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CCUS – 2020 and Beyond

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We Need CCUS

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Imperatives and Incentives

- Climate action has public support
- ESG investing is on the rise
- Corporate climate pledges are increasing
- Industrial processes need fossil fuels = CO2 output
- The 45Q tax credit is in place and drives interest

Question

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What's more important to CCUS:

the virus or the election?

Answer: The Section 45Q tax credit

Section 45Q Basics

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- Tax credit for secure storage of carbon oxide by disposal, use, or utilization
- 12-year credit
- $35/ton for use (CO2-EOR) or utilization (e.g., chemical conversion, algae)
- $50/ton for disposal
- Carbon capture equipment must be under construction before January 1, 2024
- Credit applicable to the owner of the capture equipment; transferrable to the disposer

Section 45Q Status

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- **Guidance issued on February 20:**
  - What constitutes "under construction"
  - Safe harbor structure for tax equity partnerships
- **Proposed rules issued on May 28; comment period closed on August 3; among key issues:**
  - Carbon capture equipment
  - Secure geological storage
  - Credit transfer
  - Lifecycle analysis
  - Recapture
- **Legislative efforts**
  - Extension of "under construction" deadline
  - H.R. 7896 (Fletcher, Bergman) - "Direct pay" for CCUS – 90% of tax credit value

Section 45Q - Legislation

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- **CCUS has broad bipartisan support on Capitol Hill**
- **CCUS has broad support from industry and environmental advocacy groups**
- **CCUS is critical to meet GHG reduction targets**

<u>Opinion</u>

CCUS is strongest on its own legislative path

EOR or Dedicated Storage?

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EOR

Positives

- Well-understood risk profile
- Long experience with regulators and regulatory structure
- Fewer landowners

Challenges

- Economic turmoil
- Lower credit under Section 45Q
- Some uncertainty on 45Q qualification

Dedicated Storage

Positives

- Lower project interrelationships risk
- Higher tax credit
- Clear qualification criteria for 45Q credit

Challenges

- Less experience with geological formations, less risk certainty
- Relatively high regulatory burden, little regulatory experience, slow permitting
- Larger project footprint

What Policy Changes Are Needed for Dedicated Storage?

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- Class VI UIC Program Reform – NPC Study Recommendations
  - Risk-based structure for the UIC program
    - Current program prohibits movement of contaminants into USDWs, irrespective of risks to human health; "endangerment" should be risk-based
  - Monitoring flexibility
    - Appropriate indirect monitoring should be able to substitute for monitoring wells
  - Financial responsibility
    - Conservative remediation cost estimates drive unnecessarily expensive financial responsibility
  - Post-injection site care period
  - Area of review
    - Bifurcate to have separate standards for CO_2 plume and pressure plume
  - Class VI program funding
  - Aquifer exemptions
    - Apply the UIC two-part test to Class VI (no potential for USDW use as drinking water)

What Policy Changes Are Needed for Dedicated Storage?

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- Class VI UIC Program Reform – NPC Study Recommendations (cont'd)
  - State Primacy for Class VI Program
    - North Dakota – complete; Wyoming – comment period closed; Louisiana – pre-application
    - Note: Michigan seeking primacy for Class II (oil and gas wells)
  - Other
    - Well construction standards
    - Reactivate Class V for GS research-scale projects
    - Set goal for timeliness of permit issuance
    - Undertake the promised periodic review of the Class VI program
- Property rights
  - Access to pore space
  - Maintenance of surface rights for PISC period

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Thank you

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