



MRCI Fall 2022 Partner and Stakeholder Meeting

Washington DC Update

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Summary of Section 45Q Tax Credit and IRA Amendments

- Functions like a production tax credit, with a \$/ton value for CO₂ or CO_x captured and stored – *creates certainty for financial investment*
- Makes credit available to projects that begin construction through **December 31, 2032** - *provides certainty for financial investment*
- Credit claiming period = 12 years

Summary of Section 45Q Tax Credit and IRA Amendments

- Modifies CO₂ Capture thresholds for eligibility criteria (for projects that begin construction after August 16, 2022):
 - For EGUs – 18,750 tons per year and capture capacity of at least 75% for applicable unit
 - For other industrial emitters – 12,500 tons per year
 - For Direct Air Capture Facilities – 1,000 tons per year

Summary of Section 45Q Tax Credit and IRA Amendments

- 45Q Credit Values (based on use of captured CO₂):
 - Enhanced Oil Recovery (EOR) and Utilization
 - Industrial Facilities or EGUs
 - \$35 per ton for projects placed in service after 3/9/2018 and before 1/1/2023
 - \$60 per ton for projects placed in service after 12/31/2022 (Bonus Amount)
 - \$12 per ton for projects placed in service after 12/31/2022 (Base Amount)
 - Direct Air Capture
 - \$35 per ton for projects placed in service after 3/9/2018 and before 1/1/2023
 - \$130 per ton for projects placed in service after 12/31/2022 (Bonus Amount)
 - \$26 per ton for projects placed in service after 12/31/2022 (Base Amount)

Summary of Section 45Q Tax Credit and IRA Amendments

- 45Q Credit Values (Cont.):
 - Geologic Storage
 - Industrial Facilities or EGUs
 - \$50 per ton for projects placed in service after 3/9/2018 and before 1/1/2023
 - \$85 per ton for projects placed in service after 12/31/2022 (Bonus Amount)
 - \$17 per ton for projects placed in service after 12/31/2022 (Base Amount)
 - Direct Air Capture
 - \$50 per ton for projects placed in service after 3/9/2018 and before 1/1/2023
 - \$180 per ton for projects placed in service after 12/31/2022 (Bonus Amount)
 - \$36 per ton for projects placed in service after 12/31/2022 (Base Amount)

Summary of Section 45Q Tax Credit and IRA Amendments

- 45Q Credit Values (Cont.):
 - Labor Requirements – Projects that meet these requirements qualify for Bonus Amount
 - Prevailing Wage – must pay the prevailing wage established by the Department of Labor for the geographic area in which the project resides during construction and for repairs and maintenance during credit window
 - Apprenticeship – a certain percentage of labor hours during construction of the project must come from apprentices.
 - IRS Guidance will be necessary to implement these rules and requirements are effective for projects that begin construction after the 60th day after the regulations are issued
- Taxpayer receiving the credit is the owner of the capture equipment

Monetization of the 45Q Tax Credits

- Many owners of energy development projects do not have tax liability to monetize the tax credits and need to enter into tax equity partnerships to create a revenue stream to the owner of the credit in return for tax equity investment in the partnership
- Tax equity investors typically take on a significant portion of the tax credit value in return for equity investment
- New election for direct pay mechanism will enhance monetization of the 45Q tax credits for CCUS project developers by allowing project owners to receive a cash payment from the Treasury instead of using tax equity investors

Summary of Section 45Q Tax Credit and IRA Amendments

- Direct Pay/Transferability
 - Elective Payment (Direct Pay) – Taxpayer may elect to have credit value treated as if the taxpayer made an estimated tax payment equal to value of credit and will receive a tax refund equal to credit value, if no other tax liability
 - Projects placed in service before January 1, 2023 – No benefit
 - Projects placed in service after December 31, 2022 – Eligible for election
 - Applicable Entities – Election may be made for each of the 12 years
 - an organization exempt from federal income tax
 - a State or political subdivision thereof
 - the Tennessee Valley Authority
 - an Indian tribal government
 - an Alaska Native Corporation
 - Other Entities –
 - Election may be made in the year project is placed in service
 - Direct pay only available in the first five years of 12-year credit window

