

S 3325 IS

109th CONGRESS
2d Session
S. 3325

To promote coal-to-liquid fuel activities.

IN THE SENATE OF THE UNITED STATES

May 26, 2006

Mr. BUNNING (for himself, Mr. OBAMA, Mr. LUGAR, Mr. BURNS, and Mr. PRYOR) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To promote coal-to-liquid fuel activities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the 'Coal-to-Liquid Fuel Promotion Act of 2006'.

SEC. 2. DEFINITIONS.

In this Act:

- (1) COAL-TO-LIQUID- The term 'coal-to-liquid' means--
- (A) with respect to a process or technology, the use of the coal resources of the United States, using the class of chemical reactions known as Fischer-Tropsch, to produce synthetic fuel suitable for transportation; and
 - (B) with respect to a facility, the portion of a facility related to the Fischer-Tropsch process, Fischer-Tropsch finished fuel production, or the capture, transportation, or sequestration of byproducts of the use of coal at the Fischer-Tropsch facility, including carbon emissions.

(2) SECRETARY- The term `Secretary' means the Secretary of Energy.

SEC. 3. COAL-TO-LIQUID FUEL LOAN GUARANTEE PROGRAM.

(a) Eligible Projects- Section 1703(b) of the Energy Policy Act of 2005 (42 U.S.C. 16513(b)) is amended by adding at the end the following:

`(11) Large-scale coal-to-liquid facilities (as defined in section 2 of the Coal-to-Liquid Fuel Promotion Act of 2006), that use coal resources of the United States to produce not less than 10,000 barrels a day of liquid transportation fuel.'.

(b) Authorization of Appropriations- Section 1704 of the Energy Policy Act of 2005 (42 U.S.C. 16514) is amended by adding at the end the following:

`(c) Coal-to-Liquid Projects-

`(1) IN GENERAL- There are authorized to be appropriated such sums as are necessary to provide the cost of guarantees for projects involving large-scale coal-to-liquid facilities under section 1703(b)(11).

`(2) LIMITATIONS-

`(A) IN GENERAL- No loan guarantees shall be provided under this title for projects described in paragraph (1) after (as determined by the Secretary)--

`(i) the tenth such loan guarantee is issued under this title; or

`(ii) production capacity covered by such loan guarantees reaches 100,000 barrels per day of coal-to-liquid fuel.

`(B) INDIVIDUAL PROJECTS-

`(i) IN GENERAL- A loan guarantee may be provided under this title for any large-scale coal-to-liquid facility described in paragraph (1) that produces no more than 20,000 barrels of coal-to-liquid fuel per day.

`(ii) NON-FEDERAL FUNDING REQUIREMENT- To be eligible for a loan guarantee under this title, a large-scale coal-to-liquid facility described in paragraph (1) that produces more than 20,000 barrels of coal-to-liquid fuel per day shall be required to provide non-Federal

funding for the proportional cost of the loan guarantee for production that exceeds 20,000 barrels of coal-to-liquid fuel per day.'.

SEC. 4. COAL-TO-LIQUID FACILITIES LOAN PROGRAM.

(a) Definition of Eligible Recipient- In this section, the term 'eligible recipient' means an individual, organization, or other entity that owns, operates, or plans to construct a coal-to-liquid facility that will produce at least 10,000 barrels per day of coal-to-liquid fuel.

(b) Establishment- The Secretary shall establish a program under which the Secretary shall provide loans, in a total amount not to exceed \$20,000,000, for use by eligible recipients to pay the Federal share of the cost of obtaining any services necessary for the planning, permitting, and construction of a coal-to-liquid facility.

(c) Application- To be eligible to receive a loan under subsection (b), an owner or operator of a coal-to-liquid facility shall submit to the Secretary an application at such time, in such manner, and containing such information as the Secretary may require.

(d) Non-Federal Match- To be eligible to receive a loan under this section, an eligible recipient shall use non-Federal funds to provide a dollar-for-dollar match of the amount of the loan.

