreign countries. Additionally, the Alliance has offered to provide DOE with partial-to-full repayment to ease the final cost to the taxpayer. "The costs are manageable," the statement says.

Mudd emphasized that the rising costs were "solely due to inflation, not to scope growth."

Regarding speculation that DOE's actions were sparked by unhappiness regarding the selection of an Illinois site over one in Texas, and the timing of the announcement, Mudd explained that the site selection was always in the hands of the alliance and DOE was only to oversee the selection process.

"The way the process worked was that it was up to the alliance to make the final site selection, [and] up to DOE to audit the process and to make sure that it was fair, transparent and fully in accordance with both the cooperative agreement and with the NEPA (National Environmental Policy Act) process.

"We understand the costs of gasification systems are rising. We see more IGCC plants being cancelled than is the best thing for industry and society. There is a clear recognition that we need IGCC plants.

"Absent FutureGen, the gasification industry should be very, very concerned about how it can continue to advance IGCC technology and bring the cost down in the future so that industry can really benefit from those wonderful possibilities that IGCC offers for better efficiency, lower costs, integrated carbon capture and sequestration," Mudd said.

--Suzanne McElligott

## **Green Group Rips U.S. DOE Cancellation of FutureGen Funding**

U.S. based environmental advocacy group Clean Air Task Force (CATF) terms the U.S. Department of Energy (DOE) decision to cancel funding for the clean-coal "FutureGen" project (*see related story, this issue*) as "short-sighted."

"It is short-sighted for the Bush Administration to retreat on FutureGen now," CATF said in a February 5 press release

"This project is important because it would be among the first power plants in the nation to capture large quantities of carbon dioxide. By mid-century, virtually all the nation's coal, oil and natural gas fueled power plants must capture carbon dioxide if we're to prevent global warming. President Bush needs to stick by what he started.

"This unfortunate decision makes it more important than ever that the Midwest's other proposed clean coal plants move forward and become 'NowGen' projects that capture a portion of their carbon dioxide."

The group cited two other IGCC plants —one near Edwardsport, Indiana and one near Taylorville, Illinois— as using "similar gasification technology as FutureGen. Neither plant has firm carbon capture plans, but with support from the states of Illinois and Indiana, both of these plants could capture 20% of their carbon emissions and remain economically competitive," CATF said.

“By building a plant like FutureGen that captures 90% of its carbon dioxide emissions, and flanking it with two commercial-sized plants that capture 20% carbon dioxide, it would be possible to create a trio of plants that could truly change the path of coal world-wide. “

CATF noted that Duke Energy won an air permit for the Edwardsport plant last week (see related story, this issue), following earlier economic approval from Indiana regulators. “As part of the decision, Duke must return with plans for studies to capture and store 20% carbon dioxide within 6 months,” CATF noted.

On a related front, U.S. EPA’s Environmental Appeals Board finalized the air permit for the Taylorville, Illinois IGCC plant, CATF noted.

That plant “now needs action from the Illinois House to facilitate construction. The legislature should move forward with this legislation, and also include provisions to fund partial carbon capture,” CATF said. – *Jack Peckham*

## **Duke's Edwardsport IGCC Project Gets Air Permit**

[Duke Energy's](#) planned \$2 billion, 630 MW Edwardsport integrated gasification combined cycle (IGCC) plant got an air permit from the [Indiana Department of Environmental Management](#), paving the way for construction on what may become one of the first commercial demonstrations of an IGCC plant with carbon capture and storage (CCS).

The receipt of the permit enables engineering, procurement and construction firm Bechtel to start construction on the plant, to be built in Edwardsport Station in southwest Indiana, by mid February.

The plant is due to be completed in 2012 and it will replace the existing 160 MW pulverized coal plant on the site. GE is to provide the gasification technology. The plan received its construction permit in November. (*See article in Gasification News, Nov. 28, 2007.*)

Part of the \$2 billion construction expense will be offset by more than \$460 million in future coal, state and federal tax incentives, Duke said. Additionally, ratepayers in the area are to face a 16% rate increase to be phased in between 2008 and 2012.

### **Carbon Capture and Storage**

Regarding the CCS portion of the project, Duke says it will be filing plans to conduct a study of a portion of the plant's carbon emissions with the Indiana Utility Regulatory Commission (IURC).

"If it proves to be feasible, carbon dioxide capture and storage equipment could be added to the plant," Duke said. The plans for the study have to be submitted to the IURC by mid-May.

When asked what Duke may consider feasible, Duke spokesperson Angeline Protogere told *Gasification News* that the company has not yet determined a feasible cost. But the area around the plant may be conducive to sequestration, she added.

