

45Q ‘Menu of Options’ 2025 Budget Reconciliation

Suggested Coalition Priority Scenarios (in priority order)

- Scenario 1a: Retain IRA-era enhancements, inflation adjustment (2021 base index year), non-EOR utilization parity (\$85/\$180), 20-year payment window
Note: This is reflective of the 2025 Federal Policy Blueprint priorities
- Scenario 1b: Retain IRA-era enhancements, inflation adjustment (2021 base index year), non-EOR utilization parity (\$85/\$180), storage credit value increase
Note: This is reflective of other priorities being discussed amongst external stakeholders; not an explicit Coalition position
- Scenario 2: Retain IRA-era enhancements, inflation adjustment (2021 base index year), non-EOR utilization parity (\$85/\$180)
- Scenario 3: Retain IRA-era enhancements, inflation adjustment (2021 base index year)
- Scenario 4: Retain IRA-era enhancements

Suggested Budget Reconciliation Options:

- Retain key, bipartisan enhancements to 45Q from 2022 budget reconciliation package, including increased credit values and lower capture thresholds
- Increase credit values for EOR and non-EOR utilization (\$85 for point-source/\$180 for DAC)
*NOTE: The Coalition is **not** advocating for increasing credit levels for EOR, but simply including it here as this is a reality of the negotiations*
- Provide an inflation adjustment for 45Q maintaining 2027 as the start date, but use a base index year of 2021 to remain consistent with 2021 marker bills for increased credit values
- Extend the 45Q claimant window by an additional 8 years; allowing taxpayers to claim the credit for 20 years after placing carbon capture equipment in service

Further Context & Rationale

- **Retain key, bipartisan enhancements to 45Q under IRA:**
 - **Political realities:** House / Senate Republican leaders are currently working to identify massive offsets to their anticipated more than \$4T tax package. House Republicans in particular, have proposed a full repeal of the IRA, including its energy tax title. Though there remain strong supporters of 45Q throughout both the Senate and House Republican conferences, IRA-era enhanced or otherwise created tax credits are under intense scrutiny.
 - There are currently more than 240 carbon management projects in the project pipeline at various stages of project development and technology readiness. 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.

- **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 include 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 CO₂, 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.
- 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.
- **Make the case that without an appropriately inflation indexed credit, ‘parity’ is a moot point.**
- *NOTE: The Coalition is **not** advocating for increasing credit levels for EOR, but simply including it here as this is a reality of the negotiations*

- **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 inflation adjustment 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 SFC and House W&Ms GOP members. However, staff continue to harp on the importance of ‘protecting what we have’, as Republicans continue to look for offsets for their main TCJA priorities, and other cost saving measures, tampering expectations of realizing additional policy sweeteners to 45Q.
- 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.

INTERNAL DRAFT – DO NOT SHARE

- 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.
 - Without an appropriately indexed credit, ‘parity’ is a moot point.
- **Extend the 45Q claimant window to 20-years:**
 - **Political realities:** There is no precedence in tax law for a 20-year payment window. Republicans continue to ask “when will these technologies not need a tax credit to survive”. ie asking for a 20-year payment window solidifies even for our Republican champions the challenges and limitations tax policy poses for energy and climate technology deployment. Additionally, attempting to score this within the ten-year budget window will be exceptionally difficult to score, weakening our position and bargaining power.
 - The current 12-year claimant window is misaligned with both the project development cycle and long project lifetimes.
 - In the past, the Coalition prioritized direct pay because of this mismatch (over credit increase or extension of payment window).
 - Absent additional policy support or incentives, this misalignment creates significant financial challenges for project developers who must recover capital costs of the project and capital borrowing expenses within the limited 12-year 45Q window.
 - It is clear that the current structure of direct pay available for for-profit companies is less valuable than we had anticipated and thus has not solved this challenge. The extension of the payment window could be a valuable policy to counteract that shortfall.
 - The need to plan project financials in accordance with having a funding window that does not align with a projects useful life reduces the opportunities for economies of scale to develop for Nth of a Kind projects.
 - While the 12 years may provide enough additional funding for a developer’s first project, the technology development window is not long enough to guarantee that projects developed at a later time can benefit from reduced costs associated with improved and more economical production practices.

Ernst & Young Scoring Scenarios (in no particular order) – These are NOT final

- 1) Inflation fix with 2021 as the base year
- 2) EOR & non-EOR utilization parity (\$85)
- 3) Base credit increase for both geologic storage & EOR/utilization (\$100/\$85) + inflation fix 2021

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Note: There is discussion about adding a scenario that preserves a \$25 delta between storage/EOR

- 4) EOR & non-EOR utilization parity only (\$85) + inflation fix 2021
- 5) Inflation fix 2021+ 20-years duration