



August 4, 2015

Via Federal eRulemaking Portal

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

Re: Comments on proposed regulations regarding qualifying income from certain activities with respect to minerals or natural resources

Dear Sir or Madam:

Velocys, Inc. (“Velocys”) welcomes the opportunity to comment on the recently released proposed regulations regarding qualifying income for publicly traded partnerships. As a pioneer in the smaller scale gas-to-liquids (“GTL”) industry, Velocys is concerned about the impact of the proposed regulations on the natural gas industry.

Velocys is a leading company in the smaller scale GTL industry with offices in Texas, Ohio, and the United Kingdom and operations around the United States, primarily in Oklahoma and Ohio. Velocys has invested over \$300 million to develop and demonstrate smaller scale GTL technology, which converts natural gas or biogas into clean liquid fuels in a cost-effective manner. The GTL industry has grown over the last 30 years and provided ways to convert natural gas into easily-transportable liquid products. The industry has been dominated by large companies such as Royal Dutch Shell and Sasol with billion-dollar GTL projects. Unlike the conventional billion-dollar GTL projects, smaller scale GTL projects have the potential to reach gas reserves that are currently physically or economically inaccessible with conventional GTL facilities. In addition, the smaller scale GTL industry is uniquely situated to unlock natural gas reserves without engaging in the environmentally-unfriendly practice of flaring and at a fraction of the cost of conventional GTL facilities. Velocys’ technology can also be applied to the biomass-to-liquid field, which has the potential to provide fuels needed for transportation in communities around the world while minimizing oil dependency. In addition to developing smaller scale GTL technology, Velocys partners with

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other companies to develop facilities that use its technology to convert natural gas into high-value, clean liquid fuels, high quality lubricants, and waxes. At this time, Velocys has already commenced construction of its commercial reference GTL facility near Oklahoma City, OK and is proceeding through the final permitting and detailed engineering steps for a GTL facility to be located in Ashtabula, OH.

Although Velocys currently does not operate as a publicly traded partnership, Velocys realizes the importance of ensuring that its smaller scale GTL projects are attractive opportunities to investors, and the use of a master limited partnership would be an efficient way for Velocys and its customers to raise capital in the future. However, Velocys believes the proposed regulations' restrictive guidance on the processing and refining of natural gas will seriously hinder the industry's ability to use master limited partnerships and attract needed investment. Specifically, Velocys believes the proposed regulations are unnecessarily restrictive with respect to "processing or refining" natural gas.

While the proposed regulations contain a general definition of "processing or refining," they further provide different definitions for "processing or refining" depending on the mineral or natural resource. For example, the processing or refining of natural gas includes purifying natural gas, separating natural gas, and converting methane into liquid fuels and products that are otherwise produced from petroleum. Any chemical conversions or changes of natural gas, however slight, apparently would not be treated as activities producing qualifying income. Yet, the processing or refining of petroleum under the proposed regulations specifically includes the chemical conversion of the separated components of petroleum. This attempt to treat the separation and conversion of different natural resources in an inconsistent manner has the effect of favoring certain industries at the expense of others. We do not understand the policy rationale for such disparate treatment. We urge you instead to promote a neutral position across industries and treat natural gas processing and refining no worse than the same activities with respect to petroleum.

The proposed regulations also would reverse positions taken by the IRS in existing private letter rulings and may eventually cause businesses and investors to lose the tax treatment of which they had been assured. To the extent this change in policy is unsupported by legislative history, investors may lose confidence in our tax system. One such reversal highlighted in the examples provided in the proposed regulations is that the chemical conversion of methane into methanol is no longer is a qualifying activity. This directly contradicts a private letter ruling specifically treating such activity as producing qualifying income. Arbitrary changes such as this will negatively affect the ability of Velocys and other industry players to attract investment and unfairly disadvantage our technology compared to other types of energy sources.

We respectfully ask that you consider our concerns as you continue to develop final Treasury regulations. Our concerns echo many points that have been raised in public comment letters already submitted to you by others. We believe that the proposed regulations have the very real probability of curtailing investment



and growth in the smaller scale GTL industry. Should you have any questions or need any clarification of our comments, please contact Dr. Philipp Stratmann, Business Development Director, at 713-275-5840.

Sincerely,

Velocys, Inc.



Jeff McDaniel, Commercial Director

