

## 45Q ‘Menu of Options’ 2025 Budget Reconciliation – Senate Advocacy

### Draft 45Q Scenarios (in order of priority)

The below scenarios represent policies that are in play and have gained traction among Senate Republicans. You will see that the prioritization largely reflects Coalition consensus positions but are also grouped according to what is most likely to gain support. Additionally, we are gathering further information about the impact of the newly instituted Foreign Entity of Concern (FEOC) restrictions on 45Q to inform Coalition strategy on these provisions.

<b>Scenario</b>	<b>Retain IRA enhancements</b>	<b>‘Commence Construction’ Deadline for Transferability</b>	<b>Inflation Adjustment</b>	<b>Credit values</b>	<b>Utilization Parity</b>
1a	Yes	12 years	2023 base index; 2026 begin adjustment	\$120/ton for point-source; \$180/ton for DAC	Yes
1b	Yes	Minimum of 5 years	2023 base index; 2026 begin adjustment	\$120/ton for point-source; \$180/ton for DAC	Yes
2a	Yes	12 years	2021 base index; 2027 begin adjustment	Maintain current statute	Yes
2b	Yes	Minimum of 5 years	2021 base index; 2027 begin adjustment	Maintain current statute	Yes
3a	Yes	12 years	Maintain current statute	Maintain current statute	Yes
3b	Yes	Minimum of 5 years	Maintain current statute	Maintain current statute	Yes
4	Yes	Maintain House-passed	Maintain current statute	Maintain current statute	Yes
5	Yes	Maintain House-passed	Maintain current statute	Maintain current statute	No

- Scenario 1a:** Retain 45Q-specific IRA enhancements, restore ability to utilize transferability for the lifetime of the credit, inflation adjustment (2023 base index year; begin adjusting in 2026), increased credit values for point-source capture projects (\$120/ton), utilization parity (\$85/\$180)

*Note: This is reflective of the Cramer proposal + transferability restoration; also reflective of other priorities discussed among other external stakeholders*

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- **Scenario 1b:** Retain 45Q-specific IRA enhancements, restore additional ‘commence construction’ years to access transferability (no less than five years in total), inflation adjustment (2023 base index year; begin adjusting in 2026), increased credit values for point-source capture projects (\$120/ton), utilization parity (\$85/\$180) *Note: This is a modified version of the Cramer proposal + transferability restoration; also reflective of other priorities discussed among other external stakeholders*
- **Scenario 2a:** Retain 45Q-specific IRA-era enhancements, restore full transferability, inflation adjustment (2021 base index year), utilization parity (\$85/\$180)
- **Scenario 2b:** Retain 45Q-specific IRA-era enhancements, restore additional ‘commence construction’ years to access transferability (no less than five years in total), inflation adjustment (2021 base index year), utilization parity (\$85/\$180)
- **Scenario 3a:** Retain 45Q-specific IRA-era enhancements, restore full transferability, utilization parity (\$85/\$180)
- **Scenario 3b:** Retain 45Q-specific IRA-era enhancements, restore additional ‘commence construction’ years to access transferability (no less than five years in total), utilization parity (\$85/\$180)
- **Scenario 4:** Retain 45Q-specific IRA-era enhancements, utilization parity (\$85/\$180)
- **Scenario 5:** Retain 45Q-specific IRA-era enhancements

### **Suggested Budget Reconciliation Options:**

- Retain key, bipartisan enhancements to 45Q from 2022 budget reconciliation package, including increased credit values, lower capture thresholds, and extended commence construction window
- Restore the ability to utilize transferability beyond the House-passed reconciliation bill, which limits the full election of transferability to those projects that are able to commence construction within two years of enactment of the bill, and instead extend for the lifetime of the credit, as is in current statute, or a separate negotiated duration (no less than five years in total for commence construction deadline)  
*Note: Transferability may be used as a bargaining chip; CCC will need to decide how many years we can ‘live’ with, while still advocating for fully restoring the ability to use the mechanism for the lifetime of the credit*
- Provide an inflation adjustment for 45Q maintaining 2027 as the start date, but depending on negotiations, use a base index year of 2021 to remain consistent with 2021 marker bills for increased credit values, or a base index year of 2023 to remain consistent with the Cramer proposal
- Increase credit values for point-source capture projects to \$120/metric ton, increasing the overall value proposition for point-source capture projects