(e) Repayment of Loan-

(1) IN GENERAL- To be eligible to receive a loan under this section, an eligible recipient shall agree to repay the original amount of the loan to the Secretary not later than 5 years after the date of the receipt of the loan.

(2) SOURCE OF FUNDS- Repayment of a loan under paragraph (1) may be made from any financing or assistance received for the construction of a coal-to-liquid facility described in subsection (a), including a loan guarantee provided under section 1703(b)(11) of the Energy Policy Act of 2005 (42 U.S.C. 16513(b)(11)).

(f) Authorization of Appropriations- There is authorized to be appropriated to carry out this section \$200,000,000, to remain available until expended.

SEC. 5. LOCATION OF COAL-TO-LIQUID MANUFACTURING FACILITIES.

The Secretary, in coordination with the head of any affected agency, shall promulgate such regulations as the Secretary

determines to be necessary to support the development on Federal land (including land of the Department of Energy, military bases, and military installations closed or realigned under the defense base closure and realignment) of coal-to-liquid manufacturing facilities and associated infrastructure, including the capture, transportation, or sequestration of carbon dioxide.

SEC. 6. CREDIT FOR INVESTMENT IN COAL-TO-LIQUID FUELS PROJECTS.

(a) In General- Section 46 of the Internal Revenue Code of 1986 (relating to amount of credit) is amended by striking `and' at the end of paragraph (3), by striking the period at the end of paragraph (4) and inserting `, and', and by adding at the end the following new paragraph:

`(5) the qualifying coal-to-liquid fuels project credit.'

(b) Amount of Credit- Subpart E of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to rules for computing investment credit) is amended by inserting after section 48B the following new section:

` SEC. 48C. QUALIFYING COAL-TO-LIQUID FUELS PROJECT CREDIT.

`(a) In General- For purposes of section 46, the qualifying coal-to-liquid fuels project credit for any taxable year is an amount equal to 20 percent of the qualified investment for such taxable year.

`(b) Qualified Investment-

`(1) IN GENERAL- For purposes of subsection (a), the qualified investment for any taxable year is the basis of property placed in service by the taxpayer during such taxable year which is part of a qualifying coal-to-liquid fuels project--

`(A)(i) the construction, reconstruction, or erection of which is completed by the taxpayer, or

`(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer, and

`(B) with respect to which depreciation (or amortization in lieu of depreciation) is allowable.

- ` (2) APPLICABLE RULES- For purposes of this section, rules similar to the rules of subsection (a)(4) and (b) of section 48 shall apply.
- ` (c) Definitions- For purposes of this section--
 - ` (1) QUALIFYING COAL-TO-LIQUID FUELS PROJECT- The term `qualifying coal-to-liquid fuels project' means any domestic project which--
 - ` (A) employs the Fischer-Tropsch process to produce at least 10,000 barrels per day of transportation grade liquid fuels from coal (including any property which allows for the capture, transportation, or sequestration of by-products resulting from such process, including carbon emissions), and
 - ` (B) any portion of the qualified investment in which is certified under the qualifying coal-to-liquid program as eligible for credit under this section in an amount (not to exceed \$200,000,000) determined by the Secretary.
 - ` (2) COAL- The term `coal' means any carbonized or semicarbonized matter, including peat.
- ` (d) Qualifying Coal-to-Liquid Fuels Project Program--
 - ` (1) IN GENERAL- The Secretary, in consultation with the Secretary of Energy, shall establish a qualifying coal-to-liquid fuels project program to consider and award certifications for qualified investment eligible for credits under this section to 10 qualifying coal-to-liquid fuels project sponsors under this section. The total qualified investment which may be awarded eligibility for credit under the program shall not exceed \$2,000,000,000.
 - ` (2) PERIOD OF ISSUANCE- A certificate of eligibility under paragraph (1) may be issued only during the 10-fiscal year period beginning on October 1, 2006.
 - ` (3) SELECTION CRITERIA- The Secretary shall not make a competitive certification award for qualified investment for credit eligibility under this section unless the recipient has documented to the satisfaction of the Secretary that--
 - ` (A) the award recipient is financially viable without the receipt of additional Federal funding associated with the proposed project,
 - ` (B) the recipient will provide sufficient information to the Secretary for the Secretary to ensure that the qualified investment is spent efficiently and effectively,

