



April 15, 2013

The Honorable Kevin Brady  
Chairman  
Energy Tax Reform Working Group  
Committee on Ways and Means  
U.S. House of Representatives  
301 Cannon House Office Building  
Washington, DC 20515

The Honorable Mike Thompson  
Vice-Chairman  
Energy Tax Reform Working Group  
Committee on Ways and Means  
U.S. House of Representatives  
231 Cannon House Office Building  
Washington, DC 20515

Dear Congressman Brady and Congressman Thompson:

Siluria Technologies, Inc. (“Siluria”) is pleased to submit comments to the House Ways and Means Committee Energy Tax Reform Working Group. We believe that tax reform provides an important opportunity to improve the energy tax system by (1) embracing more technology-neutral, performance-based eligibility criteria and moving away from technology-specific incentives or, alternatively, (2) adding appropriate new technologies to existing tax incentives.

### **An Introduction to Siluria**

Siluria is a fuels and chemicals company based in California that is developing an advanced process to convert natural gas into liquid transportation fuel. Siluria has two pilot facilities operating since early 2012 and is in the process of constructing a demonstration facility that will be operational in late 2014. Our company is backed by a syndicate of leading private equity and venture investors.

### **Natural Gas and Siluria’s Technology**

Siluria’s technology could help America capitalize more fully on its domestic natural gas supply, which has experienced a renaissance in the past decade. Natural gas is less expensive and more widely available around the world than crude oil. It is also inherently cleaner and more environmentally friendly. Despite these advantages, natural gas is not commonly refined into the myriad products produced from crude oil (e.g., fuels, building materials, plastics, and electronics) because methane—the principal component of natural gas—is a very stable



molecule. So today, most natural gas is consumed to produce heat. As a result, our current consumption patterns fail to maximize the full economic and environmental potential of natural gas.

Siluria intends to change this picture. Our innovative process uses breakthrough catalysts to chemically transform methane into an ingredient for making liquid fuels, chemicals, and plastics in an efficient, cost-effective, scalable manner.

At the core of Siluria's technology is a unique catalyst that enables a chemical process called the Oxidative Coupling of Methane ("OCM"). This process converts methane into ethylene, the world's most common and versatile chemical intermediate. Siluria then combines these ethylene molecules, like beads on a string, to produce long-chain hydrocarbons that form liquid fuels such as gasoline, diesel, or jet fuel. The resulting fuel products are chemically indistinguishable from petroleum-derived fuels and are fully compatible with today's existing infrastructure and vehicles.

Widespread use of OCM-derived fuels could have significant benefits for the country. First, it would enhance U.S. energy security by helping the country capitalize on its vast domestic resources and reduce America's reliance on foreign oil. Second, the efficiency of Siluria's process, combined with the abundance of low-cost domestic natural gas, could result in lower fuel prices to consumers. Third, the adoption of OCM could create thousands of new jobs in the natural gas and chemical industries and strengthen the U.S. economy. Fourth, the efficiency of OCM may enable small-scale fuel plants in diverse locations throughout the United States. Fifth, the OCM process should allow lower emissions than traditional industry processes. Importantly, this transition would not require the replacement or alteration of our existing energy infrastructure.

### **The Opportunity of Tax Reform**

For the last century, the federal government has used tax policy to effectively support the adoption of energy technologies. Beginning with fossil fuel incentives in the early 1900s and continuing through renewable energy incentives in the 1970s until today, Congress has used the Tax Code to drive the energy industry and develop America's domestic energy supply. Today, the development of new technologies that produce affordable, American-made energy is essential to enhance our energy independence and secure our leading place in energy innovation.

The Tax Code has been an effective tool for developing the energy industry because it can provide the certainty and stability necessary to encourage private capital investment. Additionally, the self-executing nature of the Tax Code depends less on administrative discretion than other types of federal programs. However, the existing system of energy tax incentives relies heavily on technology-specific eligibility criteria that fail to anticipate and include the next generation of energy technologies. This drives private capital away from emerging technologies and towards mature industries that have already reached commercialization.



For example, despite the clear public policy benefits of adopting OCM, Siluria's technology does not qualify for any existing energy tax incentives. This situation is not the result of a conscious decision by Congress to exclude OCM; rather, it is simply because OCM technology has never before been commercialized in this manner. Regardless of the origin of the problem, the result is that the current Tax Code puts OCM at a competitive disadvantage to technologies that have existed for years and have reached maturity.

Tax reform provides a significant opportunity to improve the energy tax system. We believe that Congress should use this opportunity to adopt technology-neutral, performance-based eligibility criteria for energy tax incentives. These criteria could focus on whether a particular fuel meets America's energy policy goals. For example, the criteria could determine whether a fuel would be more affordable than conventional fuel, bring us closer to energy independence, or have environmental benefits over conventional fuel.

We understand the difficult choices that Congress will make in reforming the energy tax system. Recognizing the complexity of this task, we believe that Congress should, at a minimum, add appropriate new technologies to the current system of energy tax incentives so that innovative American companies are not at a competitive disadvantage compared to older, more mature energy industries.

Siluria's technology could play an important role in reshaping America's energy future by helping our country maximize the beneficial impact of its natural gas supply. A transition to OCM-based fuel could enhance our energy security, create thousands of jobs, and lower fuel prices—all without requiring entirely new industrial infrastructure or vehicles. Siluria commends the Committee for its work in reforming the Tax Code, and we ask that the Committee put innovative new technologies like Siluria's OCM on a level playing field with established industries.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read "David J. Zaziski".

David J. Zaziski, Ph.D.  
Director, Government Affairs  
Siluria Technologies, Inc.