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- Increase credit values for EOR and non-EOR utilization (\$85 for point-source/\$180 for DAC)  
*Note: While the Coalition is not advocating for increasing credit levels for EOR specifically, this remains a key piece of negotiations for Senate Republicans, specifically*

### Further Context & Rationale

- **Retain key, bipartisan enhancements to 45Q under IRA:**
  - **Political realities:** The House-passed version of the One Big Beautiful Bill Act (H.R.1) largely preserved IRA-era 45Q enhancements with the exception of eliminating the important ability to utilize transferability for the lifetime of the credit. House Republicans largely decimated IRA-era tax credits with the exception of 45Q and 45Z.
  - Based on ongoing conversations with Senate Republican members on key committees of jurisdiction (Finance, ENR, EPW), there seems to be some appetite for enhancements to the 45Q tax credit during Senate negotiations. This effort has been underpinned by Sen. John Barrasso's (R-WY) Enhancing Energy Recovery Act, which would provide parity for both EOR and non-EOR utilization projects with their dedicated storage counterparts.
  - There are currently more than 270 carbon management projects in the project pipeline at various stages of project development and technology readiness.
    - According to Global CCS Institute, of the roughly 270 projects, 13 capture projects reached a final investment decision (FID) between 2022 and 2025. Of these, 2 are already in operation, 7 are expected to begin operation in 2025, 3 in 2026, and 1 in 2029. Absent the widely supported, bipartisan enhancements made to the credit under the Inflation Reduction Act, most, if not all of these projects would be cancelled, along with the associated jobs and economic benefits they carry.
    - It is important to identify the full investment potential the collective announced projects potentially bring to the table to help counter any narrative around a potential repeal or scaling back of the credit.
      - **Since 2016, there have been an estimated \$77.5 billion in capital expenditures invested into announced projects across the development pipeline, which will translate into operating carbon management projects, corresponding jobs, and additional economic benefits.**
- **Restore transferability for 45Q:** The House-passed version of the One Big Beautiful Bill Act (H.R.1) repealed the ability for projects claiming 45Q (among other clean energy tax credits) to utilize the transferability financing mechanism to monetize the tax credit. This has proven to be detrimental to projects that had planned to transfer or sell their credits for cash, rather than enter into costly and inefficient tax equity contracts. Additionally,

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companies may not have the tax appetite to monetize the credits, or utilize the direct pay mechanism.

- **Political realities:** A large contingency of Senate Republicans have publicly and privately voiced their concern regarding the repeal of transferability preventing projects from becoming operational. Furthermore, staff from several Senate Republican offices, including Sens. Barrasso, Hoeven, and Cramer's offices, have voiced specific support for transferability provisions for carbon management projects due to the added financial burden these projects incur from tax equity transactions when compared to other clean energy projects. Sen. Barrasso's staff have asked for Coalition members to make the case for 45Q to have transferability relative to other clean energy tax credits—they have advised us to show the inherent need for carbon management projects to have an alternative financing pathway from tax equity markets which tend to favor other clean energy technologies.
  - Education among offices on transferability is still needed, especially outside of SFC member offices. The vast majority of staff seem to have a difficult time understanding the importance of transferability in bolstering project deployment.
  - Senate Finance Committee staff do not see transferability as carrying a big score.
  - We understand that there have been conversations among the Senate Republican Conference to modify the House-bill to ensure transferability remains a utility for energy projects. Coalition members should ensure that their pitches to Senate Republican offices on 45Q include anecdotes for why transferability is important for project deployment.
- **Adjust 45Q for inflation with a base index year of 2021:**
    - **Political realities:** The Coalition has put in significant work over the past two years socializing our inflation adjustment proposal with Members of Congress. While it has been an uphill battle to see an independent introduction of a marker bill, conversations continue to trend positively with Senate Finance GOP members.
    - Additionally, Sens. Cramer (R-ND) and Hoeven (R-ND) are leading efforts on a 45Q modification proposal that would increase credit values for point-source capture projects, provide parity for utilization projects, and adjust the credit for inflation using a 2023 base index year. The offices continue to work behind the scenes trying to identify and cultivate other champions for this proposal and for broadly expanding the value proposition of 45Q. **Significant advocacy from Coalition members is needed to help propel their efforts forward**
      - Project developers continue to cite inflationary impacts and cost of capital on project deployment and inflationary erosion of the tax credit as a major hurdle to commercialization.
      - In 2025, the current 'real' value of 45Q in 2020 dollars is \$55.42.
      - Inflation adjustment 'lifts all boats', including for EOR/non-EOR utilization.

