

Mr. President, I rise today to introduce the Coal-to-Liquid Fuel Promotion Act of 2007.

For too long, America has ignored its energy security. Many of us can remember the energy crisis of the 1970's. We were held ransom by a monopolistic oil cartel and forced to endure shortages, gas lines and high prices. In the early 1980's, just as America began to invest in alternative fuels, the oil producing states of the world crashed prices to make new technologies uncompetitive. During most of the last twenty five years, we have enjoyed low prices and plentiful supply. But we have paid a price. Today, we find America is addicted to oil.

Since September 11<sup>th</sup>, we have seen the fragile state of our energy markets. Domestic disasters and terrorism can send energy prices spiraling out of control. Our energy resources are stretched to the limit and small supply disruptions ripple through our entire economy. America needs a secure, domestic fuel source to ease our dependency on imported oil.

That is why today, I am reintroducing my bill, the Coal-to-Liquid Fuel Promotion Act, with Senator Obama of Illinois. I have worked with the coal and fuel industries, the Department of Defense, and environmental groups to identify the needs of the Coal-to-Liquid industry and the best ways for the government to support Coal-to-Liquid development.

Coal has long been America's most abundant fuel resource and has driven our economic growth since the industrial revolution.

In the coal-to-liquid process, coal is gasified, the gas is run through the Fischer-Tropsch process, and the resulting fuel is refined into jet fuel and diesel fuel. The final product is cleaner than conventional fuels because nearly all of the sulfur and nitrogen is removed.

While this technology is just taking root in America, South Africa meets 30% of its fuel need with coal. C.T.L. technology lets America capitalize on a domestic resource that will fuel economic growth and produce the energy security required in today's world. Many of my colleagues may be asking one question right now: If this technology is so great and could really replace expensive imports from the Middle East, why hasn't it been done already?

The answer is simple: cost and market uncertainty.

A typical size C.T.L. plant costs more than \$2 billion to construct. With complicated plans and environmental permits, a new plant could take 5 to 8 years to build. This is a challenge for even the biggest risk-takers on Wall Street. Raising the capital needed to develop a new technology is always difficult, but the multi-billion dollar investment scale of a C.T.L. plant has made it nearly impossible.

On top of this is the uncertainty of the price of oil. America has seen oil prices rise dramatically in the last few years. But investors are concerned that oil prices could drop to the low levels of the 1980s and make C.T.L. plants uncompetitive again.

I believe oil prices will stay above the price range that keeps C.T.L. profitable, which is estimated at between \$40 and \$50 per barrel.

But even if oil prices were to drop that low in the next few decades, I believe C.T.L. would more than pay for itself by insulating us from supply shocks and providing a secure domestic fuel source for the military, businesses like airlines and trucking, and the average American's car.

The Federal Government must act to help industry overcome these hurdles. This legislation will provide a combination of incentives to create a network of Coal-to-Liquid production in the United States.

The Coal-to-Liquid Fuel Promotion Act of 2007 has three parts.

First, this bill addresses the need to pull together the investors and the billions of dollars required to build a C.T.L. plant. It expands and enhances the Department of Energy loan guarantee program included in the Energy Policy Act we passed in 2005. It expressly authorizes D.O.E. to administer loan guarantees for the nation's first C.T.L. plants. These plants must be large scale, which is a minimum production of 10,000 barrels a day of liquid fuel. The program is only for the first 10 commercial plants. By then, we should have proven the economics of this technology and no further incentives will be needed.

It also provides a new program of matching loans. The loans are capped at \$20 million and must be matched dollar-for-dollar by non-Federal money. They must be repaid as soon as the plant is financed.

Second, this legislation would fundamentally alter the economics of C.T.L. plants during and after construction. It expands the Investment Tax Credit and expensing provisions enacted in the Energy Policy Act of 2005. It increases the 20% tax credit for C.T.L. plants to a maximum of \$200 million for each of the first 10 C.T.L. plants.

It also extends the expiration of the Fuel Excise Tax Credit for C.T.L. from 2009 to 2020. The current provision will expire long before the first C.T.L. plant is even operational. This extension will provide a meaningful timeframe for C.T.L. plants to benefit from the same tax incentives we offer renewable and hydrogen fuels.

This bill also provides an incentive for C.T.L. plants to capture carbon emissions. We can use CO<sub>2</sub> to produce oil in depleted wells or extract coalbed methane.

Third, this bill provides the Department of Defense the funding to purchase, test, and integrate C.T.L. fuels into the military. In the last few months, the Air Force has successfully tested C.T.L. fuel in B-52 bombers.

These tests are proving to D.O.D. and to industry that C.T.L. fuels are as safe and reliable as the fuels produced today.

This legislation also instructs the D.O.D. to conduct a study on C.T.L. fuel storage and its inclusion in the Strategic Petroleum Reserve. It authorizes the construction of storage facilities for C.T.L. fuel and allows the strategic petroleum reserve to hold up to 20% of its stock in the form of C.T.L. finished fuels.

By combining the abilities of the Department of Energy and Department of Defense with incentives in the Tax Code, I am confident that this legislation will help Kentucky and America become the world leaders in coal-to-liquid fuel production.

This Coal-to-Liquid Fuel legislation made headlines during the summer of 2006 when gas prices were at near record highs. Yet when prices fell, the pressure to pass this legislation also decreased. We have been lucky that a mild winter has held down demand. We will not always be so lucky.

No matter what energy prices are, America needs a domestic source of fuel. This year alone we will send \$250 billion to foreign countries, mostly in the Middle East, just to buy oil. Imagine what we could have done here at home with the trillions of dollars we have spent on oil in the last few decades.

There is no room for politics in energy security. In the 110<sup>th</sup> Congress, Senator Obama and I will work hard with all of our colleagues to pass this important legislation. I especially look forward to working with my new Chairman in the Energy Committee, Senator Bingaman, and my ranking member, Senator Domenici, on this important bill.

Thank you, Mr. President. I now send to the desk the Coal-to-Liquid Fuel Promotion Act of 2007 and the related Coal-to-liquid fuel Energy act of 2007. I ask unanimous consent that these two bills be printed with my remarks in the record.