` (C) a market exists for the products of the proposed project as evidenced by contracts or written statements of intent from potential customers,

` (D) the fuels identified with respect to the gasification technology for such project will comprise at least 90 percent of the fuels required by the project for the production of transportation grade liquid fuels,

` (E) the award recipient's project team is competent in the construction and operation of the Fischer-Tropsch process, with preference given to those recipients with experience which demonstrates successful and reliable operations of such process, and

` (F) the award recipient has met other criteria established and published by the Secretary.

` (e) Denial of Double Benefit- No deduction or other credit shall be allowed with respect to the basis of any property taken into account in determining the credit allowed under this section.'

(c) Conforming Amendments-

(1) Section 49(a)(1)(C) of the Internal Revenue Code of 1986 is amended by striking `and' at the end of clause (iii), by striking the period at the end of clause (iv) and inserting `, and', and by adding after clause (iv) the following new clause:

` (v) the basis of any property which is part of a qualifying coal-to-liquid fuels project under section 48C.'

(2) The table of sections for subpart E of part IV of subchapter A of chapter 1 of such Code is amended by inserting after the item relating to section 48B the following new item:

` 48C. Qualifying coal-to-liquid fuels project credit.'

(d) Effective Date- The amendments made by this section shall apply to periods after the date of the enactment of this Act, under rules similar to the rules of section 48(m) of the Internal Revenue Code of 1986 (as in effect on the day before the date of the enactment of the Revenue Reconciliation Act of 1990).

SEC. 7. TEMPORARY EXPENSING FOR EQUIPMENT USED IN COAL-TO-LIQUID FUELS PROCESS.

(a) In General- Part VI of subchapter B of chapter 1 of the Internal Revenue Code of 1986 is amended by inserting after section 179D the following new section:

` SEC. 179E. ELECTION TO EXPENSE CERTAIN COAL-TO-LIQUID FUELS FACILITIES.

` (a) Treatment as Expenses- A taxpayer may elect to treat the cost of any qualified coal-to-liquid fuels process property as an expense which is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the expense is incurred.

` (b) Election-

` (1) IN GENERAL- An election under this section for any taxable year shall be made on the taxpayer's return of the tax imposed by this chapter for the taxable year. Such election shall be made in such manner as the Secretary may by regulations prescribe.

` (2) ELECTION IRREVOCABLE- Any election made under this section may not be revoked except with the consent of the Secretary.

` (c) Qualified Coal-to-Liquid Fuels Process Property- The term 'qualified coal-to-liquid fuels process property' means any property located in the United States--

` (1) which employs the Fischer-Tropsch process to produce transportation grade liquid fuels from coal (including any property which allows for the capture, transportation, or sequestration of by-products resulting from such process, including carbon emissions),

` (2) the original use of which commences with the taxpayer,

` (3) the construction of which--

` (A) except as provided in subparagraph (B), is subject to a binding construction contract entered into after the date of the enactment of this section and before January 1, 2011, but only if there was no written binding construction contract entered into on or before such date of enactment, or

` (B) in the case of self-constructed property, began after the date of the enactment of this section and before January 1, 2011, and

` (4) which is placed in service by the taxpayer after the date of the enactment of this section and before January 1, 2016.

- ` (d) Election to Allocate Deduction to Cooperative Owner- If--
 - ` (1) a taxpayer to which subsection (a) applies is an organization to which part I of subchapter T applies, and
 - ` (2) one or more persons directly holding an ownership interest in the taxpayer are organizations to which part I of subchapter T apply,

the taxpayer may elect to allocate all or a portion of the deduction allowable under subsection (a) to such persons. Such allocation shall be equal to the person's ratable share of the total amount allocated, determined on the basis of the person's ownership interest in the taxpayer. The taxable income of the taxpayer shall not be reduced under section 1382 by reason of any amount to which the preceding sentence applies.

