45Q Credit Reduction Provision Talking Points

Issue: *The latest iteration of the Senate Finance Committee's Clean Energy for America Act (CEAA) (S.2118) includes a provision that would dramatically reduce the combined value of current and proposed 45Q enhancement when coupled with RD&D investments in the Senate-passed Infrastructure Investment and Jobs Act (H.R.3684).* ***Any carbon management project that accepts federal, state, or local policy support outside of the 45Q tax credit would see the value of 45Q credits shrink by the lesser of two numbers: 50 percent or a fraction defined as the sum of all federal, state, and local benefits the project receives divided by the project's capital cost.***

What this provision does:

- **Simply put, this credit reduction provision devalues the 45Q tax credit. The current version of the Clean Energy for America Act (S. 2118) would, for the first time, reduce the value of 45Q based on the level of other federal, state, and local support.**
    - This clause would preclude carbon management projects—carbon capture, direct air capture and carbon utilization—from taking advantage of grants (i.e. demonstration and FEED study support provided through the DOE) and other public finance incentives (i.e. federal loan guarantees), due to a new provision under which 45Q credits would be reduced based on the amount of any grants or public finance received.
    - 45Q does not currently have a credit reduction clause or reduction of benefit language—this would be a change to current statute.
- **The penalty on 45Q is so large that projects could not accept outside support of any kind. In the worst-case scenario, every dollar of support outside of 45Q would cost a project about $1.46 in 45Q support, according to analysis conducted by the Clean Air Task Force (CATF).**

Implications of the provision:

- **This new policy would threaten new and in-progress carbon capture, direct air capture and carbon utilization technologies and delay CO_2 reductions in hard-to-decarbonize industrial sectors like cement, steel, and refineries. These projects would not have enough support to be economically viable.**
- **Combining grants with 45Q is key for first-of-a-kind demonstrations on hard-to-decarbonize emissions sources and for direct air capture.**
    - This will make carbon management projects on cement, steel, natural gas power, and direct air capture much more difficult, **if not impossible, to pursue**, since the 45Q credit alone is not sufficient for these sources despite the importance of these projects for decarbonization.
- **The credit reduction provision decreases the intended value of Congressional authorizations and appropriations, resulting in less support for carbon capture projects than intended by Congress.**
    - Ultimately, this means that the demonstration program authorized by the Energy Act of 2020 and funding for carbon capture demonstrations and DAC Hubs included the bipartisan Infrastructure Investment and Jobs Act (IIJA) will not be effective and will have no incremental benefit, since their value will be deducted from 45Q, effectively depriving DOE of the tool of grantmaking to help foster deployment.
- **DOE grants would be worth so little that the agency would effectively lose the tool of grant-making to promote carbon capture, direct air capture, and carbon utilization projects.**
    - DOE uses targeted grants to support projects that need assistance beyond 45Q. DOE does not wastefully use this authority. Removing this tool from DOE threatens the viability of future carbon management projects.
- **Reduces the Biden Administration and DOE's ability to optimize environmental, equity and other benefits to affected communities.**
    - 45Q does not include statutory provisions addressing specific benefits to affected communities. Thus, the Administration's commitment to ensure that 40 percent of federal resources for clean energy and industrial demonstration projects will benefit communities will be accomplished significantly in the context of awarding DOE cost-share grants for technology demonstration.

    - By deterring any project developer from accepting federal project support beyond claiming the 45Q tax credit, **the credit reduction provision in the CEAA effectively deprives the Administration of one of its most important tools for advancing environmental justice priorities in the development, construction, and performance of carbon capture, direct air capture, and carbon utilization technology demonstration projects.**

__**Why does this matter:**__

- **Federal law has always allowed carbon capture and utilization projects to claim the full value of 45Q tax credits and receive support grants and other tax credits.**
- **Carbon capture is qualitatively different from the other industries that are subject to the limitation. While the renewable PTC has an existing credit reduction provision, carbon capture projects claiming 45Q are a much different case.**
    - 45Q is the **ONLY** revenue stream through which carbon capture projects benefit, while revenue-generating industries like renewable projects benefit from electricity and REC sales that are not federal incentives and thus do not have the result of reducing the value of the PTC.
    - These technologies are also more commercially mature; a very different situation than the first-of-a-kind commercial-scale carbon capture, direct air capture and carbon utilization projects that need additional grant support with 45Q to be viable.
    - **Hence, this provision would make it more likely that projects will need to sell CO_2 to EOR, since EOR provides cash revenue not affected by the proposed credit reduction provision**, undermining what the SCALE Act is trying to be achieved through providing funds for saline geologic storage commercialization.
    - **This risks reversing the dominant present commercial trend toward saline storage in favor of EOR storage.** Currently, a majority of all announced carbon management projects being developed in response to 45Q plan to store their CO_2 in saline geologic formations, rather than EOR storage.
- **Striking the credit reduction provision will enable DOE to fund more demonstration projects driving greater emissions reductions, since they only need to cost-share the difference between the value of 45Q and the project's total cost to make projects economically viable.**
    - Relatedly, since DOE will decide the grant amount for each demonstration project based on what is needed to make it financially viable, there is little risk of windfalls/overcompensation of project developers.