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Clean Coal Loan Guarantees And Tax Incentives: Issues In Brief



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Synopsis

Coal represents a major energy resource for the United States. Coal-fired power plants provided approximately 37% of U.S. generated electricity (about 1.5 billion megawatt-hours) in 2012, while consuming over 800 million tons of coal. Power plants that use coal are also a major source of greenhouse gas emissions in the United States, contributing approximately 28% of total U.S. CO₂ emissions in 2012. As part of federal efforts to reduce greenhouse gas emissions, loan guarantees and tax incentives have been made available to support private sector investment in clean coal. Both loan guarantees and tax incentives were included in the Energy Policy Act of 2005 (EPACT05, P.L. 109-58). Mitigating CO₂ emissions has also become the primary focus of U.S. Department of Energy (DOE) efforts within the clean coal research and development program (now Coal R&D) within its Office of Fossil Energy. At issue for Congress is the extent to which the private sector has used the financial incentive tools available, and whether they are the right tools for promoting the development of technology to reduce CO₂ emissions from fossil fuel power plants. No loan guarantees have been issued to clean coal projects since enactment of Section 1703 of EPACT05. This legislation authorized the Secretary of Energy to make loan guarantees for projects that (1) avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases; and (2) employ new or significantly improved technologies as compared to commercial technologies in service in the United States at the time. Only two projects, both nuclear power-related, have obtained or are on track to obtain loan guarantees under Section 1703. A question for Congress to consider is why no loan guarantees have been issued for clean coal projects under Section 1703, despite several authorizations of appropriations and two solicitations for proposals since enactment of EPACT05. Tax incentives for clean coal were first authorized in EPACT05. EPACT05 codified two new sections in the Internal Revenue Code: Section 48A was added to provide tax credits for qualifying advanced coal projects; and Section 48B provides tax credits to qualifying gasification projects. Additional tax incentives for clean coal were included in P.L. 110-343, the Emergency Economic Stabilization Act of 2008 (EESA). EESA provided additional funding for clean coal investment tax credits. EESA also included the Section 45Q CO₂ sequestration credit, under which taxpayers may claim up to a \$20 per metric ton credit for qualifying domestic CO₂ that is captured and sequestered. Regarding tax incentives, Congress might consider several options: (1) maintain the status quo, which would allow existing tax incentives to phase out; (2) authorize additional funding for existing tax incentives; or (3) redesign tax incentives for clean coal or carbon capture and sequestration related technologies. Several projects that were previously allocated tax credits have been cancelled. A question for Congress is whether there is demand for tax benefits in their

current form. Further, are tax incentives an effective tool for encouraging investment in clean coal technologies?

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