Practical Energy Plan of 2011

Senator Dick Lugar

Save Money. Drop Foreign Oil.

Senator Lugar's Practical Energy Plan advocates a pioneering initiative to expand domestic oil production by putting carbon dioxide to use through a proven process known as enhanced oil recovery. Independent estimates indicate that the Lugar Practical Plan will increase domestic oil production by 1.8 million barrels per day and generate $130 - $170 billion in new federal revenue. This is a win for energy security, a win for taxpayers, and a win for environmental stewardship.

DOE estimates that 38 to 58 billion barrels of oil are available, but accessing that potential requires build-out of national infrastructure to connect oil reserves with large new sources of carbon dioxide from power generation and industrial sources. Harnessing that potential will more than pay for itself, but it requires upfront investments to encourage first-movers.

Section 101 of Lugar's Practical Energy Plan expands oil production by enabling large new infrastructure and encouraging cost-effective delivery of CO_2. Investment in large national trunkline CO_2 pipelines and innovative carbon capture technologies at large new power plants or industrial facilities will be enabled through tax cuts for "Pioneer Projects." Pioneer projects are vital for anchoring new national infrastructure and will encourage smaller projects to fill spare pipeline capacity. The Lugar Practical Energy Plan also will simultaneously encourage rapid build-out of the most affordable new sources of carbon dioxide in "Deployment Projects," with tax cuts targeted at industrial facilities that can more easily deliver carbon dioxide to oil producers. The Deployment Projects are important for bringing more domestic oil production online quickly. A revenue-generating failsafe protects taxpayer investment.

The following information presents a summary of Section 101 of the Lugar Practical Energy Plan, which is constituted of five primary parts:

a) Pioneer projects investment tax credit (Pioneer ITC). Pioneer projects will be eligible to receive investment tax credits for putting in place projects that capture CO_2, transport it in new major trunklines stretching at least 300 miles, and use it in an enhanced oil recovery operation. Pioneer project ITC will be limited to early adopters.
b) Pioneer projects production tax credit (Pioneer PTC). Pioneer projects will be eligible for a CO_2 production tax credit that is indexed to the price of oil (decreasing in value as the value of CO_2 increases, for a period of 10 years, thus offsetting the increased costs of operating new equipment.
c) Deployment projects production tax credit (Deployment PTC). Deployment projects will receive a production tax credit for a period of up to ten years. Each year's allocation of credits will be awarded in a cost competitive basis, thus encouraging low-cost options and maximizing bang for the buck.
d) Revenue generating fail-safe. The Secretary of Treasury will suspend the program and send it back to Congress if projected income from new oil production fails to pay for the program.
e) CO_2 pipeline loan guarantee. CO_2 trunkline pipelines will be made eligible as stand-alone projects eligible for loan guarantees under Section 1703(b) of the Energy Policy Act of 2005.

Lugar Practical Energy Plan of 2011
Sec.101.National oil production expansion through use of carbon dioxide.

(a) Competitive pioneer projects investment tax credit.

1) Eligible project: power generation or industrial facility which has in place a contract under which CO_2 captured from that facility will be delivered via a new CO_2 "trunkline" pipeline (with a minimum free flow capacity of 7.5 million tons annually and extending at least 300 miles) to be used for enhanced oil recovery for a period of not less than 10 years. Multiple facilities may be eligible for the credit utilizing the same trunkline, however the total utilization of eligible pioneer projects cannot exceed 60% capacity of a given trunkline. An eligible contract must be consistent with long-term CO_2 containment guidelines as established under 26 U.S.C. 45Q.
2) Credit amount: an investment tax credit to cover up to 70% of *incremental* expenses related to the equipment and associated facilities needed for isolating and/or capturing CO_2. Eligible expenses are those incremental to the primary operation of the emissions source facility without CO_2 capture, as determined by the Secretary of Energy.
    a. In the case of advanced technology projects in which CO_2 isolation and/or capture is integral to the primary operation of the emissions producing facility, the ITC may be applied to the cost of incremental compression equipment and facilities.
3) Credit limitation: Annual rate of CO_2 production capacity at 25 million tons.
    a. Not less than 50% of available credits shall be awarded to power generation sources.
    b. The value of Pioneer PTC may be recaptured if terms of sequestration of the contract are not met.
    c. A Pioneer project is not eligible for Deployment Project credits or 45Q credits.
    d. Pioneer ITC is transferable in part or whole to parties to the qualifying contract for CO_2 delivery, oil production, and sequestration.

(b) Variable production tax credit for pioneer projects

1) Generators of CO_2 are eligible for CO_2 production tax credits as part of pioneer projects (as described above) for the first 10 years of CO_2 delivery for EOR.
2) Variable credit: the value of Pioneer PTC shall vary inversely to the price of WTI. At $80/bll and below, the value of the Pioneer PTC shall be $30/ton. The value of the Pioneer PTC shall decrease $0.50 for every $1 increase in the price of WTI, averaged quarterly.
3) Credit limitation (as above).

(c) Deployment projects production tax credit.

1) Eligible project: power generation or industrial facility which has in place a contract under which CO_2 captured from that facility will be delivered for use in enhanced oil recovery for a period not less than 10 years. An eligible contract must be consistent with long-term CO_2 containment guidelines as established under 26 U.S.C. 45Q.
2) Competitive allocation for credit value. Credits will be allocated to projects offering the most CO_2 delivery per dollar of credit received. However, the maximum value of credits will be capped to be $25 per ton for CO_2 from industrial sources where CO_2 capture is integral to the functioning of the facility, $35 per ton for other industrial facilities, and $70 per ton for power generation. The Secretary will review the program each year and recommend lower value caps as technology progresses and costs come down.

3) Credit limitation. The Secretary can award credit for up to 15 million metric tons of incremental CO_2 delivery per year. Awards shall consist of 10 year contracts and new contracts shall not be awarded after the 15th year of enactment.
    a. Deployment PTC will be transferable in part or whole to parties to the qualifying contract for CO_2 transfer and sequestration.
    b. A Deployment Project is not eligible for Pioneer credits for 45Q PTC credits.
    c. The value of Deployment PTC may be recaptured if terms of sequestration of the contract are not met.

(d) Revenue generating fail-safe.

1) The Securities and Exchange Commission shall report to Treasury changes/increases in proven and likely reserves resulting from EOR.
2) Treasury, in consultation with Secretary of Energy, shall update projected federal revenues from active EOR operations and estimate the net present value of the associated tax credits and future revenues from federal EOR incentives.
3) Issuance of the deployment projects investment tax credits shall be suspended for one year by the Secretary of the Treasury if:
    a. EOR will no longer be price competitive with projected lower-48 average well head price over a 11-year projected price horizon; or
    b. Future revenues from enhanced oil recovery resulting from the combined Pioneer and Deployment tax credits are no longer projected to exceed the costs of the credits.
    c. In the event of a one year suspension, the Secretary shall immediately report to Congress with recommendations.

(e) CO_2 pipeline loan guarantee.

1) Loan guarantees shall be authorized under Section 1703(b) of the Energy Policy Act of 2005 (42 U.S.C. 16513(b)) for major CO_2 trunkline pipelines.