- ` (e) Basis Reduction-

- ` (1) IN GENERAL- For purposes of this title, if a deduction is allowed under this section with respect to any qualified coal-to-liquid fuels process property, the basis of such property shall be reduced by the amount of the deduction so allowed.

- ` (2) ORDINARY INCOME RECAPTURE- For purposes of section 1245, the amount of the deduction allowable under subsection (a) with respect to any property which is of a character subject to the allowance for depreciation shall be treated as a deduction allowed for depreciation under section 167.

- ` (f) Application With Other Deductions and Credits-

- ` (1) OTHER DEDUCTIONS- No deduction shall be allowed under any other provision of this chapter with respect to any expenditure with respect to which a deduction is allowed under subsection (a) to the taxpayer.

- ` (2) CREDITS- No credit shall be allowed under section 38 with respect to any amount for which a deduction is allowed under subsection (a).

- ` (g) Reporting- No deduction shall be allowed under subsection (a) to any taxpayer for any taxable year unless such taxpayer files with the Secretary a report containing such information with respect to the operation of the property of the taxpayer as the Secretary shall require.'

- (b) Conforming Amendments-

- (1) Section 1016(a) of the Internal Revenue Code of 1986 is amended by striking `and' at the end of paragraph (36), by striking the period at the end of paragraph (37) and inserting `, and', and by adding at the end the following new paragraph:

- (38) to the extent provided in section 179E(e)(1).'.
 (2) Section 1245(a) of such Code is amended by inserting `179E,' after `179D,' both places it appears in paragraphs (2)(C) and (3)(C).
 (3) Section 263(a)(1) of such Code is amended by striking `or' at the end of subparagraph (J), by striking the period at the end of subparagraph (K) and inserting `, or', and by inserting after subparagraph (K) the following new subparagraph:
 `(L) expenditures for which a deduction is allowed under section 179E.'
 (4) Section 312(k)(3)(B) of such Code is amended by striking `or 179D' each place it appears in the heading and text and inserting `179D, or 179E'.
 (5) The table of sections for part VI of subchapter B of chapter 1 of such Code is amended by inserting after the item relating to section 179D the following new item:
 `Sec. 179E. Election to expense certain coal-to-liquid fuels facilities.'

(c) Effective Date- The amendments made by this section shall apply to properties placed in service after the date of the enactment of this Act.

SEC. 8. EXTENSION OF ALTERNATIVE FUEL CREDIT FOR FUEL DERIVED FROM COAL THROUGH THE FISCHER-TROPSCH PROCESS.

(a) Alternative Fuel Credit- Paragraph (4) of section 6426(d) of the Internal Revenue Code of 1986 is amended to read as follows:

- (4) TERMINATION- This subsection shall not apply to--
 `(A) any sale or use involving liquid fuel derived from coal (including peat) through the Fischer-Tropsch process for any period after September 30, 2020,
 `(B) any sale or use involving liquified hydrogen for any period after September 30, 2014, and
 `(C) any other sale or use for any period after September 30, 2009.'

(b) Payments-

- (1) IN GENERAL- Paragraph (5) of section 6427(e) of the Internal Revenue Code of 1986 is amended by striking `and' and the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ` ,

and', and by adding at the end the following new subparagraph:

`(E) any alternative fuel or alternative fuel mixture (as so defined) involving liquid fuel derived from coal (including peat) through the Fischer-Tropsch process sold or used after September 30, 2020.'

(2) CONFORMING AMENDMENT- Section 6427(e)(5)(C) of such Code is amended by striking `subparagraph (D)' and inserting `subparagraphs (D) and (E)'.

SEC. 9. STRATEGIC PETROLEUM RESERVE.

