

**Responses to questions related to:
IRS Notice 2006-24, Qualifying Advanced Coal Project Program,
IRS Notice 2006-25, Qualifying Gasification Program
May 4, 2006**

DOE is answering questions related only to DOE certifications. Other questions should be directed to the IRS by calling Doug Kim or Kathy Reed at (202) 622-3110, or by faxing the questions to them at (202) 622-4779.

21. Waste Coal.

Is it correct that a low-cost anthracite culm (i.e., culm is defined as coal waste that consists of coal and rock with varying amounts of carbon material remaining after removal of a higher-quality saleable coal) qualifies for clean coal investment tax credits under sections 48A and 48B? Kindly assume that the producer procured the culm from a culm bank (i.e., ubiquitous piles or other depository of culm on the land surface).

Response 21. DOE is recommending to IRS that waste coal, including but not limited to culm, be treated as coal under sections 48A and 48B.

22. Excel Model

In Section D of Appendix B of IRS Notice 2006-24, (under Heading VII, describing the Project Information Memorandum) the guidance requires an Excel based financial model of the proposed project. Is the intent of the model for the applicant to provide information on the financial viability of the proposed project in isolation, or the financial viability of the applicant, given construction and operation of the proposed project? For example, if the project is being proposed by a regulated utility, should the focus be on the financial viability of the regulated entity, including the proposed project, and/or on the project itself.

Response 22 - Appendix B, Section D, Heading VII requires, for projects that expect to employ non-recourse debt financing, an Excel based financial model of the project, on a stand-alone basis. The additional information required by Appendix B, Section D is intended to facilitate the review of both the applicant and the project, and applicants that expect to employ non-recourse debt financing should provide all of the information requested in Appendix B.

23. Format of Application

a. Is the Table of Contents counted as part of the 75 page maximum for the application?

Response 23 a – No.

b. Will DOE allow and consider, as part of an application, additional appendices not explicitly cited in the list of appendices listed in Appendix B, Section D, of Notice 2006-24, if the applicant believed that the additional material was relevant to determinations by DOE, such as finding of a project's economic feasibility?

Response 23 b - The applicant may provide any additional information they believe provides useful information in support of their project, however, DOE is not obligated to use such information in their evaluation.

c. Should the paper copies of the Application be submitted bound or unbound? If DOE desires the paper copies of the Application to be bound, should the Application and the Appendices be bound separately?

Response 23 c – The applicant may submit bound or unbound documents, and may bind the application together with the appendices, or may bind them separately.

24. Financing Alternatives

Is it acceptable to describe more than one financing alternatives in the application, or must an applicant commit to one at this stage?

Response 24 - It is acceptable to describe more than one financing alternative in the application.

25. Project Configuration Flexibility

How much flexibility will be allowed in the project's configuration (as listed in the DOE's certification application) without jeopardizing the allowance of the ITC credits? In other words, if at a time after the application is made, it is determined that a modification of some of the projects parameters is required, how much change will be allowed?

Response 25 – Please refer to the IRS for a response to this question.

26. Carbon Capture Capability

a. For IRS Notice 2006-25, Section 4.02(3)(b): Does demonstration of carbon capture capability require identification of one or more viable sequestration locations and feasible means of transporting the captured carbon to such locations?

Response 26 a – Projects are not required to identify viable sequestration locations or feasible means of transporting captured carbon to such locations.

b. For IRS Notice 2006-25, Section 4.02(3)(c): Projects that are “priority projects” by virtue of providing carbon capture capability, or that further program policy factors by actually including carbon capture equipment, will naturally be more expensive than those that do not, and yet would be disadvantaged by the ratio of nameplate capacity to requested allocation of credits due to the higher capital costs. Can the ratio be calculated excluding the portion of tax credits attributable to carbon capture equipment so that there is no implicit penalty for furthering energy policy goals?

Response 26 b – Please refer to the IRS for a response to this question.

27. Project Site Issues

Regarding Appendix A, Closing Agreement, Recital 2(1):

If the qualifying gasification project is going to be constructed on more than one parcel, can the address or parcel number of each parcel be identified as long as the applicant controls them all?