At the moment, Duke is to study the feasibility of storing 18% of the CO<sub>2</sub> emissions from the plant as requested by the [Clean Air Task Force](#) and the [Indiana Wildlife Federation](#).

Both environmental groups hailed the granting of the construction permit in November in a [press release](#) that said the IGCC plant would be much cleaner than the old plant it is replacing and that the 18% CCS rate would be an important first step towards deploying full-scale carbon capture and storage on coal plants.

--*Suzanne McElligott*

## PacifiCorp Shelves Wyoming IGCC Project

Western U.S. utility PacifiCorp and the Wyoming Infrastructure Authority (WIA) put their integrated gasification combined cycle (IGCC)/carbon capture and sequestration (CCS) project on hold with no certain date for future development due to high costs and CCS technology risk, the two said in a joint Jan. 25 statement.

Feasibility studies undertaken by PacifiCorp indicated that the costs of a plant operating at a high altitude, using lower quality coals and capturing high levels of carbon dioxide would be extremely high.

Even the support of the federal investment tax credit was determined to be not significant compared with the overall costs of the project. Lack of a federal legal and policy framework to address concerns regarding long-term liability related to geologic sequestration of carbon emissions also contributed to the decision, said Richard Walje, president of PacifiCorp subsidiary Rocky Mountain Power.

"[T]he support of the federal investment tax credit on the overall cost of energy from the project, although beneficial, was determined to not be significant compared with the overall costs our studies show.

"Our company did not want to put itself in a position of potentially receiving tax credits from the Department of Energy, but ultimately having to withdraw because total costs and risk for our customers were higher than we can accept," Walje said.

--Suzanne McElligott

## Cash Creek IGCC Gets Air Quality Approval

Cash Creek Generation won an [air quality permit](#) by the Kentucky Department for Environmental Protection's Division of Air Quality for its proposed 630 MW integrated gasification combined cycle (IGCC) plant to be built in Henderson County.

The granting of the permit clears the way for construction to begin either later this year or early next year for mechanical completion in 2011 or 2012, Mike McInnis of Erora Group told *Gasification News*.

The permit came after the U.S. Environmental Protection Agency (EPA) issued no comments or objections by a Jan. 14 deadline. Citizens have until March 14 to protest the EPA's decision.

Cash Creek Generation is owned by Louisville, Kentucky-based [Erora Group](#), the project developer. Erora says its investors include GE Energy Financial Services and Green Rock Energy, LLC, a company formed by the D. E. Shaw group and Goldman, Sachs & Co. to invest in gasification projects.

As previously reported, the plant is to be built along the Green River, where it will have the ability to connect with three electric grids: PJM West, Midwest Independent System Operator and the Southwest Power Pool. It is within six miles of ANR Pipeline and Texas Gas Transmission, both interstate gas pipeline connections.

Regarding the CO<sub>2</sub> emissions, McInnis said: "We are going to address the issue. How we are going to address it, we have not made public at this point in time." He also declined comment on what the estimated cost of the project is or how it would be financed, saying that was proprietary information.

However, McInnis did say that Erora has not picked an engineering, procurement and construction contractor yet, but has selected a gasification supplier, declining to say which one.

On future plans for the plant, McInnis said: "What the air permit references is just a straight IGCC, but what we may ultimately do may differ from that."

--Suzanne McElligott

## In Other Sectors

### IEA: Diesel Demand Overall Rose in OECD North America, Europe & Asia

Transportation increases across the OECD North American region and relatively cold temperatures in the U.S. and Canada explain gasoil/diesel demand increases in December, according to the January 2008 *Oil Market Report* compiled by the International Energy Agency (IEA).

For the survey period (December 2007), transportation diesel demand rose by 5.2% in the U.S., according to the IEA.

However, the strength of diesel demand is somewhat overstated because of the change in sulfur specifications since mid-2006, whereby some of nonroad, locomotive and marine gasoil in the U.S. is now counted as “diesel,” the IEA said.

Diesel stocks increased by 1.7 million barrels, however, the total middle distillate stocks declined by 4.5 million barrels in the U.S.

Diesel retail prices were also strong, with an average gain of 3.2% in U.S. dollars, ex-tax.

Meantime, transportation fuels in Mexico continue to be resilient: gasoline deliveries increased by 5.3% year-on-year, jet fuel/kerosene by 7.7% and diesel by 4.4%, indicating that the Mexican economy is holding its ground even with economic doubts north of the border, the IEA said.

North American gasoil/diesel refinery yields reached 26%, a new record high for the region, driven by the record U.S. distillate yields. This reflects a record level of hydrocracker throughput and the relative strength of distillate cracks over gasoline.