(a) Development, Operation, and Maintenance of Reserve- Section 159 of the Energy Policy and Conservation Act (42 U.S.C. 6239) is amended--

(1) by redesignating subsections (f), (g), (j), (k), and (l) as subsections (a), (b), (e), (f), and (g), respectively; and
(2) by inserting after subsection (b) (as redesignated by paragraph (1)) the following:

`(c) Study of Maintaining Coal-to-Liquid Products in Reserve- Not later than 1 year after the date of enactment of the Coal-to-Liquid Fuel Promotion Act of 2006, the Secretary and the Secretary of Defense shall--

`(1) conduct a study of the feasibility and suitability of maintaining coal-to-liquid products in the Reserve; and
(2) submit to the Committee on Energy and Natural Resources and the Committee on Armed Services of the Senate and the Committee on Energy and Commerce and the Committee on Armed Services of the House of Representatives a report describing the results of the study.

`(d) Construction of Storage Facilities- As soon as practicable after the date of enactment of the Coal-to-Liquid Fuel Promotion Act of 2006, the Secretary may construct 1 or more storage facilities--

(1) in the vicinity of pipeline infrastructure and at least 1 military base; but
(2) outside the boundaries of any State on the coast of the Gulf of Mexico.'

(b) Petroleum Products for Storage in Reserve- Section 160 of the Energy Policy and Conservation Act (42 U.S.C. 6240) is amended--

(1) in subsection (a)--

- (A) in paragraph (1), by inserting a semicolon at the end;
 - (B) in paragraph (2), by striking `and' at the end;
 - (C) in paragraph (3), by striking the period at the end and inserting `; and'; and
 - (D) by adding at the end the following:
 - `(4) coal-to-liquid products (as defined in section 2 of the Coal-to-Liquid Fuel Promotion Act of 2006), as the Secretary determines to be appropriate, in a quantity not to exceed 20 percent of the total quantity of petroleum products in the Reserve.';
 - (2) in subsection (b), by redesignating paragraphs (3) through (5) as paragraphs (2) through (4), respectively; and
 - (3) by redesignating subsections (f) and (h) as subsections (d) and (e), respectively.
- (c) Conforming Amendments- Section 167 of the Energy Policy and Conservation Act (42 U.S.C. 6247) is amended--
- (1) in subsection (b)--
 - (A) by redesignating paragraphs (2) and (3) as paragraphs (1) and (2), respectively; and
 - (B) in paragraph (2) (as redesignated by subparagraph (A)), by striking `section 160(f)' and inserting `section 160(e)'; and
 - (2) in subsection (d), in the matter preceding paragraph (1), by striking `section 160(f)' and inserting `section 160(e)'.

SEC. 10. AUTHORIZATION TO CONDUCT RESEARCH, DEVELOPMENT, TESTING, AND EVALUATION OF ASSURED DOMESTIC FUELS.

Of the amount authorized to be appropriated for the Air Force for research, development, testing, and evaluation, \$10,000,000 may be made available for the Air Force Research Laboratory to continue support efforts to test, qualify, and procure synthetic fuels developed from coal for aviation jet use.

SEC. 11. PROCUREMENT OF UNCONVENTIONAL FUELS BY THE DEPARTMENT OF DEFENSE.

Section 2398a of title 10, United States Code, is amended--

- (1) in subsection (b)--

(A) by striking `The Secretary' and inserting the following:

`(1) IN GENERAL- The Secretary'; and

(B) by adding at the end the following:

`(2) COAL-TO-LIQUID PRODUCTION FACILITIES-

`(A) IN GENERAL- The Secretary of Defense may enter into contracts or other agreements with private companies or other entities to develop and operate coal-to-liquid facilities (as defined in section 2 of the Coal-to-Liquid Fuel Promotion Act of 2006) on or near military installations.

`(B) CONSIDERATIONS- In entering into contracts and other agreements under subparagraph (A), the Secretary shall consider land availability, testing opportunities, and proximity to raw materials.';

(2) in subsection (d), by striking `1 or more years' and inserting `up to 25 years'; and

(3) by adding at the end the following:

`(f) Authorization of Appropriations- There are authorized to be appropriated such sums as are necessary to carry out this section.'.

END