April 15th, 2013

The Honorable Kevin Brady
United States House of Representatives
301 Cannon Office Building
Washington, DC 20515

The Honorable Mike Thompson
United States House of Representatives
231 Cannon Office Building
Washington, DC 20515

Dear Representatives Brady and Thompson:

We are writing to submit, on behalf of the National Enhanced Oil Recovery Initiative (NEORI), a proposal for advancing carbon dioxide enhanced oil recovery (CO_2-EOR) to the Energy Tax Reform Working Group of the House Ways & Means Committee as it considers measures to reform the tax code.

NEORI is a broad and diverse coalition of executives from industry; state officials, legislators and regulators; and environmental and labor representatives, who recognize the potential of CO_2-EOR to increase U.S. domestic oil production, enhance domestic energy security, advance carbon capture and storage (CCS) technology, and reduce carbon dioxide (CO_2) emissions from power plants and industrial facilities (see NEORI participant list - http://neori.org/about/participants/).

A decades-old, proven commercial practice, CO_2-EOR involves injecting CO_2 into already developed oil fields to coax additional production. CO_2-EOR currently accounts for 6 percent of annual U.S. oil production using mostly naturally-occurring CO_2, yet the industry could grow significantly if more CO_2 can be captured and supplied from man-made sources, such as power plants and industrial facilities.

In early 2012, NEORI released consensus recommendations for advancing CO_2-EOR in the United States at a Capitol Hill event, which drew bipartisan interest and statements of support from Senators Max Baucus, John Hoeven, Richard Lugar, and Kent Conrad, and Congressmen Michael Conaway and Rick Berg. In September 2012, the bipartisan team of Senators Conrad, Michael Enzi, and Jay Rockefeller introduced legislation (S. 3581) that adopted NEORI's recommendations for reforming the existing Internal Revenue Code's Section 45Q Tax Credit for Carbon Dioxide Sequestration. The proposal submitted here goes beyond that legislation and draws from NEORI's recommendations to expand as well as reform the existing Section 45Q tax credit.

Treatment by the current tax code: Section 45Q of the existing tax code offers tax credits for capturing CO_2 and sequestering it in geologic formations, including through CO_2-EOR. Unfortunately, for reasons due to both the code and its implementation, Section 45Q has not led to the wide scale deployment of CO_2 capture for use in enhanced oil recovery.

- The existing Section 45Q is authorized to provide tax credits for 75 million tons of CO_2, an insignificant amount when compared to the demand for billions of tons of man-made CO_2 for use in enhanced oil recovery. Furthermore, Section 45Q's current $10 tax credit per ton of CO_2 used in EOR is insufficient to cover the cost gap between what EOR operators are willing to pay for CO_2 and the cost to capture and transport CO_2 from power plants and industrial sources. Finally, the existing Section 45Q lacks sufficient transparency that would enable CO_2 capture

project developers to obtain private sector investment for their projects. Under NEORI's proposed reform, *Section 45Q will provide sufficient tax credits to capture nearly 4 billion of tons of CO_2 from man-made sources that will be used to produce 9 billion barrels of oil. A reformed Section 45Q will also bridge the cost gap and increase the certainty of obtaining the tax credits necessary for developers to secure investment.*

Why reforming Section 45Q will be pro-growth: A reform of Section 45Q will ultimately increase U.S. oil production by billions of barrels, offering the opportunity to increase domestic energy production and displace oil imports. Nearly half of U.S. states have the opportunity to produce oil via CO_2-EOR, while virtually any state can play a role in the CO_2-EOR supply chain.

- According to the National Energy Technology Laboratory, between 27 and 67 billion barrels of oil could be economically-recovered using CO_2-EOR, doubling or tripling the size of current U.S. proven oil reserves. Nine U.S. states had existing CO_2-EOR operations as of 2010, while at least 23 states have CO_2-EOR potential. In addition, virtually any state could contribute to the supply chain for CO_2-EOR - building and operating CO_2 capture systems at power plants and other industrial facilities, selling CO_2 to EOR operators, constructing new pipeline networks to transport CO_2, and retrofitting and giving new life to already developed oil fields. NEORI's proposal to reform Section 45Q will enable numerous CO_2 capture projects to move forward to commercial operation in the near term and supply the necessary CO_2 to realize this potential.

How a reform of Section 45Q will reduce the deficit: By increasing U.S. oil production, a reform of Section 45Q will generate federal revenues that will cover the cost of the program and become revenue-positive within a ten-year window.

- By increasing U.S. oil production, a reform of Section 45Q will generate increased federal revenue from three main sources: (1) corporate income taxes, (2) individual income taxes on royalties from CO_2-EOR production on private land, and (3) royalties from CO_2-EOR production on federal land. NEORI's analysis indicates that incremental CO_2-EOR production will more than pay for the cost of the tax credits offered under the proposed reform within a ten-year timeframe.

Please find NEORI's recommendations and analysis included with this submission. If you have any questions or require additional information, please have your staff contact Judi Greenwald of the Center for Climate and Energy Solutions [redacted] or Brad Crabtree of the Great Plains Institute [redacted]

Signed,

Judi Greenwald
Vice President, Technology and Innovation
Center for Climate and Energy Solutions

Brad Crabtree
Policy Director
Great Plains Institute