

108TH CONGRESS
1ST SESSION

H. R. 1436

To amend the Internal Revenue Code of 1986 to enhance energy conservation, research, and development and to provide for security and diversity in the energy supply for the American people.

IN THE HOUSE OF REPRESENTATIVES

MARCH 25, 2003

Mr. SANDLIN introduced the following bill; which was referred to the
Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to enhance energy conservation, research, and development and to provide for security and diversity in the energy supply for the American people.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 “Energy Independence and Security Act of 2003”.

6 (b) AMENDMENT OF 1986 CODE.—Except as other-
7 wise expressly provided, whenever in this Act an amend-
8 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—

- Sec. 1. Short title, etc.
- Sec. 2. Credit for residential solar energy property.
- Sec. 3. Credit for energy efficiency improvements to existing homes.
- Sec. 4. Alternative motor vehicle credit.
- Sec. 5. Extension and expansion of credit for electricity produced from renew-
able resources.
- Sec. 6. Credit for production from qualifying advanced clean coal technology.
- Sec. 7. Oil and gas from marginal wells.
- Sec. 8. Natural gas gathering lines treated as 7-year property.
- Sec. 9. Temporary suspension of limitation based on 65 percent of taxable in-
come and extension of suspension of taxable income limit with
respect to marginal production.
- Sec. 10. Election to expense geological and geophysical expenditures.
- Sec. 11. Five-year net operating loss carryback for losses attributable to oper-
ating mineral interests of oil and gas producers.
- Sec. 12. Extension and modification of credit for producing fuel from a non-
conventional source.

5 **SEC. 2. CREDIT FOR RESIDENTIAL SOLAR ENERGY PROP-**
 6 **ERTY.**

7 (a) IN GENERAL.—Subpart A of part IV of sub-
 8 chapter A of chapter 1 (relating to nonrefundable personal
 9 credits) is amended by inserting after section 25B the fol-
 10 lowing new section:

11 **“SEC. 25C. RESIDENTIAL SOLAR ENERGY PROPERTY.**

12 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
 13 dividual, there shall be allowed as a credit against the tax
 14 imposed by this chapter for the taxable year an amount
 15 equal to the sum of—

1 “(1) 15 percent of the qualified photovoltaic
2 property expenditures made by the taxpayer during
3 such year, and

4 “(2) 15 percent of the qualified solar water
5 heating property expenditures made by the taxpayer
6 during the taxable year.

7 “(b) LIMITATIONS.—

8 “(1) MAXIMUM CREDIT.—The credit allowed
9 under subsection (a) shall not exceed—

10 “(A) \$2,000 for each system of property
11 described in subsection (c)(1), and

12 “(B) \$2,000 for each system of property
13 described in subsection (c)(2).

14 “(2) SAFETY CERTIFICATIONS.—No credit shall
15 be allowed under this section for an item of property
16 unless—

17 “(A) in the case of solar water heating
18 equipment, such equipment is certified for per-
19 formance and safety by the non-profit Solar
20 Rating Certification Corporation or a com-
21 parable entity endorsed by the government of
22 the State in which such property is installed,
23 and

1 “(B) in the case of a photovoltaic system,
 2 such system meets appropriate fire and electric
 3 code requirements.

4 “(3) LIMITATION BASED ON AMOUNT OF
 5 TAX.—The credit allowed under subsection (a) for
 6 the taxable year shall not exceed the excess of—

7 “(A) the sum of the regular tax liability
 8 (as defined in section 26(b)) plus the tax im-
 9 posed by section 55, over

10 “(B) the sum of the credits allowable
 11 under this subpart (other than this section and
 12 sections 23 and 25D) and section 27 for the
 13 taxable year.

14 “(c) DEFINITIONS.—For purposes of this section—

15 “(1) QUALIFIED SOLAR WATER HEATING PROP-
 16 ERTY EXPENDITURE.—The term ‘qualified solar
 17 water heating property expenditure’ means an ex-
 18 penditure for property to heat water for use in a
 19 dwelling unit located in the United States and used
 20 as a residence if at least half of the energy used by
 21 such property for such purpose is derived from the
 22 sun.

23 “(2) QUALIFIED PHOTOVOLTAIC PROPERTY EX-
 24 PENDITURE.—The term ‘qualified photovoltaic prop-
 25 erty expenditure’ means an expenditure for property

1 that uses solar energy to generate electricity for use
2 in a dwelling unit.

3 “(3) SOLAR PANELS.—No expenditure relating
4 to a solar panel or other property installed as a roof
5 (or portion thereof) shall fail to be treated as prop-
6 erty described in paragraph (1) or (2) solely because
7 it constitutes a structural component of the struc-
8 ture on which it is installed.

9 “(4) LABOR COSTS.—Expenditures for labor
10 costs properly allocable to the onsite preparation, as-
11 sembly, or original installation of the property de-
12 scribed in paragraph (1) or (2) and for piping or
13 wiring to interconnect such property to the dwelling
14 unit shall be taken into account for purposes of this
15 section.

16 “(5) SWIMMING POOLS, ETC., USED AS STOR-
17 AGE MEDIUM.—Expenditures which are properly al-
18 locable to a swimming pool, hot tub, or any other
19 energy storage medium which has a function other
20 than the function of such storage shall not be taken
21 into account for purposes of this section.

22 “(d) SPECIAL RULES.—

23 “(1) DOLLAR AMOUNTS IN CASE OF JOINT OC-
24 CUPANCY.—In the case of any dwelling unit which is
25 jointly occupied and used during any calendar year

1 as a residence by 2 or more individuals the following
2 shall apply:

3 “(A) The amount of the credit allowable
4 under subsection (a) by reason of expenditures
5 (as the case may be) made during such cal-
6 endar year by any of such individuals with re-
7 spect to such dwelling unit shall be determined
8 by treating all of such individuals as 1 taxpayer
9 whose taxable year is such calendar year.

10 “(B) There shall be allowable with respect
11 to such expenditures to each of such individ-
12 uals, a credit under subsection (a) for the tax-
13 able year in which such calendar year ends in
14 an amount which bears the same ratio to the
15 amount determined under subparagraph (A) as
16 the amount of such expenditures made by such
17 individual during such calendar year bears to
18 the aggregate of such expenditures made by all
19 of such individuals during such calendar year.

20 “(2) TENANT-STOCKHOLDER IN COOPERATIVE
21 HOUSING CORPORATION.—In the case of an indi-
22 vidual who is a tenant-stockholder (as defined in sec-
23 tion 216) in a cooperative housing corporation (as
24 defined in such section), such individual shall be
25 treated as having made his tenant-stockholder’s pro-

1 portionate share (as defined in section 216(b)(3)) of
2 any expenditures of such corporation.

3 “(3) CONDOMINIUMS.—

4 “(A) IN GENERAL.—In the case of an indi-
5 vidual who is a member of a condominium man-
6 agement association with respect to a condo-
7 minium which he owns, such individual shall be
8 treated as having made his proportionate share
9 of any expenditures of such association.

10 “(B) CONDOMINIUM MANAGEMENT ASSO-
11 CIATION.—For purposes of this paragraph, the
12 term ‘condominium management association’
13 means an organization which meets the require-
14 ments of paragraph (1) of section 528(c) (other
15 than subparagraph (E) thereof) with respect to
16 a condominium project substantially all of the
17 units of which are used as residences.

18 “(4) ALLOCATION IN CERTAIN CASES.—If less
19 than 80 percent of the use of an item is for nonbusi-
20 ness purposes, only that portion of the expenditures
21 for such item which is properly allocable to use for
22 nonbusiness purposes shall be taken into account.

23 “(5) WHEN EXPENDITURE MADE; AMOUNT OF
24 EXPENDITURE.—

1 “(A) IN GENERAL.—Except as provided in
2 subparagraph (B), an expenditure with respect
3 to an item shall be treated as made when the
4 original installation of the item is completed.

5 “(B) EXPENDITURES PART OF BUILDING
6 CONSTRUCTION.—In the case of an expenditure
7 in connection with the construction or recon-
8 struction of a structure, such expenditure shall
9 be treated as made when the original use of the
10 constructed or reconstructed structure by the
11 taxpayer begins.

12 “(C) AMOUNT.—The amount of any ex-
13 penditure shall be the cost thereof.

14 “(6) PROPERTY FINANCED BY SUBSIDIZED EN-
15 ERGY FINANCING.—For purposes of determining the
16 amount of expenditures made by any individual with
17 respect to any dwelling unit, there shall not be taken
18 in to account expenditures which are made from
19 subsidized energy financing (as defined in section
20 48(a)(4)(A)).