Summary of Section 45Q Tax Credit and IRA Amendments

■ Direct Pay/Transferability

- Current Law Transferability – Owner can transfer credit to party sequestering/utilizing CO2
- IRA Transferability
 - Available to any entity not eligible for Direct Pay Election
 - CCUS project developers eligible for transferability in last 7 years of credit window
 - Project placed in service after December 31, 2022 – Credits can be transferred (sold) to any third-party for cash payment
 - Cash Payment is not taxable income to the owner of the capture equipment

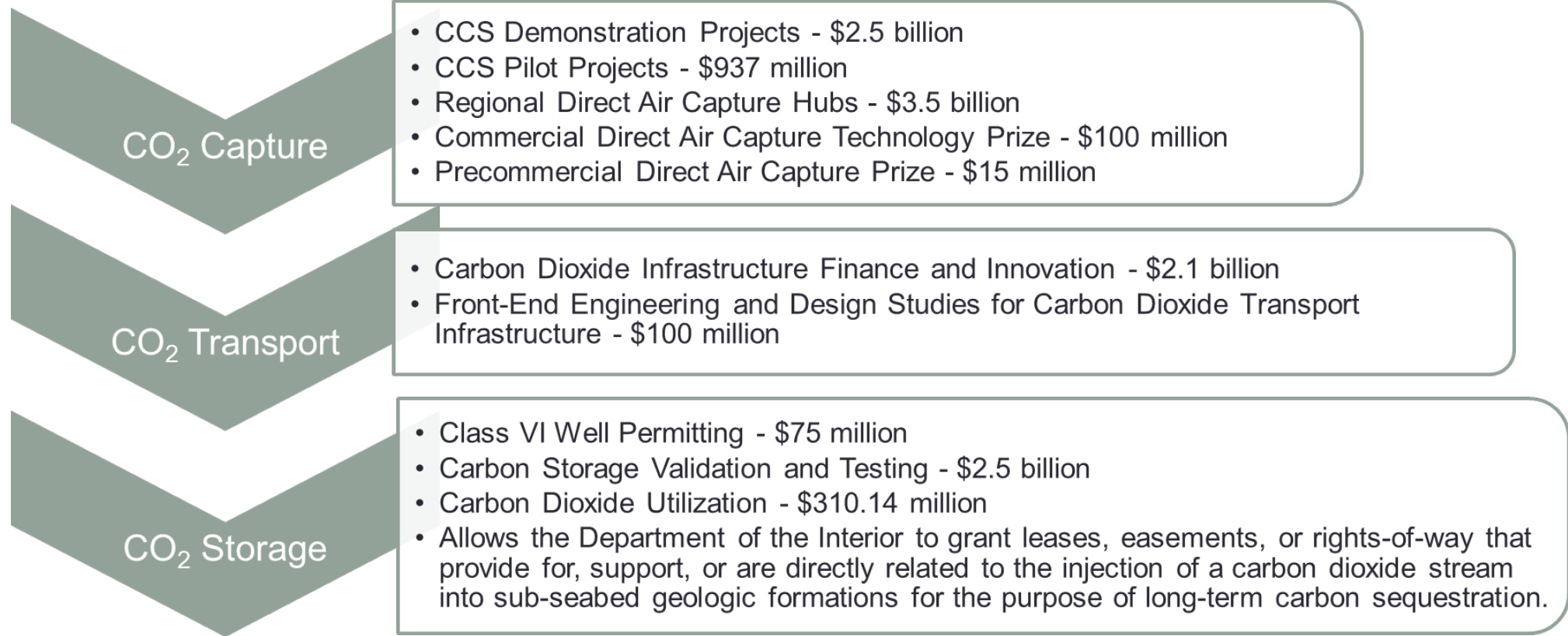
Recapture of Previously Taken Credits

- Definition of recapture event
 - Qualified Carbon Oxide (QCO) on which a 45Q credit was claimed ceases to be captured, disposed of, or used as a tertiary injectant
- Recapture Period
 - Maximum of fifteen years
 - Three-year recapture look back period
- Last-in-first-out accounting for recapture
- Impact of multiple sources of qualified carbon oxide and disposal sites
- Provides a limited exception from recapture
- Examples of recapture scenarios