What flexibility will be allowed regarding the project site? Although relocating a qualifying gasification project a material distance from that identified in the application should require a new application because it is effectively a different project (in fairness to unsuccessful applicants), moving the project site within one mile of the parcels identified in the application would provide a reasonable amount of flexibility to accommodate development and engineering optimizations.

Response 27 – Please refer to Response 16, which is found in file “Responses for Notice 2006-25 April 25, 2006”.

28. Quantification of Gas Flow Rate

Regarding Appendix A, Closing Agreement, Recital 2(2):

Synthesis gas production should be stated in terms of a rate, such as Mcf per hour or Mcf per day; which is intended?

Response 28 – DOE has recommended that the IRS clarify the Notice to read Mscf (million standard cubic feet) per hour

29. Definition of Gasification Technology

a. Does combustion qualify as a “direct use” of synthesis gas if the combustion equipment is not part of the “eligible property”?

b. Does conversion to hydrogen and separation of CO₂ qualify as a “subsequent chemical conversion” of synthesis gas?

Responses 29 a and b – Please refer to the IRS for responses to these questions.

30. Legislative Intent

In Response 2b previously posted by DOE, it was stated that “DOE may certify a project only if it supplies more than 50% of the thermal output (in Btu) from the gasification process in the form of gases (syngas) for direct use or subsequent chemical or physical conversion in an application related to” the applications listed in §48B(c)(7). However, §48B(c)(7) only requires that the gasification application – not specifically the syngas – must be employed in those areas. This distinction is important for projects whose application is the gasification of petroleum residues, forest product residues, or agricultural residues. Please clarify that the “principally intended” criteria in §48B(c)(7) applies to the gasification application, and not solely to the use of the syngas.

Response 30 – To clarify Response 2b, and to respond to Question 30: DOE may certify a project only if 1) it supplies more than 50% of the thermal output (in BTU) from the gasification process in the form of gasses (syngas) for direct use or subsequent chemical or physical conversion in an application related to the industries listed §48B(c)(7), or 2) more than 50% of the fuel input (In BTU) to the gasification process is supplied from the sources listed in §48B(c)(7).

31. Allowable Products

Do the provisions of 48B specifically include SNG, FT liquids, ammonia, and other chemicals production?

Response 31 – Production of the products listed above does not preclude DOE certification.

32. Consideration of both 48A and 48B

- a. Please explain how a project can qualify for both 48A and 48B ITC credits (please give an example)?
- b. Could an industrial gasification project (under Section 48B) be competing with an IGCC poly-generation project applying for Section 48A ITCs and also applying for 48B ITCs for those parts of the poly-generation project not making power?
- c. Does an IGCC project (as defined in 48A) also automatically meet the qualifications under 48B?

Response 32 – For questions regarding whether projects qualify under 48A or 48B or both, please refer to the IRS for a response, as indicated in Response 2a, under “Responses for Notice 2006-25 April 10 2006”.

33. Eligible Property

Under Section 48B, is the maximum \$650 million of qualified investment that can be applied for any one project related to the entire plant or only the gasification section of the plant?

Response 33 – Please refer to the IRS for a response to this question, as indicated in Response 12, under “Responses for Notice 2006-24, 25 April 17, 2006”.

34. Carbon Capture Capability

Is extra preference given to projects that actually capture and sequester/use CO₂, or just have "carbon capture capability"?

Response 34 – As part of the certification process, DOE will not assign additional priority to projects that actually capture and sequester or use carbon dioxide.

35 Allocation of Credits

a. If the requested allocation of ITC credits for projects both qualified AND meeting the preference requirements exceeds the aggregate cap, and then the IRS uses the ratio of nameplate capacity to credits requested basis test, will the credits be given to the highest ranked projects (by this ratio) until the allocation is used up, or will it be allocated across all of the qualified/preferenced projects with a scoring system utilizing this ratio?

b. Will projects that have asked for less total allocation credits (or requested lower allocation credits per total project capital costs) be given extra preference in this allocation?

Response 35 – Please refer to the IRS for a response to questions 35 a and b.