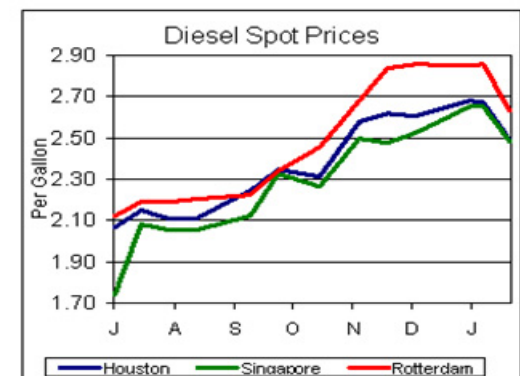
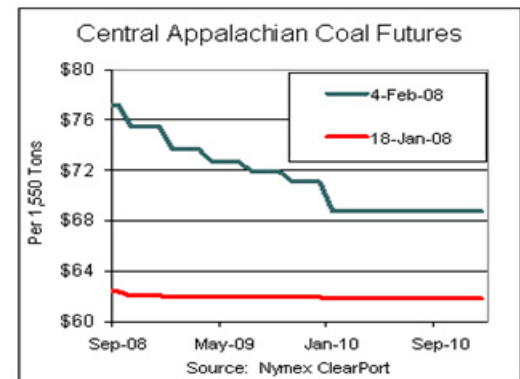
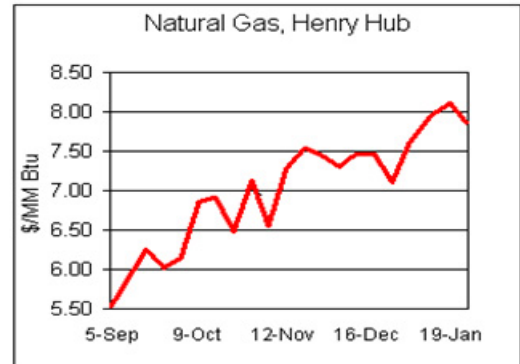
On the other side of the Atlantic, refiner margins fell across the board in OECD Europe, driven mostly by weaker diesel cracks.

In Germany, diesel demand continues to experience strong annual growth, rising by 15.8% in October and by an estimated 5.3% in November.

In France, 4Q07 demand should be stronger than previously projected. Gasoil demand (diesel and heating oil) also posted strong annual growth in October and November (6.4% and 8.8% respectively).

The growth was possibly due to increased driving during railroad worker strikes triggered by President Nicolas Sarkozy’s attempt to reduce early retirement benefits. Colder weather also was seen as a factor.

### Market Snapshot



**OECD Demand based on Adjusted Preliminary Submissions –  
December 2007**

(million barrels per day / percent change per annum)  
Source: IEA Oil Market Report, January 2008

	Gasoline		Jet/Kerosene		Diesel		Other Gasoil	
	mmb/d	%pa	mmb/d	%pa	mmb/d	%pa	mmb/d	%pa
<b>OECD N. America</b>	<b>10.82</b>	<b>0.8</b>	<b>1.97</b>	<b>5.5</b>	<b>4.08</b>	<b>6.6</b>	<b>1.21</b>	<b>14.9</b>
USA*	9.29	0.5	1.74	6.2	3.53	5.2	0.67	18.2
Canada	0.71	-0.1	0.12	-3.1	0.20	5.5	0.38	-3.1
Mexico	0.75	5.3	0.07	7.7	0.29	4.4	0.13	4.4
<b>OECD Europe</b>	<b>2.45</b>	<b>-3.3</b>	<b>1.25</b>	<b>-0.5</b>	<b>4.44</b>	<b>3.0</b>	<b>2.23</b>	<b>-2.3</b>
Germany	0.50	-3.3	0.19	4.3	0.71	5.3	0.44	21.7
UK	0.43	-4.8	0.34	-5.2	0.47	-1.3	0.16	7.5
France	0.21	-3.5	0.15	2.2	0.67	4.3	0.36	18.4
Italy	0.27	-6.7	0.08	3.9	0.56	-0.6	0.13	-6.8
Spain	0.15	-2.8	0.11	-0.7	0.55	7.5	0.25	7.5
<b>OECD Pacific</b>	<b>1.55</b>	<b>-0.5</b>	<b>1.00</b>	<b>-5.6</b>	<b>1.33</b>	<b>-0.1</b>	<b>0.56</b>	<b>-5.2</b>
Japan	0.98	-1.9	0.67	-4.6	0.64	-2.4	0.40	-9.5
Korea	0.17	0.2	0.19	13.1	0.31	0.4	0.15	8.4
Australia	0.35	3.0	0.11	1.7	0.33	0.3	0.00	5.9
<b>OECD Total</b>	<b>14.83</b>	<b>-0.1</b>	<b>4.22</b>	<b>0.9</b>	<b>9.85</b>	<b>4.0</b>	<b>4.00</b>	<b>-6.9</b>

