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ENERGY MARKETS: 'Synfuel' scheme provides industry with billions in tax breaks

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The synthetic fuel industry has raked in \$9 billion in tax credits over recent years and is seeking to make its tax subsidies permanent, according to a Time magazine investigation.

The scheme, pulled together by lobbyists and several House lawmakers, centers around a few paragraphs inserted in a tax bill. The paragraphs aim to push back the per-barrel price of crude oil to 2004 prices. That means some investors and companies gain billions of dollars in tax subsidies from the marketing of a "dubious concoction" of synthetic fuel produced from coal and dependent on government tax credits tied to the price of oil.

According to last year's Standard & Poor's report, companies which have large stakes in the IRS Code Section 29 tax credit for 2005 could lose out because crude prices are inching close to the threshold for phasing out or scaling back the credit.

Authorized by Congress in 1980 to spur investment in the development of new energy sources, Section 29 applies to oil produced from shale or tar sands, synthetic fuels from coal and gas produced from pressurized brine, Devonian shale, tight formations, biomass and **coalbed methane**, all of which were deemed uneconomical for conventional production.

The industry's ability to use Section 29 tax credits is determined each year based on several factors, including the price of crude oil based on the government's average annual domestic wellhead price. The phaseout for the tax is based on a benchmark price and inflation-adjusted upper band (Greenwire, April 12, 2005).

Senate Finance Committee aides at first said they did not know how the provision originated in the bill, claiming only that it did not "originate" with Chairman Charles Grassley (R-Iowa). One aide noted that the senator "ultimately is responsible for everything in [the bill], but routinely with such bills, other committee members propose certain ideas, and he accepts them or rejects them as he sees fit."

Asked again to identify the author, a Senate Finance aide later said, "the provision originated as an amendment from Sen. Rick **Santorum** (R-Pa.). Sen. Gordon Smith (R-Ore.) had a similar amendment co-sponsored by several other Senators, Republicans and Democrats. Chairman Grassley accepted the **Santorum** amendment. It's routine for him to accept non-controversial provisions that way rather than have the committee vote on each amendment. So now the **Santorum** amendment is in the bill."

The tax credit is set to expire in 2007 and the industry will seek to make it permanent. "It will become an intense topic in '07," said Kirk Benson, the chairman and chief executive officer of Headwaters, a Utah-based purveyor of synfuel processes and substances (Barlett/Steele, Feb. 26). -- LK

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