21 “(e) BASIS ADJUSTMENTS.—For purposes of this
22 subtitle, if a credit is allowed under this section for any
23 expenditure with respect to any property, the increase in
24 the basis of such property which would (but for this sub-

1 section) result from such expenditure shall be reduced by
2 the amount of the credit so allowed.

3 “(f) TERMINATION.—The credit allowed under this
4 section shall not apply to taxable years beginning after
5 December 31, 2008 (December 31, 2009, with respect to
6 qualified photovoltaic property expenditures).”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Subsection (a) of section 1016 is amended
9 by striking “and” at the end of paragraph (27), by
10 striking the period at the end of paragraph (28) and
11 inserting “, and”, and by adding at the end the fol-
12 lowing new paragraph:

13 “(29) to the extent provided in section 25C(e),
14 in the case of amounts with respect to which a credit
15 has been allowed under section 25C.”.

16 (2) The table of sections for subpart A of part
17 IV of subchapter A of chapter 1 is amended by in-
18 serting after the item relating to section 25B the fol-
19 lowing new item:

“Sec. 25C. Residential solar energy property.”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to taxable years ending after De-
22 cember 31, 2003.

1 **SEC. 3. CREDIT FOR ENERGY EFFICIENCY IMPROVEMENTS**
2 **TO EXISTING HOMES.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-
4 chapter A of chapter 1 (relating to nonrefundable personal
5 credits) is amended by inserting after section 25C the fol-
6 lowing new section:

7 **“SEC. 25D. ENERGY EFFICIENCY IMPROVEMENTS TO EXIST-**
8 **ING HOMES.**

9 “(a) ALLOWANCE OF CREDIT.—In the case of an in-
10 dividual, there shall be allowed as a credit against the tax
11 imposed by this chapter for the taxable year an amount
12 equal to 20 percent of the amount paid or incurred by
13 the taxpayer for qualified energy efficiency improvements
14 installed during such taxable year.

15 “(b) LIMITATIONS.—

16 “(1) MAXIMUM CREDIT.—The credit allowed by
17 this section with respect to a dwelling shall not ex-
18 ceed \$2,000.

19 “(2) PRIOR CREDIT AMOUNTS FOR TAXPAYER
20 ON SAME DWELLING TAKEN INTO ACCOUNT.—If a
21 credit was allowed to the taxpayer under subsection
22 (a) with respect to a dwelling in 1 or more prior tax-
23 able years, the amount of the credit otherwise allow-
24 able for the taxable year with respect to that dwell-
25 ing shall not exceed the amount of \$2,000 reduced
26 by the sum of the credits allowed under subsection

1 (a) to the taxpayer with respect to the dwelling for
2 all prior taxable years.

3 “(3) LIMITATION BASED ON AMOUNT OF
4 TAX.—The credit allowed under subsection (a) for
5 the taxable year shall not exceed the excess of—

6 “(A) the sum of the regular tax liability
7 (as defined in section 26(b)) plus the tax im-
8 posed by section 55, over

9 “(B) the sum of the credits allowable
10 under this subpart (other than this section and
11 section 23) and section 27 for the taxable year.

12 “(c) CARRYFORWARD OF UNUSED CREDIT.—If the
13 credit allowable under subsection (a) exceeds the limita-
14 tion imposed by subsection (b)(3) for such taxable year,
15 such excess shall be carried to the succeeding taxable year
16 and added to the credit allowable under subsection (a) for
17 such succeeding taxable year.

18 “(d) QUALIFIED ENERGY EFFICIENCY IMPROVE-
19 MENTS.—For purposes of this section, the term ‘qualified
20 energy efficiency improvements’ means any energy effi-
21 cient building envelope component which meets the pre-
22 scriptive criteria for such component established by the
23 1998 International Energy Conservation Code, if—

24 “(1) such component is installed in or on a
25 dwelling—

1 “(A) located in the United States, and

2 “(B) owned and used by the taxpayer as
3 the taxpayer’s principal residence (within the
4 meaning of section 121),

5 “(2) the original use of such component com-
6 mences with the taxpayer, and

7 “(3) such component reasonably can be ex-
8 pected to remain in use for at least 5 years.

9 If the aggregate cost of such components with respect to
10 any dwelling exceeds \$1,000, such components shall be
11 treated as qualified energy efficiency improvements only
12 if such components are also certified in accordance with
13 subsection (e) as meeting such criteria.

14 “(e) CERTIFICATION.—The certification described in
15 subsection (d) shall be—

16 “(1) determined on the basis of the technical
17 specifications or applicable ratings (including prod-
18 uct labeling requirements) for the measurement of
19 energy efficiency, based upon energy use or building
20 envelope component performance, for the energy effi-
21 cient building envelope component,

22 “(2) provided by a local building regulatory au-
23 thority, a utility, a manufactured home production
24 inspection primary inspection agency (IPIA), or an
25 accredited home energy rating system provider who

1 is accredited by or otherwise authorized to use ap-
2 proved energy performance measurement methods by
3 the Home Energy Ratings Systems Council or the
4 National Association of State Energy Officials, and

5 “(3) made in writing in a manner that specifies
6 in readily verifiable fashion the energy efficient
7 building envelope components installed and their re-
8 spective energy efficiency levels.

9 “(f) DEFINITIONS AND SPECIAL RULES.—

10 “(1) TENANT-STOCKHOLDER IN COOPERATIVE
11 HOUSING CORPORATION.—In the case of an indi-
12 vidual who is a tenant-stockholder (as defined in sec-
13 tion 216) in a cooperative housing corporation (as
14 defined in such section), such individual shall be
15 treated as having paid his tenant-stockholder’s pro-
16 portionate share (as defined in section 216(b)(3)) of
17 the cost of qualified energy efficiency improvements
18 made by such corporation.

19 “(2) CONDOMINIUMS.—

20 “(A) IN GENERAL.—In the case of an indi-
21 vidual who is a member of a condominium man-
22 agement association with respect to a condo-
23 minium which he owns, such individual shall be
24 treated as having paid his proportionate share

1 of the cost of qualified energy efficiency im-
2 provements made by such association.

3 “(B) CONDOMINIUM MANAGEMENT ASSO-
4 CIATION.—For purposes of this paragraph, the
5 term ‘condominium management association’
6 means an organization which meets the require-
7 ments of paragraph (1) of section 528(c) (other
8 than subparagraph (E) thereof) with respect to
9 a condominium project substantially all of the
10 units of which are used as residences.

11 “(3) BUILDING ENVELOPE COMPONENT.—The
12 term ‘building envelope component’ means insulation
13 material or system which is specifically and pri-
14 marily designed to reduce the heat loss or gain of a
15 dwelling when installed in or on such dwelling, exte-
16 rior windows (including skylights) and doors, and
17 metal roofs with appropriate pigmented coatings
18 which are specifically and primarily designed to re-
19 duce the heat gain of a dwelling when installed in
20 or on such dwelling.

21 “(4) MANUFACTURED HOMES INCLUDED.—For
22 purposes of this section, the term ‘dwelling’ includes
23 a manufactured home which conforms to Federal
24 Manufactured Home Construction and Safety Stand-
25 ards (24 CFR 3280).

1 “(g) BASIS ADJUSTMENT.—For purposes of this sub-
 2 title, if a credit is allowed under this section for any ex-
 3 penditure with respect to any property, the increase in the
 4 basis of such property which would (but for this sub-
 5 section) result from such expenditure shall be reduced by
 6 the amount of the credit so allowed.

7 “(h) APPLICATION OF SECTION.—This section shall
 8 apply to qualified energy efficiency improvements installed
 9 after December 31, 2003 and before January 1, 2009.”.

10 (b) CONFORMING AMENDMENTS.—

11 (1) Subsection (a) of section 1016 is amended
 12 by striking “and” at the end of paragraph (28), by
 13 striking the period at the end of paragraph (29) and
 14 inserting “, and”, and by adding at the end the fol-
 15 lowing new paragraph:

16 “(30) to the extent provided in section 25D(g),
 17 in the case of amounts with respect to which a credit
 18 has been allowed under section 25D.”.

19 (2) The table of sections for subpart A of part
 20 IV of subchapter A of chapter 1 is amended by in-
 21 serting after the item relating to section 25C the fol-
 22 lowing new item:

“Sec. 25D. Energy efficiency improvements to existing homes.”.

23 (c) EFFECTIVE DATE.—The amendments made by
 24 this section shall apply to taxable years ending after De-
 25 cember 31, 2003.

