

BP, Rio Tinto back off proposed Kern hydrogen plant

John Cox, Bakersfield Californian, 5-26-11

Multinational partners behind a \$2 billion hydrogen energy plant in western Kern County have arranged to sell the project after determining that it "didn't make economic sense" for them. Terms of the proposed transaction were not disclosed.

The sale leaves in doubt hundreds of millions of federal dollars set aside to engineer and design what has been considered an environmentally advanced project that could yet generate more than 1,000 construction jobs and \$1 million in annual tax revenues.

The prospective new owner, Massachusetts-based SCS Energy LLC, plans to proceed with a modified version of the project that would produce a hydrogen-based fertilizer ingredient in addition to the plant's originally proposed output of electricity and carbon dioxide for local oil production.

It was unclear Wednesday how much electricity the plant would generate. The president of SCS said it would produce some power almost constantly even as market conditions would dictate how much of the plant's production would be geared toward power generation. The plant was initially expected to power 150,000 homes.

Already the project has received \$54 million in federal stimulus money as part of a 2009 award that at that time made it the county's single largest recipient of federal stimulus dollars. Project officials expressed hope that the proposal would qualify for another \$354 million in federal assistance.

A spokeswoman for the U.S. Department of Energy, which has channeled much of the project's federal money, declined to answer questions about the project Wednesday.

Proposed to be built on 463 still-vacant acres near Tupman, Hydrogen Energy California is a Long Beach-based joint venture between energy giant BP and mineral company Rio Tinto. It is expected to run on coal and petroleum coke after its expected opening in 2016 or 2017.

Though not technically a renewable energy project, HECA would be considered clean-burning because about 90 percent of the carbon dioxide produced by the plant would be buried underground in a way that would increase nearby oil production.

If built as originally proposed, the plant was to create up to 1,500 construction jobs and up to 100 permanent jobs.

State officials said the project continues to proceed with various approvals and a feasibility study, and that the change in ownership has little bearing on that process.

Representatives of SCS and HECA denied that recently low natural gas prices played a significant role in their respective decisions.

HECA spokeswoman Tiffany Rau said the gas prices -- way down because of huge shale deposits discovered in Pennsylvania and elsewhere in the United States -- were not a factor in the sale because BP and Rio Tinto were

looking at a 20-year horizon in which the relative advantage of one commodity price over another plays a small role.

SCS Energy's president and chief operating officer, Tim Bauer, said inexpensive natural gas was not an option for fueling the plant because the company's interest was in finding a feedstock with a minimal carbon footprint. He said natural gas produces more greenhouse gases than the process HECA proposes to use with coal and petcoke.

Rau said company officials determined late last year that the project "didn't make economic sense for BP and Rio Tinto," but that it might work for SCS because it has an additional revenue stream in the fertilizer ingredient.

"In today's power market structure, we couldn't sell the power cost-effectively," Rau said Wednesday, adding that public subsidies would be necessary to make HECA financially viable under BP and Rio Tinto.

Bauer said Wednesday that his company will make some changes in the project's design but will not change what the plant would do other than also produce urea, which is made from hydrogen and carbon dioxide. Though generally imported from China, urea is widely used locally in fertilizers; it also is used in trucks and power plants to reduce emission of nitrogen oxide, a common air pollutant.

How much hydrogen is produced for sellable power versus urea production "depends on the markets," Bauer said.

"We can make more urea in the off-peak (hours) because urea is storable and electricity clearly is not," he said.

SCS has developed or helped develop four power plant projects, all of them on the East Coast. Three of these run on natural gas and are now owned by other companies. The fourth, located in Linden, N.J., would be fueled by coal and produce power in addition to urea, ammonia and sulfuric acid.