



# CARBON CAPTURE COALITION

## 2025 Federal Policy Blueprint Ensuring Investment Certainty Work Group Meeting #1 July 18, 2024

### Summary

On Thursday, July 18, the Coalition's Ensuring Investment Certainty Work Group met for its first meeting of the 2025 Policy Blueprint drafting process. The meeting reviewed the broader clean energy tax credit landscape, existing Coalition policy positions related to 45Q including inflation adjustment and the CCU Parity Act. Discussion topics included the ongoing struggles with the LCA process for carbon utilization, the inadequacy of the current \$85 credit value, and the need for diversified policy solutions beyond 45Q.

A presentation by Jeff Brown of the Energy Futures Finance Forum underscored inefficiencies in the current tax credit system, including challenges with direct pay and transferability, and the imbalance between credit supply and demand. The discussion also touched on potential new structures and business models, emphasizing the importance of both identifying viable tweaks to 45Q to enhance its effectiveness and thinking beyond tax policies for effective policy drivers. Next steps involve refining group policy priorities and distributing meeting notes.

### Key Next Steps

- **Policy Options Proposal:** Provide Coalition staff with your top 3 to 5 tax policy priorities by COB August 8.
- **Outline Preparation:** Staff will compile the proposed options into an outline for broader group consideration.

### Meeting Notes

- Opening
  - The Coalition has been working on 45Q since 2011 and we have been highly engaged in both the legislative and regulatory process.
  - Save-the-date: In person Blueprint Work Group meeting October 7, in Washington, DC.
- Overview of existing policy positions

- Adjusting 45Q for inflation immediately (current statute does not begin adjusting until 2027)
- [CCU Parity Act](#)
  - Supports carbon utilization technologies that reuse captured carbon in the manufacturing of low- and zero-carbon products that are not yet cost competitive with other incumbent, well-established products and processes
  - Provides the following credit levels—in line with those provided for geologic sequestration— under the 45Q tax credit:
    - \$85 per metric ton for the reuse of captured emissions from industrial and power generation facilities; and
    - \$180 per metric ton for the reuse of captured emissions from direct air capture projects
- Challenges with LCA process
  - Many Coalition recommendations on direct pay and transferability not reflected in IRS final guidance
- Looking to 2025
  - Intend to continue work on these priorities in the next Congress
  - Tax vehicle with TCJA expiration coming up in 2025
    - Need to be thoughtful where we throw our weight here since will be lots of competition to get things in that package
  - Discussion:
    - \$85 is insufficient to make these Nth of-a-kind projects pencil out; at the same time, it will be difficult to make the case, politically, for increased credit values for 45Q.
    - Have heard repeatedly from congressional offices about importance of diversifying portfolio of policies these projects count on; need new and creative ways to drive deployment outside of 45Q

### **Post IRA tax updates and 45Q – presentation by Jeff Brown**

**Executive summary:** Tax credits are an inefficient, unreliable means to incentivize clean energy technology. This is because there are very few investors who have actual use for tax credits – the corporate sector is an unimportant source of tax revenue for the US Treasury. Also, lots of other tax credits are already eating into tax liability of companies, lowering their willingness to pay on additional credits. While the Inflation Reduction Act (IRA) made some helpful changes (most notably direct pay and transferability), the total volume of credits has also skyrocketed due to IRA. The supply

of clean energy credits, especially for CCUS technologies, will continue to outstrip demand.

**Presentation Notes:**

45Q is harder to use than other PTCs. This is because of several factors; Most CCUS projects are still first or second-of-a-kind, have excessive dependence on tax credits, and, unlike some clean energy technologies, have few or no other revenue streams. Additionally, the viability of 45Q is impacted by potential changes to laws outside tax policy, including environmental compliance.

The Inflation Reduction Act created several new tax credits and enhanced a number of tax credits. It also attempted to remedy the lack of investors who can use tax credits by allowing them to be sold to an external investor. However, IRS guidance limits the impact of transferability as you can only transfer credits once, and it is difficult to get money up-front because credit buyers are prohibited from paying in advance. Additionally, credit claw back measures outlined in guidance, including the fact that buyers of tax credits (not sellers) are liable for issues with the project (including CO<sub>2</sub> leakages or lapse in MRV) serve to reduce investor interest in 45Q.

**Presentation Discussion:**

Comment: I don't think anyone thought \$85/ton was enough for even 4<sup>th</sup> or 5<sup>th</sup> of a kind projects, priorities should be mechanisms to fund first to 5<sup>th</sup> of a kind, including projects in industrial sectors.

Comment: From what you just presented would be helpful if we could pull out the helpful 4 or 5 things, tweaks to 45Q that would make it automatically more usable. Would we be in the same boat then with some of the other credits and could we build a bigger Coalition with other parts of clean energy space on this.

- A: An option to do Investment tax credit instead of production tax credit could be really good tweak. Not quite as much exposure in future. Could also make these credits open to individuals to expand market of investors.

Question: is there any value in extending payment window from 12 to 20 years?

- A: Yes, with how finance world works they operate on 20-year periods, would clean up backend. Most of these projects have positive operating costs so assumption that plant will be turned off at 12 years once tax credit dries up. Would allow these projects to survive longer. In past the Coalition has prioritized direct pay over this.

Question: We have direct pay now, are there things that would be helpful with direct pay that would be helpful for carbon management but also cross cutting with other industries

- A: It wasn't carbon capture industry that led charge for direct pay, it was renewable industry (who ironically were cut out of deal). 5-year aspect was never part of original proposals, randomly how it came in. Oversupply of these credits, any developer in market can't do tax equity deal 8 years in advance. Telling investors that after 3 years of construction, 5 years of capture, and then unclear how to make money after that point.
- C: Can't just think about offense, need to also think about defense. Depending on political environment, could be in a fight to keep direct pay let alone extend it.
- C: 12-to-20-year change would also lower the pressure on payback, cost per year of projects since more time to pay back investors.
- Next steps
  - Please list/propose top 3 to 5 policy priorities relating to tax policy back to Coalition staff.
    - Staff will then collect options for this group to broadly consider.