1 **SEC. 4. ALTERNATIVE MOTOR VEHICLE CREDIT.**

2 (a) IN GENERAL.—Subpart B of part IV of sub-
3 chapter A of chapter 1 (relating to other credits) is
4 amended by adding at the end the following:

5 **“SEC. 30B. ALTERNATIVE MOTOR VEHICLE CREDIT.**

6 “(a) ALLOWANCE OF CREDIT.—There shall be al-
7 lowed as a credit against the tax imposed by this chapter
8 for the taxable year an amount equal to the sum of—

9 “(1) the new qualified fuel cell motor vehicle
10 credit determined under subsection (b), and

11 “(2) the new qualified hybrid motor vehicle
12 credit determined under subsection (c).

13 “(b) NEW QUALIFIED FUEL CELL MOTOR VEHICLE
14 CREDIT.—

15 “(1) IN GENERAL.—For purposes of subsection
16 (a), the new qualified fuel cell motor vehicle credit
17 determined under this subsection with respect to a
18 new qualified fuel cell motor vehicle placed in service
19 by the taxpayer during the taxable year is—

20 “(A) \$4,000, if such vehicle has a gross ve-
21 hicle weight rating of not more than 8,500
22 pounds,

23 “(B) \$10,000, if such vehicle has a gross
24 vehicle weight rating of more than 8,500
25 pounds but not more than 14,000 pounds,

1 “(C) \$20,000, if such vehicle has a gross
2 vehicle weight rating of more than 14,000
3 pounds but not more than 26,000 pounds, and

4 “(D) \$40,000, if such vehicle has a gross
5 vehicle weight rating of more than 26,000
6 pounds.

7 “(2) INCREASE FOR FUEL EFFICIENCY.—

8 “(A) IN GENERAL.—The amount deter-
9 mined under paragraph (1)(A) with respect to
10 a new qualified fuel cell motor vehicle which is
11 a passenger automobile or light truck shall be
12 increased by—

13 “(i) \$1,000, if such vehicle achieves at
14 least 150 percent but less than 175 per-
15 cent of the 2002 model year city fuel econ-
16 omy,

17 “(ii) \$1,500, if such vehicle achieves
18 at least 175 percent but less than 200 per-
19 cent of the 2002 model year city fuel econ-
20 omy,

21 “(iii) \$2,000, if such vehicle achieves
22 at least 200 percent but less than 225 per-
23 cent of the 2002 model year city fuel econ-
24 omy,

1 “(iv) \$2,500, if such vehicle achieves
2 at least 225 percent but less than 250 per-
3 cent of the 2002 model year city fuel econ-
4 omy,

5 “(v) \$3,000, if such vehicle achieves
6 at least 250 percent but less than 275 per-
7 cent of the 2002 model year city fuel econ-
8 omy,

9 “(vi) \$3,500, if such vehicle achieves
10 at least 275 percent but less than 300 per-
11 cent of the 2002 model year city fuel econ-
12 omy, and

13 “(vii) \$4,000, if such vehicle achieves
14 at least 300 percent of the 2002 model
15 year city fuel economy.

16 “(B) 2002 MODEL YEAR CITY FUEL ECON-
17 OMY.—For purposes of subparagraph (A), the
18 2002 model year city fuel economy with respect
19 to a vehicle shall be determined in accordance
20 with the following tables:

21 “(i) In the case of a passenger auto-
22 mobile:

“If vehicle inertia weight The 2002 model year city fuel	
class is: economy is:	
1,500 or 1,750 lbs	43.7 mpg
2,000 lbs	38.3 mpg
2,250 lbs	34.1 mpg
2,500 lbs	30.7 mpg
2,750 lbs	27.9 mpg

“If vehicle inertia weight The 2002 model year city fuel	
class is: economy is:	
3,000 lbs	25.6 mpg
3,500 lbs	22.0 mpg
4,000 lbs	19.3 mpg
4,500 lbs	17.2 mpg
5,000 lbs	15.5 mpg
5,500 lbs	14.1 mpg
6,000 lbs	12.9 mpg
6,500 lbs	11.9 mpg
7,000 or 8,500 lbs	11.1 mpg.

1 “(ii) In the case of a light truck:

“If vehicle inertia weight The 2002 model year city fuel	
class is: economy is:	
1,500 or 1,750 lbs	37.6 mpg
2,000 lbs	33.7 mpg
2,250 lbs	30.6 mpg
2,500 lbs	28.0 mpg
2,750 lbs	25.9 mpg
3,000 lbs	24.1 mpg
3,500 lbs	21.3 mpg
4,000 lbs	19.0 mpg
4,500 lbs	17.3 mpg
5,000 lbs	15.8 mpg
5,500 lbs	14.6 mpg
6,000 lbs	13.6 mpg
6,500 lbs	12.8 mpg
7,000 or 8,500 lbs	12.0 mpg.

2 “(C) VEHICLE INERTIA WEIGHT CLASS.—

3 For purposes of subparagraph (B), the term
4 ‘vehicle inertia weight class’ has the same
5 meaning as when defined in regulations pre-
6 scribed by the Administrator of the Environ-
7 mental Protection Agency for purposes of the
8 administration of title II of the Clean Air Act
9 (42 U.S.C. 7521 et seq.).

10 “(3) NEW QUALIFIED FUEL CELL MOTOR VEHI-
11 CLE.—For purposes of this subsection, the term

1 ‘new qualified fuel cell motor vehicle’ means a motor
2 vehicle—

3 “(A) which is propelled by power derived
4 from one or more cells which convert chemical
5 energy directly into electricity by combining ox-
6 ygen with hydrogen fuel which is stored on
7 board the vehicle in any form and may or may
8 not require reformation prior to use,

9 “(B) which, in the case of a passenger
10 automobile or light truck—

11 “(i) for 2004 and later model vehicles,
12 has received a certificate of conformity
13 under the Clean Air Act and meets or ex-
14 ceeds the equivalent qualifying California
15 low emission vehicle standard under sec-
16 tion 243(e)(2) of the Clean Air Act for
17 that make and model year, and

18 “(ii) for 2006 and later model vehi-
19 cles, has received a certificate that such ve-
20 hicle meets or exceeds the Tier II emission
21 level established in regulations prescribed
22 by the Administrator of the Environmental
23 Protection Agency under section 202(i) of
24 the Clean Air Act for that make and model
25 year vehicle,

1 “(C) the original use of which commences
2 with the taxpayer,

3 “(D) which is acquired for use or lease by
4 the taxpayer and not for resale, and

5 “(E) which is made by a manufacturer.

6 “(c) NEW QUALIFIED HYBRID MOTOR VEHICLE
7 CREDIT.—

8 “(1) IN GENERAL.—For purposes of subsection
9 (a), the new qualified hybrid motor vehicle credit de-
10 termined under this subsection with respect to a new
11 qualified hybrid motor vehicle placed in service by
12 the taxpayer during the taxable year is the credit
13 amount determined under paragraph (2).

14 “(2) CREDIT AMOUNT.—

15 “(A) IN GENERAL.—The credit amount de-
16 termined under this paragraph shall be deter-
17 mined in accordance with the following tables:

18 “(i) In the case of a new qualified hy-
19 brid motor vehicle which is a passenger
20 automobile or light truck and which pro-
21 vides the following percentage of the max-
22 imum available power:

**“If percentage of the max- The credit amount is:
imum available power is:**

At least 2.5 percent but less than 10 percent	\$250
At least 10 percent but less than 20 percent	\$500
At least 20 percent but less than 30 percent	\$750
At least 30 percent	\$1,000.

1 “(ii) In the case of a new qualified hy-
 2 brid motor vehicle which is a heavy duty
 3 hybrid motor vehicle and which provides
 4 the following percentage of the maximum
 5 available power:

6 “(I) If such vehicle has a gross
 7 vehicle weight rating of not more than
 8 14,000 pounds:

**“If percentage of the max- The credit amount is:
 imum available power is:**

At least 20 percent but less than 30 percent	\$1,500
At least 30 percent but less than 40 percent	\$1,750
At least 40 percent but less than 50 percent	\$2,000
At least 50 percent but less than 60 percent	\$2,250
At least 60 percent	\$2,500.

9 “(II) If such vehicle has a gross
 10 vehicle weight rating of more than
 11 14,000 but not more than 26,000
 12 pounds:

**“If percentage of the max- The credit amount is:
 imum available power is:**

At least 20 percent but less than 30 percent	\$4,000
At least 30 percent but less than 40 percent	\$4,500
At least 40 percent but less than 50 percent	\$5,000
At least 50 percent but less than 60 percent	\$5,500
At least 60 percent	\$6,000.