\* Fifty States Only

	RFO		Other		Total Products	
	mmb/d	%pa	mmb/d	%pa	mmb/d	%pa
<b>OECD N. America</b>	<b>1.10</b>	<b>8.9</b>	<b>6.25</b>	<b>4.34</b>	<b>25.44</b>	<b>0.1</b>
USA*	0.58	10.9	4.80	-5.5	20.62	-0.3
Canada	0.17	21.9	0.78	-0.3	2.37	0.9
Mexico	0.24	-0.2	0.60	-0.5	2.08	2.8
<b>OECD Europe</b>	<b>1.81</b>	<b>-3.8</b>	<b>3.66</b>	<b>-0.4</b>	<b>15.83</b>	<b>-0.6</b>
Germany	0.16	15.3	0.54	17.1	2.54	-8.5
UK	0.09	27.1	0.36	5.5	1.86	0.1
France	0.18	51.4	0.52	8.5	2.10	9.6
Italy	0.26	-7.6	0.40	-1.4	1.71	-3.2
Spain	0.21	11.1	0.37	-1.2	1.64	1.2
<b>OECD Pacific</b>	<b>0.99</b>	<b>-2.1</b>	<b>3.33</b>	<b>4.9</b>	<b>8.75</b>	<b>0.4</b>
Japan	0.56	10.2	1.98	4.0	5.23	0.3
Korea	0.4	16.6	1.13	7.9	2.35	-0.6
Australia	0.02	-2.3	0.20	1.8	1.01	2.8
<b>OECD Total</b>	<b>3.89</b>	<b>-0.1</b>	<b>13.24</b>	<b>-1.1</b>	<b>50.03</b>	<b>-0.1</b>

\* Fifty States Only

Poland petroleum demand has been revised up by 50 kb/d in October, due to higher diesel (+45 kb/d) and naphtha (+15 kb/d) consumption. Polish diesel demand was rather high during 2007, pointing to a 14.7% annual increase for the year as a whole, as GDP (+6.6% in 2007) and domestic purchasing power increased with market liberalization, according to the IEA.

Diesel demand in the UK fell by 1.8% year-on-year during October. But an even larger drop happened in gasoline (by 14.8%), which was officially explained as evidence of the ongoing dieselization. Diesel prices were particularly strong in the UK, though.

Preliminary data for November suggest that Spanish demand for diesel grew by 1.2% annually. Final data for October led to a small downward adjustment to the forecast (-26 kb/d), although growth is still seen at a strong 4.3%, the IEA said.

In December, all products in Spain except naphtha reported gains, notably diesel and heating oil, which grew by 9.4% and 8.2%, respectively.

In OECD Pacific, preliminary data indicate that Korea's total oil product demand was 0.6% lower year-on-year in November, possibly due to the previous month's extensive stock rebuilding.

Although naphtha deliveries, which account for the largest share of total Korean demand, rose by 4.6%, that failed to make up for fairly subdued transportation fuel deliveries since diesel only increased by 0.4%, according to the IEA.

Relatively cold temperatures supported LPG (+9.3%) and other gasoil demand (+8.4%) in Korea, but jet fuel/kerosene deliveries fell by 13.1%. As in Japan, kerosene is used as a heating fuel in Korea.

However, Korean gasoil/diesel refinery yields improved by 4% from September to 29% and are 5% above last year's level following the start-up of LG Caltex's residue hydrocracker.

According to preliminary data, China's apparent diesel demand increased by an estimated 3.1% year-on-year in November, with all product categories bar LPG and residual fuel oil posting gains.

Chinese demand for gasoil remains strong at +6.1% compared to last month. Even more remarkable, China has been dealing with gasoline and gasoil/diesel oil shortages over the past several months suggest that pent-up demand is significant.

Nevertheless, China is still facing diesel shortages and seems set to follow record December imports with high incoming volumes in January.

Chinese state refiners have turned to heavy diesel imports to fight supply shortages, following the collapse of independent 'teapot' refinery utilization rates due to unfavorable economics. Heavy imports are expected to continue into the first quarter, and possibly longer, depending on the level of throughput at independent refineries.

Also, net diesel imports in China rose by a staggering 57% in November 07 compared to the prior month. Regardless of these moves, though, there are reports of continued shortages in some regions, according to the IEA. -- *Taylor Graham*

# Global Hotspots In This Issue



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