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- Without an appropriately indexed credit, ‘parity’ is effectively a moot point.
  
- **Increase credit values for point-source capture projects:**
  - **Political realities:** For several months, the Coalition has been working with Sen. Cramer (R-ND) on a proposal that modifies 45Q to include elevated credit levels for point-source capture projects, increasing the credit from \$85 to \$120/ton for all point-source capture projects, no matter the end use.
  - While the House’s version of H.R.1 did not make any enhancements to 45Q, we believe there may be room in a Senate-modified version of the package. Though there may be less appetite among Senate Republicans to increase base credit levels, Sens. Cramer and Hoeven have been weighing in with colleagues on the floor to make their case. Specifically, Sens. Barrasso and Cornyn have expressed interest in discussing further.
  
- **Increase credit values for EOR and non-EOR utilization:**
  - **Political realities:** Sen. John Barrasso is positioning EOR/non-EOR utilization parity as one of his top tax priorities for the upcoming budget reconciliation bill. As Senate Majority Whip, Sen. Barrasso has significant leverage to make a compelling case for his top tax asks. If we are to make headway on priorities to shore up 45Q, we must be ready to act as good partners to Sen. Barrasso and negotiate in good faith to ensure that 45Q remains in the best position possible for all technologies included under the credit program.
    - From what we understand, the EOR ‘parity’ ask is primarily coming from in-state Wyoming producers who must use more than average amounts of CO<sub>2</sub>, relative to other regions of the country, to recover oil from Wyoming oil fields. WY producers have stated \$60/ton is not penciling out for their projects. Attempts to pass a 45Q adder in the state legislature have not progressed.
    - Sen. Barrasso’s Enhancing Energy Recovery Act, the marker bill for creating parity between utilization and storage credit levels, has garnered support from other 45Q champion offices, including Sens. Cassidy (R-LA), Hoeven (R-ND), and Cramer (R-ND), and has gained traction with other offices like Sens. Lankford (R-OK), Justice (R-WV), and Sheehy (R-MT).
    - **It remains clear that if we are to see other 45Q enhancements, EOR and non-EOR utilization parity must be a starting point for negotiations.**
  - The Coalition was instrumental in realizing increased credit values for 45Q across the board in 2022, including values for EOR projects, as was politically feasible at the time. Given the additional cost associated with geologic storage projects, the Coalition also advocated for a delta to remain between the two 45Q pathways.

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- **Make the case that without an appropriately inflation indexed credit, ‘parity’ is a moot point.**
- *Note: While the Coalition is not advocating for increasing credit levels for EOR specifically, this remains a key piece of negotiations for Senate Republicans*

**Ernst & Young Scoring Scenarios (in order of how the model was built; not order of priority)**

*Note: These scoring estimates are based on a CCC/CURC-commissioned analysis*

- 1) Inflation fix with 2021 as the base year: ~\$5 billion
- 2) EOR & non-EOR utilization parity (\$85): ~\$500 million
- 3) EOR & non-EOR utilization parity only (\$85) + inflation fix 2021: ~\$5.6 billion
- 4) Base credit increase for both geologic storage & EOR/utilization (\$100/\$85) + inflation fix 2021: ~\$11.6 billion

*Note: This scoring proposal would maintain a \$25 delta between dedicated storage and utilization, but is not a proposal currently being discussed among Senate Republicans*

- 5) Base credit increase for both geologic storage & EOR/utilization + inflation fix 2023 base year and 2026 begin adjustment: ~\$15.2 billion

*Note: This analysis is based on the Cramer proposal*