13 “(III) If such vehicle has a gross
 14 vehicle weight rating of more than
 15 26,000 pounds:

**“If percentage of the max- The credit amount is:
 imum available power is:**

At least 20 percent but less than 30 percent	\$6,000
At least 30 percent but less than 40 percent	\$7,000
At least 40 percent but less than 50 percent	\$8,000
At least 50 percent but less than 60 percent	\$9,000
At least 60 percent	\$10,000.

1 “(B) INCREASE FOR FUEL EFFICIENCY.—

2 “(i) AMOUNT.—The amount deter-
3 mined under subparagraph (A)(i) with re-
4 spect to a passenger automobile or light
5 truck shall be increased by—

6 “(I) \$1,000, if such vehicle
7 achieves at least 125 percent but less
8 than 150 percent of the 2002 model
9 year city fuel economy,

10 “(II) \$1,500, if such vehicle
11 achieves at least 150 percent but less
12 than 175 percent of the 2002 model
13 year city fuel economy,

14 “(III) \$2,000, if such vehicle
15 achieves at least 175 percent but less
16 than 200 percent of the 2002 model
17 year city fuel economy,

18 “(IV) \$2,500, if such vehicle
19 achieves at least 200 percent but less
20 than 225 percent of the 2002 model
21 year city fuel economy,

22 “(V) \$3,000, if such vehicle
23 achieves at least 225 percent but less
24 than 250 percent of the 2002 model
25 year city fuel economy, and

1 “(VI) \$3,500, if such vehicle
2 achieves at least 250 percent of the
3 2002 model year city fuel economy.

4 “(ii) 2002 MODEL YEAR CITY FUEL
5 ECONOMY.—For purposes of clause (i), the
6 2002 model year city fuel economy with re-
7 spect to a vehicle shall be determined using
8 the tables provided in subsection (b)(2)(B)
9 with respect to such vehicle.

10 “(iii) OPTION TO USE LIKE VEHI-
11 CLE.—For purposes of clause (i), at the
12 option of the vehicle manufacturer, the in-
13 crease for fuel efficiency may be calculated
14 by comparing the new qualified hybrid
15 motor vehicle to a ‘like vehicle’.

16 “(C) INCREASE FOR ACCELERATED EMIS-
17 SIONS PERFORMANCE.—The amount deter-
18 mined under subparagraph (A)(ii) with respect
19 to an applicable heavy duty hybrid motor vehi-
20 cle shall be increased by the increase credit
21 amount determined in accordance with the fol-
22 lowing tables:

23 “(i) In the case of a vehicle which has
24 a gross vehicle weight rating of not more
25 than 14,000 pounds:

“If the model year is:	The increase credit amount is:
2004	\$3,500
2005	\$3,000
2006	\$2,500
2007	\$2,000
2008	\$1,500.

1 “(ii) In the case of a vehicle which
2 has a gross vehicle weight rating of more
3 than 14,000 pounds but not more than
4 26,000 pounds:

“If the model year is:	The increase credit amount is:
2004	\$9,000
2005	\$7,750
2006	\$6,500
2007	\$5,250
2008	\$4,000.

5 “(iii) In the case of a vehicle which
6 has a gross vehicle weight rating of more
7 than 26,000 pounds:

“If the model year is:	The increase credit amount is:
2004	\$14,000
2005	\$12,000
2006	\$10,000
2007	\$8,000
2008	\$6,000.

8 “(D) CONSERVATION CREDIT.—

9 “(i) AMOUNT.—The amount deter-
10 mined under subparagraph (A)(i) with re-
11 spect to a passenger automobile or light
12 truck shall be increased by—

13 “(I) \$250, if such vehicle
14 achieves a lifetime fuel savings of at
15 least 1,500 gallons of gasoline, and

1 “(II) \$500, if such vehicle
2 achieves a lifetime fuel savings of at
3 least 2,500 gallons of gasoline.

4 “(ii) LIFETIME FUEL SAVINGS FOR
5 LIKE VEHICLE.—For purposes of clause
6 (i), at the option of the vehicle manufac-
7 turer, the lifetime fuel savings fuel may be
8 calculated by comparing the new qualified
9 hybrid motor vehicle to a ‘like vehicle’.

10 “(E) DEFINITIONS.—

11 “(i) APPLICABLE HEAVY DUTY HY-
12 BRID MOTOR VEHICLE.—For purposes of
13 subparagraph (C), the term ‘applicable
14 heavy duty hybrid motor vehicle’ means a
15 heavy duty hybrid motor vehicle which is
16 powered by an internal combustion or heat
17 engine which is certified as meeting the
18 emission standards set in the regulations
19 prescribed by the Administrator of the En-
20 vironmental Protection Agency for 2009
21 and later model year diesel heavy duty en-
22 gines or 2010 and later model year
23 ottocycle heavy duty engines, as applicable.

24 “(ii) HEAVY DUTY HYBRID MOTOR VE-
25 HICLE.—For purposes of this paragraph,

1 the term ‘heavy duty hybrid motor vehicle’
2 means a new qualified hybrid motor vehicle
3 which has a gross vehicle weight rating of
4 more than 10,000 pounds and draws pro-
5 pulsion energy from both of the following
6 onboard sources of stored energy:

7 “(I) An internal combustion or
8 heat engine using consumable fuel
9 which, for 2004 and later model vehi-
10 cles, has received a certificate of con-
11 formity under the Clean Air Act and
12 meets or exceeds a level of not greater
13 than 3.0 grams per brake horsepower-
14 hour of oxides of nitrogen and 0.01
15 per brake horsepower-hour of particu-
16 late matter.

17 “(II) A rechargeable energy stor-
18 age system.

19 “(iii) MAXIMUM AVAILABLE POWER.—

20 “(I) PASSENGER AUTOMOBILE
21 OR LIGHT TRUCK.—For purposes of
22 subparagraph (A)(i), the term ‘max-
23 imum available power’ means the
24 maximum power available from the
25 battery or other electrical storage de-

1 vice, during a standard 10 second
2 pulse power test, divided by the sum
3 of the battery or other electrical stor-
4 age device and the SAE net power of
5 the heat engine.

6 “(II) HEAVY DUTY HYBRID
7 MOTOR VEHICLE.—For purposes of
8 subparagraph (A)(ii), the term ‘max-
9 imum available power’ means the
10 maximum power available from the
11 battery or other electrical storage de-
12 vice, during a standard 10 second
13 pulse power test, divided by the vehi-
14 cle’s total traction power. The term
15 ‘total traction power’ means the sum
16 of the electric motor peak power and
17 the heat engine peak power of the ve-
18 hicle, except that if the electric motor
19 is the sole means by which the vehicle
20 can be driven, the total traction power
21 is the peak electric motor power.

22 “(iv) LIKE VEHICLE.—For purposes
23 of subparagraph (B)(iii), the term ‘like ve-
24 hicle’ for a new qualified hybrid motor ve-
25 hicle derived from a conventional produc-

tion vehicle produced in the same model year means a model that is equivalent in the following areas:

“(I) Body style (2-door or 4-door).

“(II) Transmission (automatic or manual).

“(III) Acceleration performance (± 0.05 seconds).

“(IV) Drivetrain (2-wheel drive or 4-wheel drive).

“(V) Certification by the Administrator of the Environmental Protection Agency.

“(v) LIFETIME FUEL SAVINGS.—For purposes of subsection (c)(2)(D), the term ‘lifetime fuel savings’ shall be calculated by dividing 120,000 by the difference between the 2002 model year city fuel economy for the vehicle inertia weight class and the city fuel economy for the new qualified hybrid motor vehicle.

“(3) NEW QUALIFIED HYBRID MOTOR VEHICLE.—For purposes of this subsection, the term

1 ‘new qualified hybrid motor vehicle’ means a motor
2 vehicle—

3 “(A) which draws propulsion energy from
4 onboard sources of stored energy which are
5 both—

6 “(i) an internal combustion or heat
7 engine using combustible fuel, and

8 “(ii) a rechargeable energy storage
9 system,

10 “(B) which, in the case of a passenger
11 automobile or light truck, for 2004 and later
12 model vehicles, has received a certificate of con-
13 formity under the Clean Air Act and meets or
14 exceeds the equivalent qualifying California low
15 emission vehicle standard under section
16 243(e)(2) of the Clean Air Act for that make
17 and model year,

18 “(C) the original use of which commences
19 with the taxpayer,

20 “(D) which is acquired for use or lease by
21 the taxpayer and not for resale, and

22 “(E) which is made by a manufacturer.

23 “(d) LIMITATION BASED ON AMOUNT OF TAX.—The
24 credit allowed under subsection (a) for the taxable year
25 shall not exceed the excess of—

1 “(1) the sum of the regular tax liability (as de-
 2 fined in section 26(b)) plus the tax imposed by sec-
 3 tion 55, over

4 “(2) the sum of the credits allowable under sub-
 5 part A and sections 27, 29, and 30A for the taxable
 6 year.

