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Carbon Capture Coalition Statement for the Record

United States Senate Finance Committee Hearing on "Climate Challenges: The Tax Code's Role in Creating American Jobs, Achieving Energy Independence, and Providing Consumers with Affordable, Clean Energy"

April 27, 2021

The Carbon Capture Coalition appreciates the opportunity to submit this statement for the record for the Senate Finance Committee's hearing entitled "Climate Challenges: The Tax Code's Role in Creating American Jobs, Achieving Energy Independence, and Providing Consumers with Affordable, Clean Energy." The Coalition thanks the Committee for its efforts to date to respond to the COVID-19 pandemic. As our nation begins to look beyond the crisis, we have a responsibility to rebuild and retool our nation's domestic energy, industrial and manufacturing sectors in ways that put our economy on a path to net-zero emissions by midcentury. Carbon capture must be central to the effort to achieve net-zero emissions reduction goals, while preserving and creating middle class jobs that pay family-sustaining wages, providing environmental and other benefits to communities, and supporting regional economies across our country.

The Carbon Capture Coalition is a nonpartisan collaboration of more than 80 businesses and organizations dedicated to building federal policy support to enable economywide commercial scale deployment of the full suite of carbon capture technologies, which includes carbon capture, removal, transport, utilization, and storage. Widespread adoption of carbon capture technologies at industrial facilities, power plants and future direct air capture facilities is critical to **achieving net-zero emissions to meet midcentury climate goals, strengthening and decarbonizing domestic energy, industrial production and manufacturing, and retaining and expanding a high-wage jobs base**. Convened by the **Great Plains Institute**, Coalition membership includes industry, energy, and technology companies; energy and industrial labor unions; and conservation, environmental, and clean energy policy organizations.

This statement outlines comprehensive and robust policy recommendations to realize economywide deployment of carbon capture, including:

- Providing a direct pay option for the federal 45Q tax credit;
- Extending an additional ten years the commence construction window for the 45Q credit;
- Enhancing 45Q credit values for industrial and power plant carbon capture and direct air capture;
- Making carbon capture and direct air capture projects eligible for tax-exempt private activity bonds;
- Expanding eligibility of master limited partnerships to include carbon capture projects; and
- Implementing technical fixes and direct pay for the Section 48A tax credit to enable carbon capture retrofits of existing power plants.

Providing a direct pay option and additional ten-year extension for the federal Section 45Q tax credit

The 45Q tax credit is the cornerstone federal policy for enabling economywide deployment of carbon management technologies, and a direct pay option and ten-year extension for 45Q represent the Coalition's top legislative priorities. Implementing direct pay for 45Q is the most important step Congress can take to leverage greater private investment in carbon capture, direct air capture and carbon utilization projects and to realize the full emissions reduction and job creation benefits of the tax credit. Direct pay would eliminate the significant tax credit value currently being lost to burdensome, costly and inefficient tax equity transactions, creating an urgently needed alternative for most project developers, who otherwise lack sufficient taxable income to fully utilize the credits, or who are exempt from federal tax liability altogether. The full value of federally funded tax credits should go directly to investments in technology innovation, emissions reductions and job creation, not to financial and legal third parties.

Extending the commence construction window to qualify for 45Q an additional ten years, to the end of 2035, would establish a critically needed investment horizon to give carbon management projects the time required to scale up between now and midcentury. While federal tax credits were first established for wind and solar energy in 1992 and 2005, respectively, the current 45Q tax credit has only been in place since 2018. Carbon capture technologies deserve a comparable timeframe to benefit from the availability of this crucial federal 45Q incentive.

To that end, the Coalition urges the Committee to pass the Carbon Capture, Utilization, and Storage (CCUS) Tax Credit Amendments Act of 2021 (S. 986) introduced by Senators Tina Smith (D-MN) and Shelley Moore Capito (R-WV) earlier this year. This broadly supported bipartisan bill includes direct pay for 45Q and a five-year extension of the tax credit, with the aim of helping carbon capture achieve its full potential for emissions reduction, job creation and domestic energy and industrial production.

Enhancing 45Q credit values for industrial and power plant carbon capture and direct air capture

Analyses by the Intergovernmental Panel on Climate Change and the International Energy Agency make clear that economywide deployment of carbon capture and direct air capture is vital to meeting midcentury climate goals. However, carbon-intensive and hard-to-abate industrial sectors, including steel, cement, chemicals and refining; electric power generation; and direct air capture all feature higher costs of capture and greater commercial risk for early deployment. In fact, cement production, natural gas and biomass power generation, and direct air capture do not yet have large-scale commercial projects placed in service anywhere in the world, making it critically important to provide higher 45Q tax credit values to accelerate and expand early carbon capture and direct air capture deployment.

