



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
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OFFICE OF
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The Honorable Joe Manchin III
Governor of West Virginia
1900 Kanawha Boulevard, East
Charleston, WV 25305

Dear Governor Manchin:

I am responding to your letter of January 4, 2007, to the Commissioner of the Internal Revenue Service about the allocation of tax credits under the Qualifying Advanced Coal Project Program of the Energy Policy Act of 2005 (EPACT) to integrated gasification combined cycle (IGCC) projects using bituminous coal.

The tax credits are available under section 48A of the Internal Revenue Code (the Code), which the Congress enacted as part of EPACT. Under section 48A of the Code, the Secretary of the Treasury, in consultation with the Secretary of Energy, was required to establish a qualifying advanced coal project program for the deployment of advanced coal-based generation technologies. On March 13, 2006, the IRS published Notice 2006-24, which established the qualifying advanced coal project program. This notice was developed in consultation with the U.S. Department of Energy (DOE) and was approved by the Treasury Department's Office of Tax Policy. I am enclosing a copy of the notice.

Under the notice, we were permitted to consider a project under the qualifying advanced coal project program only if the DOE certified the project for feasibility and consistency with energy policy goals. See section 4.01 of Notice 2006-24. If the DOE certified a project, we allocated the tax credits according to the procedures in section 4 of the Notice. Under these procedures, credits were first allocated within each class of projects to projects that were entitled to priority under section 48A(e)(3)(B) of the Code. In the case of IGCC projects using bituminous coal as a primary feedstock, the requested allocation of credits for priority projects exceeded the total credit available for these projects. For that situation, section 4.02(4)(b) of Notice 2006-24 set forth a formula to allocate the credit among the projects. The formula allocated the total credit available for IGCC bituminous coal projects (\$267 million) to the projects having the highest ratio of total nameplate generating capacity to requested allocation of credits.