7 “(e) OTHER DEFINITIONS AND SPECIAL RULES.—
 8 For purposes of this section—

9 “(1) CONSUMABLE FUEL.—The term
 10 ‘consumable fuel’ means any solid, liquid, or gaseous
 11 matter which releases energy when consumed by an
 12 auxiliary power unit.

13 “(2) MOTOR VEHICLE.—The term ‘motor vehi-
 14 cle’ has the meaning given such term by section
 15 30(c)(2).

16 “(3) 2002 MODEL YEAR CITY FUEL ECON-
 17 OMY.—The 2002 model year city fuel economy with
 18 respect to any vehicle shall be measured under rules
 19 similar to the rules under section 4064(c).

20 “(4) OTHER TERMS.—The terms ‘automobile’,
 21 ‘passenger automobile’, ‘light truck’, and ‘manufac-
 22 turer’ have the meanings given such terms in regula-
 23 tions prescribed by the Administrator of the Envi-
 24 ronmental Protection Agency for purposes of the ad-

1 ministration of title II of the Clean Air Act (42
2 U.S.C. 7521 et seq.).

3 “(5) REDUCTION IN BASIS.—For purposes of
4 this subtitle, the basis of any property for which a
5 credit is allowable under subsection (a) shall be re-
6 duced by the amount of such credit so allowed.

7 “(6) NO DOUBLE BENEFIT.—The amount of
8 any deduction or credit allowable under this chapter
9 (other than the credit allowable under this section)
10 shall be reduced by the amount of credit allowed
11 under subsection (a) for such vehicle for the taxable
12 year.

13 “(7) PROPERTY USED BY TAX-EXEMPT ENTI-
14 TIES.—In the case of a credit amount which is al-
15 lowable with respect to a motor vehicle which is ac-
16 quired by an entity exempt from tax under this
17 chapter, the person which sells or leases such vehicle
18 to the entity shall be treated as the taxpayer with
19 respect to the vehicle for purposes of this section
20 and the credit shall be allowed to such person, but
21 only if the person clearly discloses to the entity in
22 any sale or lease document the specific amount of
23 any credit otherwise allowable to the entity under
24 this section and reduces the sale or lease price of
25 such vehicle by an equivalent amount of such credit.

1 “(8) RECAPTURE.—The Secretary shall, by reg-
2 ulations, provide for recapturing the benefit of any
3 credit allowable under subsection (a) with respect to
4 any property which ceases to be property eligible for
5 such credit (including recapture in the case of a
6 lease period of less than the economic life of a vehi-
7 cle).

8 “(9) PROPERTY USED OUTSIDE UNITED
9 STATES, ETC., NOT QUALIFIED.—No credit shall be
10 allowed under subsection (a) with respect to any
11 property referred to in section 50(b) or with respect
12 to the portion of the cost of any property taken into
13 account under section 179.

14 “(10) ELECTION TO NOT TAKE CREDIT.—No
15 credit shall be allowed under subsection (a) for any
16 vehicle if the taxpayer elects to not have this section
17 apply to such vehicle.

18 “(11) CARRYFORWARD ALLOWED.—

19 “(A) IN GENERAL.—If the credit amount
20 allowable under subsection (a) for a taxable
21 year exceeds the amount of the limitation under
22 subsection (c) for such taxable year (referred to
23 as the ‘unused credit year’ in this paragraph),
24 such excess shall be allowed as a credit

1 carryforward for each of the 20 taxable years
 2 following the unused credit year.

3 “(B) RULES.—Rules similar to the rules of
 4 section 39 shall apply with respect to the credit
 5 carryforward under subparagraph (A).

6 “(12) INTERACTION WITH AIR QUALITY AND
 7 MOTOR VEHICLE SAFETY STANDARDS.—Unless oth-
 8 erwise provided in this section, a motor vehicle shall
 9 not be considered eligible for a credit under this sec-
 10 tion unless such vehicle is in compliance with—

11 “(A) the applicable provisions of the Clean
 12 Air Act for the applicable make and model year
 13 of the vehicle (or applicable air quality provi-
 14 sions of State law in the case of a State which
 15 has adopted such provision under a waiver
 16 under section 209(b) of the Clean Air Act), and

17 “(B) the motor vehicle safety provisions of
 18 sections 30101 through 30169 of title 49,
 19 United States Code.

20 “(f) REGULATIONS.—

21 “(1) IN GENERAL.—The Secretary shall pro-
 22 mulgate such regulations as necessary to carry out
 23 the provisions of this section.

24 “(2) ADMINISTRATOR OF ENVIRONMENTAL
 25 PROTECTION AGENCY.—The Administrator of the

1 Environmental Protection Agency, in coordination
 2 with the Secretary of Transportation and the Sec-
 3 retary of the Treasury, shall prescribe such regula-
 4 tions as necessary to determine whether a motor ve-
 5 hicle meets the requirements to be eligible for a
 6 credit under this section.

7 “(g) TERMINATION.—This section shall not apply to
 8 any property placed in service after—

9 “(1) in the case of a new qualified fuel cell
 10 motor vehicle (as described in subsection (b)), De-
 11 cember 31, 2013, and

12 “(2) in the case of any other property, Decem-
 13 ber 31, 2009.”.

14 (b) CONFORMING AMENDMENTS.—

15 (1) Section 1016(a) is amended by striking
 16 “and” at the end of paragraph (29), by striking the
 17 period at the end of paragraph (30) and inserting “,
 18 and”, and by adding at the end the following:

19 “(31) to the extent provided in section
 20 30B(e)(5).”.

21 (2) Section 6501(m) is amended by inserting
 22 “30B(e)(10),” after “30(d)(4),”.

23 (3) The table of sections for subpart B of part
 24 IV of subchapter A of chapter 1 is amended by in-

1 serting after the item relating to section 30A the fol-
 2 lowing:

“Sec. 30B. Alternative motor vehicle credit.”.

3 (c) EFFECTIVE DATE.—The amendments made by
 4 this section shall apply to property placed in service after
 5 December 31, 2003, in taxable years ending after such
 6 date.

7 **SEC. 5. EXTENSION AND EXPANSION OF CREDIT FOR ELEC-**
 8 **TRICITY PRODUCED FROM RENEWABLE RE-**
 9 **SOURCES.**

10 (a) EXTENSION OF CREDIT FOR WIND AND CLOSED-
 11 LOOP BIOMASS FACILITIES.—Subparagraphs (A) and (B)
 12 of section 45(c)(3) are each amended by striking “2004”
 13 and inserting “2009”.

14 (b) EXPANSION OF CREDIT FOR OPEN-LOOP BIO-
 15 MASS AND LANDFILL GAS FACILITIES.—Paragraph (3) of
 16 section 45(c) is amended by adding at the end the fol-
 17 lowing new subparagraphs:

18 “(D) OPEN-LOOP BIOMASS FACILITIES.—
 19 In the case of a facility using open-loop biomass
 20 to produce electricity, the term ‘qualified facil-
 21 ity’ means any facility owned by the taxpayer
 22 which is originally placed in service before Jan-
 23 uary 1, 2009.

24 “(E) LANDFILL GAS FACILITIES.—In the
 25 case of a facility producing electricity from gas

1 derived from the biodegradation of municipal
2 solid waste, the term ‘qualified facility’ means
3 any facility owned by the taxpayer which is
4 originally placed in service before January 1,
5 2009.”.

6 (c) DEFINITION AND SPECIAL RULES.—Subsection
7 (c) of section 45 is amended by adding at the end the
8 following new paragraphs:

9 “(5) OPEN-LOOP BIOMASS.—The term ‘open-
10 loop biomass’ means any solid, nonhazardous, cel-
11 lulosic waste material which is segregated from other
12 waste materials and which is derived from—

13 “(A) any of the following forest-related re-
14 sources: mill residues, precommercial thinnings,
15 slash, and brush, but not including old-growth
16 timber,

17 “(B) solid wood waste materials, including
18 waste pallets, crates, dunnage, manufacturing
19 and construction wood wastes (other than pres-
20 sure-treated, chemically-treated, or painted
21 wood wastes), and landscape or right-of-way
22 tree trimmings, but not including municipal
23 solid waste (garbage), gas derived from the bio-
24 degradation of solid waste, or paper that is
25 commonly recycled, or

1 “(C) agriculture sources, including orchard
2 tree crops, vineyard, grain, legumes, sugar, and
3 other crop by-products or residues.