IRA – Federal Funding for CCUS

- Provided DOE’s Loan Program Office with \$40 billion in loan authority available through 2026 for energy projects that utilize innovative technology to reduce, avoid or sequester greenhouse gas emissions (known as Title 17).
- Established a new loan guarantee program area focused on the reutilization of energy infrastructure called the “Energy Infrastructure Reinvestment Financing program” to make up to \$250 billion in loan guarantees for projects that:
 - Retool, repower, repurpose or replace energy infrastructure that has ceased operation (including environmental remediation and carbon management on fossil fuel projects)
 - Enable operating energy infrastructure to avoid, reduce, utilize or sequester greenhouse gas emissions.

IIJA CCUS Funding = \$12 billion



Recent DOE Funding Opportunity Announcements (FOA)

- **Carbon Capture Demonstration Projects Program Front-End Engineering Design Studies for Integrated Carbon Capture, Transport, and Storage Systems (DE-FOA-0002738)**

This BIL FOA will provide funding for up to twenty (20) Front End Engineering Design (FEED) studies for integrated Carbon Capture and Storage (CCS), submission of permit applications, (i.e., underground injection control (UIC) Class VI permit to construct, if necessary) preparation of an Environment Information Volume and the initial Community Benefits Plan (CBP) work and analysis, which will address the first phase of an integrated CCS demonstration project. The closing date for this FOA is December 5, 2022.

Recent DOE Funding Opportunity Announcements (FOA)

- **Carbon Capture Technology Program, Front-End Engineering and Design for Carbon Dioxide (CO₂) Transport (DE-FOA-0002730)**

This FOA will fund Front-End Engineering and Design (FEED) studies that support and accelerate the planning for CO₂ transport by a variety of modes. Due to the immediate need for CO₂ transport servicing multiple points of capture and one or more points of storage, the first round of solicited applications will prioritize CO₂ pipeline projects with two or more carbon capture sources connected to one or more secure geologic storage locations and/or to one or more CO₂ conversion locations. The CO₂ must be derived only from anthropogenic sources which could include CO₂ derived by direct capture from ambient air and must be delivered to CO₂ conversion sites or secure geologic storage facilities. The closing date for this FOA is November 28, 2022.

Recent DOE Funding Opportunity Announcements (FOA)

- **Storage Validation and Testing (Section 40305): Carbon Storage Assurance Facility Enterprise (CarbonSAFE): Phases III, III.5, and IV (DE-FOA-00002711)**

This FOA will accelerate the development of new or expanded commercial-scale geologic carbon storage projects and associated carbon dioxide transport infrastructure, through a focus on detailed site characterization, permitting, and construction stages of project development. The closing date for this FOA is November 28, 2022.

Recent DOE Funding Opportunity Announcements (FOA)

- **Regional Clean Hydrogen Hubs Funding Opportunity Announcement (DE-FOA-0002779)**

This FOA will provide \$6-7 billion in federal funding for the formation of 6-10 regional clean hydrogen hubs. In the FOA, DOE has defined a 4-phase structure for hydrogen hubs: Phase 1 will encompass initial planning and analysis activities to ensure that the overall H2Hub concept is technologically and financially viable, with input from relevant local stakeholders. Phase 2 will finalize engineering designs and business development, site access, labor agreements, permitting, offtake agreements, and community engagement activities necessary to begin installation, integration, and construction activities in Phase 3. Phase 4 will ramp-up the H2Hub to full operations including data collection to analyze the H2Hub's operations, performance, and financial viability.

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