The Inflation Reduction Act

Policy Opportunities for State Lawmakers

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Instruct utility commissions to re-examine existing resource plans

The IRA changes the economics of energy projects for the next decade

- Many states have long-term or integrated resource planning requirements, where investment decisions for utility generation are approved by the utility commission
- The IRA fundamentally changes the economics of these decisions
- Instruct the commission to re-evaluate existing generation decisions in light of the changing economics of generation under the IRA

Enact “lead by example” policies to install solar on state-owned buildings and electrify state fleets

State and Local governments traditionally could not directly benefit from the incentives that lower the costs of rooftop solar and electric vehicles because they are tax-exempt.

- The IRA puts in place “Direct Pay” provisions that allow for governmental entities and non-profits to take the value of tax credits directly through a payment from the federal government – lowering the cost of solar by 30% and electric vehicles by up to $7,500 for sedans and up to $40,000 for medium & heavy-duty vehicles.
- Similar programs could be put in place for school districts to install solar and electrify school buses.

Establish a low-income energy program to help residents take advantage of tax credits

Low-income residents cannot always take advantage of tax credits because of a lack of tax liability

- States can set up a pass through that buys solar and leases it back to low-income residents, taking advantage of the direct pay provisions in the IRA to lower costs by 30%

Establish a green bank to assist financing of clean energy and efficiency

EPA has $27B in a GHG reduction fund for non-profit, state, and local financing institutions to finance GHG reducing technologies

- 40% must serve low-income communities
- Should be targeted at distributed rooftop resources and other zero GHG technologies
- Prioritizes projects that would otherwise have lack of access to financing
- Funding also available for indirect investment supporting public, quasi-public and nonprofit entities that offer financing for projects, including community and low-income focused lenders and capital providers

Establish robust community solar policies

Community solar is a great benefit for those who cannot put solar on their roofs and policies have been expanding throughout the country. The IRA includes a variety of provisions to turbo-charge community solar programs:

- 30% tax credit lowers costs for development
- Additional 20% tax credit is available if 50% (and additional 30% is available if 100%) of the subscribers are between 80% and 150% of AMI
- Additional 10% tax credit is available if a project is located within a low-income or energy impacted community or 20% if it is a part of a low-income development
- Have low-income housing authorities and weatherization programs purchase transferrable shares of community solar projects for their residents

Establish workforce training programs to feed into apprenticeship provisions in the IRA

The tax credits for renewable and zero GHG technologies start with a base value of 20% of the total and grow to 100% by achieving prevailing wage and apprenticeship provisions

- Establish workforce training programs within community colleges and technical schools to feed developments of renewable and zero GHG generation projects to allow for maximization of the tax credit value
- Partner with weatherization providers, low-income housing developments, and community solar contractors to provide workforce training for renewable and high efficiency, electrified construction projects to maximize savings in projects for low-income residents

Instruct appropriate agencies and commissions to work on regional transmission planning

In just the past three years, three major bills impacting transmission in the US have passed: The Energy Act of 2020, the Infrastructure Investment and Jobs Act of 2021, and the Inflation Reduction Act of 2022.

The IRA funding is primarily focused (at least initially) on planning support for transmission buildout.

- Any states looking at improving transmission capability in the region, should consider establishing a process for regional evaluation of transmission opportunities to maximize the cost-effective buildout of transmission.
- The IRA provides $760M through a competitive grant process, with a 50% match, for transmission planning and analysis for interstate siting of transmission lines.

Support energy communities in transition

Different states are in different stages of the energy transition, but there are opportunities within the IRA, when paired with the IIJA, that offer tremendous financial incentives toward a transition.

- State legislatures could instruct energy offices to establish an energy transition office or advisory committee to investigate refinancing opportunities for coal plants scheduled for closure.
- States can create programs to refinance the debt on the plant with a newly created DOE loan and get loan guarantees for replacement power, with an emphasis on maximizing the credits available for the power and location within an energy impacted community.
- There is $250B available in these DOE loans from the Energy Infrastructure Reinvestment program.
- There are also $4B in loan funds that are reserved for advanced manufacturing within an energy impacted community.
- States with retiring coal plants and mines should connect with the Interagency Working Group on Coal and Power Plant Communities for specific grants and loans.
- In addition, RMI has written this guide for state legislators working on an equitable transition for coal workers and communities.

Establish state tax credits for new EVs until sufficient vehicles have qualified for federal credits

The IRA changes the basis for the $7,500 tax credit for new EVs in a variety of ways:

- $3,750 for critical battery minerals sourced from the US or a free trade partner (40% in 2023, 50% in 2024, increasing annually thereafter)
- $3,750 for manufacturing of battery components in US or free trade partner (50% in 2023, 60% in 2024, increasing annually thereafter)

It will take a few years for, particularly minerals, to be developed at a sufficient scale to meet the threshold for multiple vehicle manufacturers.

- This will leave a gap in the available incentives for a year or two until manufacturing and mining thresholds are met
- States can establish temporary tax credits to fill this gap

Adopt advanced energy efficiency building codes

The IRA offers financial and technical support for states and local governments that adopt the latest energy efficiency building codes.

- $330M to states that adopt building codes of at least the 2021 IECC for residential and at least ANSI/ASHRAE/IES 90.1-2019 for commercial buildings
- $670M to states and local governments that adopt codes that meet or exceed the zero energy provisions in 2021 IECC

Fund sustainability coordinators for smaller communities

There are so many provisions of the IRA – grants, programs and other opportunities – for communities to benefit from that many smaller communities may be left behind because of a lack of expertise and resources

- EECBG funds in the Infrastructure Act go directly to towns and cities over 30,000 people and counties over 100,000 people
- Remaining EECBG funds are managed by the state energy office for smaller communities
- These funds can be used to fund sustainability coordinators for communities to ensure they are taking advantage of all the financial opportunities established by the IRA and the IIJA

Ensure the development of rebate programs to receive a share of $9B

Every state is entitled to a share of nearly $9B in incentives that will be developed and managed by the state. The programs focus on increased efficiency and electrification of homes:

- $4.3B for increasing the efficiency of single family, multi-family and low-income homes
- $4.275B for new construction of all-electric buildings and the replacement of fossil appliances with efficient electric appliances
- Program funding will begin in August 2023 and programs must be developed and approved by August 2024