Given the urgency of the climate crisis, the need to safeguard domestic production and jobs as key energy, industrial and manufacturing sectors decarbonize, and the opportunity to maintain U.S. technology leadership in this arena, Congress should increase current 45Q credit values for industrial and power generation projects to $85 per metric ton for CO_2 captured and stored in saline geologic formations and $60 per ton for captured CO_2 stored in oil and gas fields or used to produce low and zero-carbon fuels, chemicals, building materials and other products. For direct air capture projects, credit values should rise to $180 and $130 per ton, respectively.

The above-referenced bipartisan CCUS Tax Credit Amendments Act (S. 986) includes enhanced 45Q credit values for direct air capture projects. However, further bipartisan legislation is needed to augment the value of 45Q for carbon capture and utilization projects in industry and electric power generation, as proposed by the administration.

Make carbon capture and direct air capture projects eligible for tax-exempt private activity bonds

Federal financial incentives beyond the 45Q tax credit often either exclude carbon capture projects or require technical modifications to allow projects to qualify. Expanding the suite of financing mechanisms available to carbon capture, direct air capture and carbon utilization projects will make additional private capital available on more favorable terms, thus increasing future deployment and emissions reduction potential.

Carbon capture and direct air capture projects are currently ineligible for tax-exempt private activity bonds (PABs), a common, well-accepted mechanism for financing large-scale private infrastructure projects that have public benefits, including large-scale air pollution control investments in the 1970s and 1980s at privately-owned power plants. Compared to conventional bank financing, tax-exempt PABs reduce annual debt payments, both by lowering interest rates and extending the repayment period. The Coalition urges Congress to make carbon capture and direct air capture eligible for PABs, which would, in turn, reduce financing costs and encourage the development of more projects.

Expanding eligibility of master limited partnerships to include carbon capture projects

Carbon capture projects, along with other low- and zero-carbon energy projects, are also currently ineligible for master limited partnerships (MLPs), a business structure that allows for raising equity on public markets, while providing the tax benefits of a partnership.

The Coalition urges the Committee to pass the Financing our Energy Future Act (S.1034) introduced by Senators Chris Coons (D-DE) and Jerry Moran (R-KS) in March 2021. This bill would ensure the availability of tax-advantaged MLPs as a tool for financing carbon capture projects, reducing the cost of equity and providing project developers with access to capital on more favorable terms.

Implementing technical fixes to the Section 48A tax credit to enable carbon capture retrofits of existing power plants

Design flaws in the current 48A investment tax credit program have made it impossible for companies to access existing incentives to retrofit currently operating coal-fired power plants with carbon capture technology. Enacting proposed reforms to 48A to modify plant heat rate requirements for compatibility with operating carbon capture equipment and providing for direct pay would unlock approximately $2 billion in currently available funding for retrofits.

The bipartisan CCUS Tax Credit Amendments Act of 2021 (S.986), as mentioned above, would implement these needed technical changes, while also making a direct pay option available for the 48A credit, in addition to the 45Q tax credit. Again, the Coalition urges the Committee to pass this pivotal bill, which enjoys bipartisan support from across the political spectrum in the Senate.

Conclusion

The groundbreaking provisions for deployment of carbon capture, direct air capture, carbon utilization and associated CO_2 transport and storage infrastructure in these bipartisan bills before Congress will help put America's energy, industrial and manufacturing sectors on track to reach net-zero emissions by 2050. Analyses by the Rhodium Group also reveal the potential for creating tens of thousands and hundreds of thousands of jobs and for hundreds of billions in investment from carbon capture and direct air capture deployment, respectively, if these technologies are deployed at levels needed to meet net-zero targets. At the same time, Congress will be ensuring the long-term viability of vital industries that provide millions of existing high-wage jobs, which represent the lifeblood of American workers, their families and communities, and regional economies.

The Carbon Capture Coalition appreciates the support of the Committee in advancing legislation to enable greater deployment of carbon management technologies to meet net-zero emissions reduction goals by midcentury. We look forward to working with the Committee on a bipartisan basis to advance the policy priorities outlined in this statement. Should you have any questions about the legislation or recommendations noted in this statement, please contact Madelyn Morrison, External Affairs Manager, Carbon Capture Coalition at mmorrison@carboncapturecoalition.org.