4 Such term shall not include closed-loop biomass.

5 “(6) REDUCED CREDIT FOR CERTAIN
6 PREEFFECTIVE DATE FACILITIES.—In the case of
7 any facility described in subparagraph (D) or (E) of
8 paragraph (3) which is placed in service before the
9 date of the enactment of this subparagraph—

10 “(A) subsection (a)(1) shall be applied by
11 substituting ‘1.0 cents’ for ‘1.5 cents’, and

12 “(B) the 5-year period beginning on the
13 date of the enactment of this paragraph shall
14 be substituted in lieu of the 10-year period in
15 subsection (a)(2)(A)(ii).

16 “(7) LIMIT ON REDUCTIONS FOR GRANTS, ETC.,
17 FOR OPEN-LOOP BIOMASS FACILITIES.—If the
18 amount of the credit determined under subsection
19 (a) with respect to any open-loop biomass facility is
20 required to be reduced under paragraph (3) of sub-
21 section (b), the fraction under such paragraph shall
22 in no event be greater than $\frac{4}{5}$.

23 “(8) COORDINATION WITH SECTION 29.—The
24 term ‘qualified facility’ shall not include any facility
25 the production from which is allowed as a credit

1 under section 29 for the taxable year or any prior
2 taxable year.”.

3 (d) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to electricity sold after the date
5 of the enactment of this Act.

6 **SEC. 6. CREDIT FOR PRODUCTION FROM QUALIFYING AD-**
7 **VANCED CLEAN COAL TECHNOLOGY.**

8 (a) CREDIT FOR PRODUCTION FROM QUALIFYING
9 ADVANCED CLEAN COAL TECHNOLOGY.—Subpart D of
10 part IV of subchapter A of chapter 1 (relating to business
11 related credits) is amended by adding after section 45F
12 the following:

13 **“SEC. 45G. CREDIT FOR PRODUCTION FROM QUALIFYING**
14 **ADVANCED CLEAN COAL TECHNOLOGY.**

15 “(a) GENERAL RULE.—For purposes of section 38,
16 the qualifying advanced clean coal technology production
17 credit of any taxpayer for any taxable year is equal to—

18 “(1) the applicable amount of advanced clean
19 coal technology production credit, multiplied by

20 “(2) the sum of—

21 “(A) the kilowatt hours of electricity, plus

22 “(B) each 3,413 Btu of fuels or chemicals,
23 produced by the taxpayer during such taxable year
24 at a qualifying advanced clean coal technology facil-

ity during the 10-year period beginning on the date
the facility was originally placed in service.

“(b) APPLICABLE AMOUNT.—For purposes of this
section, the applicable amount of advanced clean coal tech-
nology production credit with respect to production from
a qualifying advanced clean coal technology facility shall
be determined as follows:

“(1) Where the design coal has a heat content
of more than 9,000 Btu per pound:

“(A) In the case of a facility originally
placed in service before 2009, if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,400	\$.0060	\$.0038
More than 8,400 but not more than 8,550	\$.0025	\$.0010
More than 8,550 but not more than 8,750	\$.0010	\$.0010.

“(B) In the case of a facility originally
placed in service after 2008 and before 2013,
if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,770	\$.0105	\$.0090
More than 7,770 but not more than 8,125	\$.0085	\$.0068
More than 8,125 but not more than 8,350	\$.0075	\$.0055.

“(C) In the case of a facility originally
placed in service after 2012 and before 2017,
if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,380	\$.0140	\$.01
More than 7,380 but not more than 7,720	\$.0120	\$.0090.

1 “(2) Where the design coal has a heat content
2 of not more than 9,000 Btu per pound:

3 “(A) In the case of a facility originally
4 placed in service before 2009, if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,500	\$.0060	\$.0038
More than 8,500 but not more than 8,650	\$.0025	\$.0010
More than 8,650 but not more than 8,750	\$.0010	\$.0010.

5 “(B) In the case of a facility originally
6 placed in service after 2008 and before 2013,
7 if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 8,000	\$.0105	\$.009
More than 8,000 but not more than 8,250	\$.0085	\$.0068
More than 8,250 but not more than 8,400	\$.0075	\$.0055.

8 “(C) In the case of a facility originally
9 placed in service after 2012 and before 2017,
10 if—

“The facility design net heat rate, Btu/kWh (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not more than 7,800	\$.0140	\$.0115
More than 7,800 but not more than 7,950	\$.0120	\$.0090.

11 “(3) Where the clean coal technology facility is
12 producing fuel or chemicals:

1 “(A) In the case of a facility originally
2 placed in service before 2009, if—

“The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 40.6 percent	\$.0060	\$.0038
Less than 40.6 but not less than 40 percent	\$.0025	\$.0010
Less than 40 but not less than 39 percent	\$.0010	\$.0010.

3 “(B) In the case of a facility originally
4 placed in service after 2008 and before 2013,
5 if—

“The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 43.9 percent	\$.0105	\$.009
Less than 43.9 but not less than 42 percent	\$.0085	\$.0068
Less than 42 but not less than 40.9 percent	\$.0075	\$.0055.

6 “(C) In the case of a facility originally
7 placed in service after 2012 and before 2017,
8 if—

“The facility design net thermal efficiency (HHV) is equal to:	The applicable amount is:	
	For 1st 5 years of such service	For 2d 5 years of such service
Not less than 44.2 percent	\$.0140	\$.0115
Less than 44.2 but not less than 43.6 percent	\$.0120	\$.0090.

9 “(c) INFLATION ADJUSTMENT FACTOR.—For cal-
10 endar years after 2003, each amount in paragraphs (1),
11 (2), and (3) of subsection (b) shall be adjusted by multi-
12 plying such amount by the inflation adjustment factor for
13 the calendar year in which the amount is applied. If any
14 amount as increased under the preceding sentence is not

1 a multiple of 0.01 cent, such amount shall be rounded to
2 the nearest multiple of 0.01 cent.

3 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
4 poses of this section—

5 “(1) IN GENERAL.—Any term used in this sec-
6 tion which is also used in section 48A shall have the
7 meaning given such term in section 48A.

8 “(2) APPLICABLE RULES.—The rules of para-
9 graphs (3), (4), and (5) of section 45 shall apply.

10 “(3) INFLATION ADJUSTMENT FACTOR.—The
11 term ‘inflation adjustment factor’ means, with re-
12 spect to a calendar year, a fraction the numerator
13 of which is the GDP implicit price deflator for the
14 preceding calendar year and the denominator of
15 which is the GDP implicit price deflator for the cal-
16 endar year 2003.

17 “(4) GDP IMPLICIT PRICE DEFLATOR.—The
18 term ‘GDP implicit price deflator’ means the most
19 recent revision of the implicit price deflator for the
20 gross domestic product as computed by the Depart-
21 ment of Commerce before March 15 of the calendar
22 year.”.

23 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
24 tion 38(b) is amended by striking “plus” at the end of
25 paragraph (14), by striking the period at the end of para-

1 graph (15) and inserting “, plus”, and by adding at the
2 end the following:

3 “(16) the qualifying advanced clean coal tech-
4 nology production credit determined under section
5 45G(a).”.

6 (c) TRANSITIONAL RULE.—Section 39(d) (relating to
7 transitional rules) is amended by adding after paragraph
8 (10) the following:

9 “(11) NO CARRYBACK OF SECTION 45G CREDIT
10 BEFORE EFFECTIVE DATE.—No portion of the un-
11 used business credit for any taxable year which is
12 attributable to the qualifying advanced clean coal
13 technology production credit determined under sec-
14 tion 45G may be carried back to a taxable year end-
15 ing before the date of the enactment of section
16 45G.”.

17 (d) CLERICAL AMENDMENT.—The table of sections
18 for subpart D of part IV of subchapter A of chapter 1
19 is amended by adding at the end the following:

“Sec. 45G. Credit for production from qualifying advanced clean
coal technology.”.

20 (e) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to production after the date of the
22 enactment of this Act.

1 **SEC. 7. OIL AND GAS FROM MARGINAL WELLS.**

2 (a) IN GENERAL.—Subpart D of part IV of sub-
3 chapter A of chapter 1 (relating to business credits) is
4 amended by adding at the end the following:

5 **“SEC. 45H. CREDIT FOR PRODUCING OIL AND GAS FROM**
6 **MARGINAL WELLS.**

7 “(a) GENERAL RULE.—For purposes of section 38,
8 the marginal well production credit for any taxable year
9 is an amount equal to the product of—

10 “(1) the credit amount, and

11 “(2) the qualified credit oil production and the
12 qualified natural gas production which is attrib-
13 utable to the taxpayer.

