

GREYROCK

ENERGY

August 4, 2015

Submitted via Federal eRulemaking Portal

CC:PA:LPD:PR (REG – 132634 – 14)
Room 5203
Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044

Re: Comments on Section 7704 Proposed Regulations (REG – 132634 – 14)

Thank you for the opportunity to comment on proposed regulations (REG – 132634 – 14) under section 7704(d)(1)(E) of the Internal Revenue Code¹ (the “Proposed Regulations”) relating to qualifying income from the exploration, development, mining or production, processing, refining, transportation, or marketing of minerals or natural resources. Greyrock Energy, Inc. (“Greyrock”) respectfully submits the following comments.

Greyrock, by way of background, has developed a next generation fuels production platform that converts natural gas, including natural gas liquids such as ethane, propane, butane, etc., to produce higher value liquid fuels that are otherwise produced from petroleum (such as diesel fuel, reformulated gasoline blendstock/naphtha, kerosene, jet fuel, rocket fuel and additives).

Over many years of development, Greyrock has successfully demonstrated its technology, including deployment of a 30 bbl/day demonstration system in Toledo, Ohio which was partially funded as part of a \$25M Department of Energy project. Greyrock is now deploying commercial scale systems based around its technology.

Natural gas, including natural gas liquids, is more widely available and less expensive than crude oil and, using the Greyrock process, produces more environmentally friendly transportation fuels for use with the existing fueling infrastructure (for example, diesel fuel with zero sulfur, high cetane, good lubricity, and which results in emissions reductions when used in existing engines).

Greyrock uses a fully-integrated, two-stage process to produce fuels, the first stage being the generation of syngas (syngas being primarily hydrogen and carbon monoxide, with some CO₂) from natural gas, including natural gas liquids, and the second stage being the production of clean fuels directly from syngas using Greyrock’s proprietary GreyCat™ Direct Fuel Production system and catalysts. Both processes are discussed in more detail below and shown in Figure 1.

¹ All “section” references herein are to the Internal Revenue Code of 1986, as amended, and all references to the “regulations” or “Treas. Reg. §” are to the regulations promulgated thereunder.

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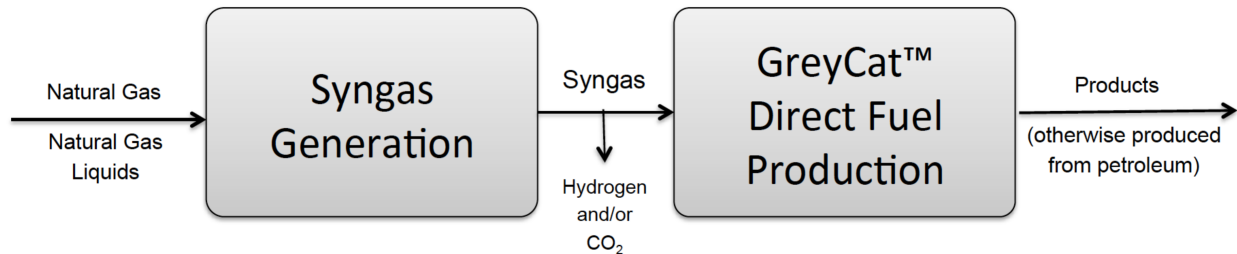


Figure 1 : The conversion of natural gas or natural gas liquids (eg. ethane, propane, butane, y-grade, or mixed feedstocks, etc.) into fuel products

Greyrock is generally agnostic as to the technology chosen to produce syngas, so long as the resultant molecules have the appropriate ratio of hydrogen to carbon monoxide and meet specified requirements. Steam methane reforming may be used to process natural gas, including natural gas liquids, for the production of synthesis gas in this ratio. In addition to the production of synthesis gas, steam methane reforming of natural gas, including natural gas liquids, may produce hydrogen, a basic component of natural gas, including natural gas liquids as well as CO₂. Depending on operating conditions and plant location, the amount of this hydrogen and/or CO₂ produced may represent more than 10% of the value of income produced by a project that incorporates Greyrock technology.

During the second stage of the fully integrated process, syngas is then passed through a catalytic reactor containing a Greyrock proprietary GreyCat™ catalyst. This directly produces liquid fuels, unlike traditional Fisher Tropsch catalysts that produce an intermediary wax.

Diesel fuel produced by the Greyrock system meets ASTM D975 specifications, however to lower freeze point in certain cold weather jurisdictions, an additive would be included in the final product.

Other fuel cuts and fuel additives may be produced at a Greyrock plant, depending on how the liquids are distilled and depending on which catalysts are used. Greyrock fuels are not excluded fuels described in Section 6426(b) through (e), including Section 6426(b)(4)(A) or Section 40A(d)(1).

The process to produce liquid fuels from natural gas, including natural gas liquids, would generally be incorporated in a single plant, however, distillation, blending and the addition of additives may be performed elsewhere and by service providers. Greyrock plants themselves may be operated as a service, processing natural gas, including natural gas liquids, owned by third parties on a tolling basis. Additionally, smaller well head systems may be used to convert raw well effluent, following pre-treatment, to liquid substances that they may be re-combined

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with crude oil to facilitate the transportation, thus reducing the need for gathering systems or other methods to address problems of associated or stranded natural gas, including natural gas liquids. These on-site wellhead conversion technologies essentially reduce the gaseous components to their equivalent liquid components, with potentially significant environmental benefits.

Our comments today are intended to assist in the development of regulations that better enable the industry to clearly and consistently apply the law to the individual circumstances in a manner that more fully includes the range of newer methodologies for the production of income from exploration, development, mining or production, processing, refining, transportation, or marketing of minerals or natural resources, with specific focus on technology for the conversion of natural gas, including natural gas to liquids, to fuels.

Specific Proposed Clarifications to the Proposed Regulations

With the background provided above, Greyrock is proposing the following clarifications to the Proposed Regulations:

Modify 1.7704-4 (c)(4)(iv) to include, within the included list of examples of operating equipment to convert raw mined products or raw well effluent to substance that can be readily transported or stored, “the operating of gas to liquids plants for the conversion of natural gas, including natural gas liquids, into liquid products otherwise produced from petroleum”.

Modify 1.7704-(c)(5)(ii)(C) in its entirety to read as follows “(C) Convert natural gas, including natural gas liquids, in a fully integrated process to liquid fuels otherwise produced from petroleum and to hydrogen and/or carbon dioxide.”

Modify 1.7704(c)(6)(ii) to read “terminalling and blending”.

Modify 1.7704(d)(1)(E) to provide that an activity is an intrinsic activity or an indispensable part thereof, if it would have performed directly by the service recipient instead of a third party.

Further we believe that it will be appropriate to amend the definition of the term “crude oil” to include “products of gas to liquids conversion processes that are otherwise produced from petroleum.” This would allow on site conversion of associated gas that has been converted to liquids to be co-mingled with existing crude production without adversely impacting existing tax treatment of crude oil.

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Conclusion

We believe that it is important that the Service make the above changes to ensure that newer gas to liquids technologies that can make use of the abundance of natural gas, including natural gas liquids, to bring cleaner fuels to the market are afforded the same or similar tax treatment as more well known processing and refining technologies. We appreciate the opportunity to address these comments to the Service. We would be pleased to provide any additional clarification or technical information should that be of use.

Very truly yours,
GREYROCK ENERGY, INC.