

Industrial Gasification Initiative

November 15, 2007

VIA FAX: (202) 224-2499

The Honorable Mitch McConnell
Minority Leader, United States Senate
361A Russell Senate Office Building
Washington, DC 20510

Dear The Honorable McConnell:

The Industrial Gasification Initiative and the undersigned generally support the language reported by the Senate Finance Committee on June 27, 2007 that would enhance Section 48B industrial gasification incentives of the Energy Policy Act of 2005 (PL 109-58) and which would provide new incentives for carbon capture and sequestration under Section 450 of EAct 2005. While generally supportive of the Finance Committee's gasification proposals, we also suggest below, and in enclosed materials, certain modifications that we believe will improve program operations and enhance public benefits.

For the past decade, U.S. environmental and energy policies have created new demand for natural gas use, particularly in the generation of electricity. Tight supplies and the rising demand have resulted in natural gas price escalation and volatility with major adverse economic consequences to U.S. manufacturing. Many U.S. operations have been driven overseas to regions such as the Persian Gulf where fuel and feedstock prices are low. Section 48B was intended to help U.S. industry transition to domestic plentiful and low-cost alternative fuels and feedstocks in lieu of natural gas. The Section 48B incentives offer a tool to stem the loss of American industrial jobs, enhance our economic and national security, and serve domestic and global environmental goals. In addition, tax policy incentives in Section 45 should encourage the production of substitute natural gas from refined coal and petroleum coke to fuel the production of electricity in efficient power plants.

From an environmental perspective, industrial gasification offers the quickest near-term and most cost-effective commercial deployment of carbon capture and geologic sequestration (CCS) technology at economic scale. The first such plants can be operational within three years.

From an economic perspective, industrial gasification with CCS will allow companies to substitute relatively inexpensive feedstocks such as woody residuals and spent pulping liquors in the forest products sector, petroleum residues from refineries, or coal, in lieu of natural gas. Substituting lower-cost feedstocks will help U.S. industry succeed in a globally competitive economy. Dampening natural gas demand by industry, the largest gas consuming sector will also reduce prices for all direct and indirect consumers of natural gas. Because several CCS deployments at economic scale are needed to fully commercialize the technology, new authority is urgently needed largely as reported by the Senate Finance Committee in June of this year (e.g., increase investment tax credit ceiling by \$1.5 billion, increase the credit rate from 20% to 30%, and create CO₂ production or sequestration tax credits, etc.).

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In addition to the increased authority reported by Senate Finance, we respectfully offer the following suggestions to improve the original Section 48B provisions and modify Section 45 beyond the Senate Finance Committee-reported amendments (see attached list).

- Transparent, competitive process for selecting 48B ITC “winners;”
- Substantially increase the Section 815 production tax credits to 300,000,000 tons of carbon dioxide emissions captured and sequestered in deep geologic formations (automatically made available to 48A and 48B projects);
- Indemnification of project sponsors who participate appropriately in federal incentive programs to test and demonstrate these novel carbon sequestration projects; and
- Apply Section 45 to SNG used to produce electricity.
- Additionally, we recommend SNG and CO2 pipeline incentives.

The companies and organizations listed below believe that a carefully constructed industrial gasification incentives program will accomplish two important goals: (1) diversification of energy use to sustain essential and innovative manufacturing sectors in the U.S. while lowering prices for all consumers; and (2) development of critical environmental performance experience on which to build both an informed carbon emissions regulatory program and an accompanying liability framework worldwide.

We thank you for considering the recommendations incorporated in this letter. Please address any questions to Lynn Schloesser at (703) 524-7661 or lynnls@eastman.com

Sincerely,

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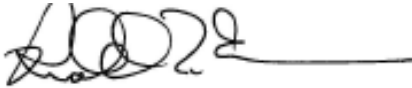
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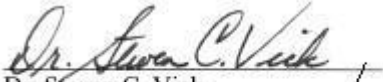
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Industrial Gasification Legislative Objectives

48B Investment Tax Credit

- Support additional \$1.5B as reported from S. Finance in June, 2007
- Support increased ITC rate from 20% to 30%; accept CCS equipment requirement (but link Sec. 48B and Sec. 450) as reported from S. Finance in June, 2007
- Add SNG producers to list of “eligible entities”
- Add codified DOE role to assure transparent and meritorious
 - awards process (procedures similar to competitive contract solicitation)
 - Closing Agreement process must permit project improvements
- Increase eligible investment from \$630M to \$1B

Production Tax Credit for CO₂ Sequestration (Amendment to Sec. 450 as provided in Sec. 815 of S. Finance Committee-reported bill)

- Increase cap on PTCs for CCS to 300 million tons (4x as reported by S. Finance)
 - \$10/ton EOR (as in S. Finance-reported bill)
 - \$20/ton non-EOR (as in S. Finance-reported bill)
- Linkage: Amend S. Finance bill to qualify 48A&B projects automatically for PTC

Section 45 – Refined Coal Credit

- Contract volumes of SNG to electricity should qualify for refined coal PTC

CO₂ Pipeline Depreciation

- Support accelerated depreciation (7 years) as proposed in S. Finance-reported bill June 2007

MLP for CO₂ Pipelines - Allow master limited partnerships (MLP) to own and operate CO₂ pipelines that carry anthropogenic CO₂

CO₂ Regulation/Liability

- Expedite permitting for early CCS actors
- "Hold harmless" or indemnify PTC recipients from liability when “best efforts” have been applied

Federal Loan Guarantees

- Open to industrial gasification (section 1703 (c)), including SNG
- Remove program dollar cap for self-pay projects