14 “(b) CREDIT AMOUNT.—For purposes of this sec-
15 tion—

16 “(1) IN GENERAL.—The credit amount is—

17 “(A) \$3 per barrel of qualified crude oil
18 production, and

19 “(B) 50 cents per 1,000 cubic feet of
20 qualified natural gas production.

21 “(2) REDUCTION AS OIL AND GAS PRICES IN-
22 CREASE.—

23 “(A) IN GENERAL.—The \$3 and 50 cents
24 amounts under paragraph (1) shall each be re-
25 duced (but not below zero) by an amount which

1 bears the same ratio to such amount (deter-
2 mined without regard to this paragraph) as—

3 “(i) the excess (if any) of the applica-
4 ble reference price over \$15 (\$1.67 for
5 qualified natural gas production), bears to

6 “(ii) \$3 (\$0.33 for qualified natural
7 gas production).

8 The applicable reference price for a taxable
9 year is the reference price of the calendar year
10 preceding the calendar year in which the tax-
11 able year begins.

12 “(B) INFLATION ADJUSTMENT.—In the
13 case of any taxable year beginning in a calendar
14 year after 2003, each of the dollar amounts
15 contained in subparagraph (A) shall be in-
16 creased to an amount equal to such dollar
17 amount multiplied by the inflation adjustment
18 factor for such calendar year (determined under
19 section 43(b)(3)(B) by substituting ‘2002’ for
20 ‘1990’).

21 “(C) REFERENCE PRICE.—For purposes of
22 this paragraph, the term ‘reference price’
23 means, with respect to any calendar year—

1 “(i) in the case of qualified crude oil
2 production, the reference price determined
3 under section 29(d)(2)(C), and

4 “(ii) in the case of qualified natural
5 gas production, the Secretary’s estimate of
6 the annual average wellhead price per
7 1,000 cubic feet for all domestic natural
8 gas.

9 “(c) QUALIFIED CRUDE OIL AND NATURAL GAS
10 PRODUCTION.—For purposes of this section—

11 “(1) IN GENERAL.—The terms ‘qualified crude
12 oil production’ and ‘qualified natural gas production’
13 mean domestic crude oil or natural gas which is pro-
14 duced from a qualified marginal well.

15 “(2) LIMITATION ON AMOUNT OF PRODUCTION
16 WHICH MAY QUALIFY.—

17 “(A) IN GENERAL.—Crude oil or natural
18 gas produced during any taxable year from any
19 well shall not be treated or qualified crude oil
20 production or qualified natural gas production
21 to the extent production from the well during
22 the taxable year exceeds 1,095 barrels or barrel
23 equivalents.

24 “(B) PROPORTIONATE REDUCTIONS.—

1 “(i) SHORT TAXABLE YEARS.—In the
 2 case of a short taxable year, the limitations
 3 under this paragraph shall be proportion-
 4 ately reduced to reflect the ratio which the
 5 number of days in such taxable year bears
 6 to 365.

7 “(ii) WELLS NOT IN PRODUCTION EN-
 8 TIRE YEAR.—In the case of a well which is
 9 not capable of production during each day
 10 of a taxable year, the limitations under
 11 this paragraph applicable to the well shall
 12 be proportionately reduced to reflect the
 13 ratio which the number of days of produc-
 14 tion bears to the total number of days in
 15 the taxable year.

16 “(3) DEFINITIONS.—

17 “(A) QUALIFIED MARGINAL WELL.—The
 18 term ‘qualified marginal well’ means a domestic
 19 well—

20 “(i) the production from which during
 21 the taxable year is treated as marginal
 22 production under section 613A(c)(6), or

23 “(ii) which, during the taxable year—

1 “(I) has average daily production
2 of not more than 25 barrel equiva-
3 lents, and

4 “(II) produces water at a rate
5 not less than 95 percent of total well
6 effluent.

7 “(B) CRUDE OIL, ETC.—The terms ‘crude
8 oil’, ‘natural gas’, ‘domestic’, and ‘barrel’ have
9 the meanings given such terms by section
10 613A(e).

11 “(C) BARREL EQUIVALENT.—The term
12 ‘barrel equivalent’ means, with respect to nat-
13 ural gas, a conversion ratio of 6,000 cubic
14 feet of natural gas to 1 barrel of crude oil.

15 “(d) OTHER RULES.—

16 “(1) PRODUCTION ATTRIBUTABLE TO THE TAX-
17 PAYER.—In the case of a qualified marginal well in
18 which there is more than one owner of operating in-
19 terests in the well and the crude oil or natural gas
20 production exceeds the limitation under subsection
21 (c)(2), qualifying crude oil production or qualifying
22 natural gas production attributable to the taxpayer
23 shall be determined on the basis of the ratio which
24 taxpayer’s revenue interest in the production bears

1 to the aggregate of the revenue interests of all oper-
2 ating interest owners in the production.

3 “(2) OPERATING INTEREST REQUIRED.—Any
4 credit under this section may be claimed only on
5 production which is attributable to the holder of an
6 operating interest.

7 “(3) PRODUCTION FROM NONCONVENTIONAL
8 SOURCES EXCLUDED.—In the case of production
9 from a qualified marginal well which is eligible for
10 the credit allowed under section 29 for the taxable
11 year, no credit shall be allowable under this section
12 unless the taxpayer elects not to claim the credit
13 under section 29 with respect to the well.

14 “(4) NONCOMPLIANCE WITH POLLUTION
15 LAWS.—For purposes of subsection (c)(3)(A), a
16 marginal well which is not in compliance with the
17 applicable State and Federal pollution prevention,
18 control, and permit requirements for any period of
19 time shall not be considered to be a qualified mar-
20 ginal well during such period.”.

21 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
22 tion 38(b) is amended by striking “plus” at the end of
23 paragraph (15), by striking the period at the end of para-
24 graph (16) and inserting “, plus”, and by adding at the
25 end the following:

1 “(17) the marginal oil and gas well production
2 credit determined under section 45H(a).”.

3 (c) CARRYBACK.—Subsection (a) of section 39 (relat-
4 ing to carryback and carryforward of unused credits gen-
5 erally) is amended by adding at the end the following:

6 “(3) 10-YEAR CARRYBACK FOR MARGINAL OIL
7 AND GAS WELL PRODUCTION CREDIT.—In the case
8 of the marginal oil and gas well production credit—

9 “(A) this section shall be applied sepa-
10 rately from the business credit (other than the
11 marginal oil and gas well production credit),

12 “(B) paragraph (1) shall be applied by
13 substituting ‘10 taxable years’ for ‘1 taxable
14 years’ in subparagraph (A) thereof, and

15 “(C) paragraph (2) shall be applied—

16 “(i) by substituting ‘31 taxable years’
17 for ‘21 taxable years’ in subparagraph (A)
18 thereof, and

19 “(ii) by substituting ‘30 taxable years’
20 for ‘20 taxable years’ in subparagraph (A)
21 thereof.”.

22 (d) COORDINATION WITH SECTION 29.—Section
23 29(a) is amended by striking “There” and inserting “At
24 the election of the taxpayer, there”.

1 (e) CLERICAL AMENDMENT.—The table of sections
 2 for subpart D of part IV of subchapter A of chapter I
 3 is amended by adding at the end the following:

“Sec. 45H. Credit for producing oil and gas from marginal
wells.”.

4 (f) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to production in taxable years be-
 6 ginning after December 31, 2003.

7 **SEC. 8. NATURAL GAS GATHERING LINES TREATED AS 7-**
 8 **YEAR PROPERTY.**

9 (a) IN GENERAL.—Subparagraph (C) of section
 10 168(e)(3) (relating to classification of certain property) is
 11 amended by striking “and” at the end of clause (i), by
 12 redesignating clause (ii) as clause (iii), and by inserting
 13 after clause (i) the following new clause:

14 “(ii) any natural gas gathering line,
 15 and”.

16 (b) NATURAL GAS GATHERING LINE.—Subsection (i)
 17 of section 168 is amended by adding after paragraph (14)
 18 the following new paragraph:

19 “(15) NATURAL GAS GATHERING LINE.—The
 20 term ‘natural gas gathering line’ means—

21 “(A) the pipe, equipment, and appur-
 22 tenances determined to be a gathering line by
 23 the Federal Energy Regulatory Commission, or

1 “(B) the pipe, equipment, and appur-
 2 tenances used to deliver natural gas from the
 3 wellhead or a commonpoint to the point at
 4 which such gas first reaches—

5 “(i) a gas processing plant,

6 “(ii) an interconnection with a trans-
 7 mission pipeline certificated by the Federal
 8 Energy Regulatory Commission as an
 9 interstate transmission pipeline,

10 “(iii) an interconnection with an
 11 intrastate transmission pipeline, or

12 “(iv) a direct interconnection with a
 13 local distribution company, a gas storage
 14 facility, or an industrial consumer.”.

15 (c) ALTERNATIVE SYSTEM.—The table contained in
 16 section 168(g)(3)(B) is amended by inserting after the
 17 item relating to subparagraph (C)(i) the following:

 “(C)(ii) 10”.

18 (d) ALTERNATIVE MINIMUM TAX EXCEPTION.—Sub-
 19 paragraph (B) of section 56(a)(1) is amended by inserting
 20 before the period the following: “or in clause (ii) of section
 21 168(e)(3)(C)”.

22 (e) EFFECTIVE DATE.—The amendments made by
 23 this section shall apply to property placed in service after
 24 the date of the enactment of this Act.

1 **SEC. 9. TEMPORARY SUSPENSION OF LIMITATION BASED**
2 **ON 65 PERCENT OF TAXABLE INCOME AND**
3 **EXTENSION OF SUSPENSION OF TAXABLE IN-**
4 **COME LIMIT WITH RESPECT TO MARGINAL**
5 **PRODUCTION.**

6 (a) LIMITATION BASED ON 65 PERCENT OF TAX-
7 ABLE INCOME.—Subsection (d) of section 613A (relating
8 to limitation on percentage depletion in case of oil and
9 gas wells) is amended by adding at the end the following
10 new paragraph:

11 “(6) TEMPORARY SUSPENSION OF TAXABLE IN-
12 COME LIMIT.—Paragraph (1) shall not apply to tax-
13 able years beginning after December 31, 2003, and
14 before January 1, 2009, including with respect to
15 amounts carried under the second sentence of para-
16 graph (1) to such taxable years.”.

17 (b) EXTENSION OF SUSPENSION OF TAXABLE IN-
18 COME LIMIT WITH RESPECT TO MARGINAL PRODUC-
19 TION.—Subparagraph (H) of section 613A(c)(6) (relating
20 to temporary suspension of taxable income limit with re-
21 spect to marginal production) is amended by striking
22 “2004” and inserting “2009”.

23 (c) EFFECTIVE DATE.—The amendment made by
24 subsection (a) shall apply to taxable years beginning after
25 December 31, 2003.

1 **SEC. 10. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**
 2 **PHYSICAL EXPENDITURES.**

3 (a) IN GENERAL.—Section 263 (relating to capital
 4 expenditures) is amended by adding after subsection (i)
 5 the following:

6 “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-
 7 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-
 8 standing subsection (a), a taxpayer may elect to treat geo-
 9 logical and geophysical expenses incurred in connection
 10 with the exploration for, or development of, oil or gas with-
 11 in the United States (as defined in section 638) as ex-
 12 penses which are not chargeable to capital account. Any
 13 expenses so treated shall be allowed as a deduction in the
 14 taxable year in which paid or incurred.”.

15 (b) CONFORMING AMENDMENT.—Section 263A(c)(3)
 16 is amended by inserting “263(j),” after “263(i),”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 this section shall apply to costs paid or incurred in taxable
 19 years beginning after December 31, 2003.

20 **SEC. 11. FIVE-YEAR NET OPERATING LOSS CARRYBACK**
 21 **FOR LOSSES ATTRIBUTABLE TO OPERATING**
 22 **MINERAL INTERESTS OF OIL AND GAS PRO-**
 23 **DUCERS.**

24 (a) IN GENERAL.—Paragraph (1) of section 172(b)
 25 (relating to years to which loss may be carried) is amended
 26 by adding at the end the following new subparagraph:

1 “(I) LOSSES ON OPERATING MINERAL IN-
 2 TERESTS OF OIL AND GAS PRODUCERS.—In the
 3 case of a taxpayer which has an eligible oil and
 4 gas loss (as defined in subsection (k)) for a tax-
 5 able year, such eligible oil and gas loss shall be
 6 a net operating loss carryback to each of the 5
 7 taxable years preceding the taxable year of such
 8 loss.”.

9 (b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is
 10 amended by redesignating subsection (k) as subsection (l)
 11 and by inserting after subsection (j) the following new sub-
 12 section:

13 “(k) ELIGIBLE OIL AND GAS LOSS.—For purposes
 14 of this section—

15 “(1) IN GENERAL.—The term ‘eligible oil and
 16 gas loss’ means the lesser of—

17 “(A) the amount which would be the net
 18 operating loss for the taxable year if only in-
 19 come and deductions attributable to operating
 20 mineral interests (as defined in section 614(d))
 21 in oil and gas wells are taken into account, or

22 “(B) the amount of the net operating loss
 23 for such taxable year.

24 “(2) COORDINATION WITH SUBSECTION
 25 (b)(2).—For purposes of applying subsection (b)(2),

1 an eligible oil and gas loss for any taxable year shall
 2 be treated in a manner similar to the manner in
 3 which a specified liability loss is treated.

4 “(3) ELECTION.—Any taxpayer entitled to a 5-
 5 year carryback under subsection (b)(1)(H) from any
 6 loss year may elect to have the carryback period
 7 with respect to such loss year determined without re-
 8 gard to subsection (b)(1)(H).”.

9 (c) EFFECTIVE DATE.—The amendments made by
 10 this section shall apply to net operating losses for taxable
 11 years beginning after December 31, 2003.

12 **SEC. 12. EXTENSION AND MODIFICATION OF CREDIT FOR**
 13 **PRODUCING FUEL FROM A NONCONVEN-**
 14 **TIONAL SOURCE.**

15 (a) IN GENERAL.—Section 29 is amended by adding
 16 at the end the following new subsection:

17 “(h) EXTENSION FOR OTHER FACILITIES.—

18 “(1) EXTENSION FOR OIL AND CERTAIN GAS.—

19 In the case of a well for producing qualified fuels de-
 20 scribed in subparagraph (A) or (B)(i) of subsection

21 (c)(1)—

22 “(A) APPLICATION OF CREDIT FOR NEW
 23 WELLS.—Notwithstanding subsection (f), this
 24 section shall apply with respect to such fuels—

1 “(i) which are produced from a well
 2 drilled after the date of the enactment of
 3 this subsection and before January 1,
 4 2014, and

5 “(ii) which are sold not later than the
 6 close of the 4-year period beginning on the
 7 date that such well is drilled.

8 “(B) EXTENSION OF CREDIT FOR OLD
 9 WELLS.—Subsection (f)(2) shall be applied by
 10 substituting ‘2009’ for ‘2003’ with respect to
 11 wells described in subsection (f)(1)(A) with re-
 12 spect to such fuels.

13 “(2) EXTENSION FOR FACILITIES PRODUCING
 14 QUALIFIED FUEL FROM LANDFILL GAS.—

15 “(A) IN GENERAL.—In the case of a facil-
 16 ity for producing qualified fuel from landfill gas
 17 which was placed in service after June 30,
 18 1998, and before January 1, 2009, this section
 19 shall apply to fuel produced at such facility dur-
 20 ing the 5-year period beginning on the later
 21 of—

22 “(i) the date such facility was placed
 23 in service, or

24 “(ii) the date of the enactment of this
 25 subsection.

1 “(B) REDUCTION OF CREDIT FOR CERTAIN
2 LANDFILL FACILITIES.—In the case of a facility
3 to which paragraph (1) applies and which is
4 subject to the 1996 New Source Performance
5 Standards/Emissions Guidelines of the Environ-
6 mental Protection Agency, subsection (a)(1)
7 shall be applied by substituting ‘\$2’ for ‘\$3’.

8 “(3) SPECIAL RULES.—In determining the
9 amount of credit allowable under this section solely
10 by reason of this subsection—

11 “(A) DAILY LIMIT.—The amount of quali-
12 fied fuels sold during any taxable year which
13 may be taken into account by reason of this
14 subsection with respect to any project shall not
15 exceed an average barrel-of-oil equivalent of
16 200,000 cubic feet of natural gas per day. Days
17 before the date the project is placed in service
18 shall not be taken into account in determining
19 such average.

20 “(B) EXTENSION PERIOD TO COMMENCE
21 WITH UNADJUSTED CREDIT AMOUNT.—In the
22 case of fuels sold during 2003 and 2004, the
23 dollar amount applicable under subsection
24 (a)(1) shall be \$3 (without regard to subsection
25 (b)(2)). In the case of fuels sold after 2004,

1 subparagraph (B) of subsection (d)(2) shall be
2 applied by substituting ‘2004’ for ‘1979’.”.

3 (b) **EFFECTIVE DATE.**—The amendment made by
4 this section shall apply to fuel sold after the date of the
5 enactment of this Act.

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