

Inflation Reduction Act of 2022: Energy/Climate Provisions



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08/02/2022

United States Senate negotiators reached an agreement on July 27th on the Inflation Reduction Act of 2022 ("IRA").

The 725-page bill would use fiscal year 2021 reconciliation instructions to raise revenue in order to fund energy, climate, and healthcare provisions.

The Committee for a Responsible Federal Budget ("CRFB") estimates that the legislation includes approximately \$385 billion of climate and energy spending and tax breaks that would be provided over the next five to 10 years.

The legislation if enacted would be the largest and most significant set of energy and climate programs ever enacted by the United States Congress. A goal of the bill is to reduce greenhouse gas emissions by 40% by 2030.

The passage of the IRA will require approval by the Senate parliamentarian, enactment by the Senate (including a yes vote by Senator Sinema), and enactment by the House of Representatives. Further, some impediments to renewable expansion remain such as:

- Supply chain issues
- Labor shortages
- Shortage of key minerals
- Anti-dumping issues
- Sturdiness of the power grid

By way of summary, the CRFB estimates that the energy and climate programs would be funded as follows:

• Clean Manufacturing Tax Credits	\$40 Billion
• Clean Electricity Grants and Loans	\$30 Billion
• Clean Energy Technology Accelerator	\$30 Billion
• Clean Agricultural Funding	\$30 Billion
• Clean Vehicle Manufacturing	\$20 Billion
• Other Energy and Climate Tax Credits and spending	\$235 Billion

Note that two alternative ways of monetizing tax credits are included in the bill:

- Direct pay (application for tax refunds in an amount equal to the amount of the tax credits)
- Sale of tax credits to unrelated taxpayers (limitations are applied to tax-exempt owners that can make a direct pay election)

A non-exhaustive list of energy and climate provisions includes:

Electricity

- Residential Solar, geothermal heat pumps, small wind, battery storage credit of 30% extended through 2033
- Solar investment tax credit of 30% extended through 2033
- Wind production tax credit extended through 2033
- Offshore wind tax credit extended through 2033
- \$30 billion in loan/grant programs to decarbonize the grid (using renewable and clean technologies)
- New credit for qualified nuclear facilities (.03 cents per kilowatt hour and bonus credit of 1.5 cents per kilowatt hour)
- Transmission Facility Board:
- Interstate transmission line grants
- Rural Electric Cooperative loans
- Interregional Transmission Planning Investments

Note that the National Hydropower Association objects to the failure to include a 30% investment tax credit for environmental improvements at existing hydropower facilities in the IRA. (A 30% investment tax credit for new pumped storage hydropower was included.)

Hydrogen Production

- Ten year production tax credit under Section 45V of the Internal Revenue Code would be provided for the generation of clean hydrogen after a specified date if undertaken by the tax payor at a qualified facility and construction begins by January 1, 2033
- Tax credit will be accessible for 10 years from the date project is placed in service
- Production tax credit of up to \$3/kg
- Applicable to both blue and green hydrogen

Forestry

- \$5 billion to protect communities from wildfires and support of what is described as “climate-smart forestry”
- Forest health projects on both public and private lands
- Investment in climate-smart forestry to boost carbon sequestration
- Planting of trees in urban communities
- \$200 million for vegetation management projects on National Forest System undertaken with:
- Water source management
- Watershed protection
- Restoration action plan

Methane Emissions Reduction Program

- \$1.5 billion to reduce methane emissions for activities such as:
- Methane monitoring
- Reduction of health effects
- Fee on excess methane emissions becomes applicable by 2026

Clean Energy Manufacturing/Industrial Sector

Note that the American Council for Energy Efficient Economy [“ACEEE”] estimates that industry accounts for almost one-third of greenhouse gas emissions.

- Extension of advanced energy project credit for projects that equip or expand facilities producing certain renewable energy equipment:
- Wind

- Solar and geothermal property
- Microgrids
- Carbon capture and sequestration property
- Fuel cells
- Tax credit for the production of certain eligible components produced by a United States taxpayer and sold to an unrelated person – potentially eligible components would include:
 - Solar modules
 - Wind energy components
 - Torque tubes
 - Structural fasteners
 - Electrode active materials
 - Certain critical minerals
 - Battery cells
 - Battery modules
 - PV cells
 - PV wafers
 - Certain solar grade components
- \$20 billion in loans to build new clean vehicle manufacturing facilities
- \$6 billion for a new advanced industrial facilities deployment program whose objective is to reduce emissions from larger industrial facilities with significant emissions (Examples might include decarbonization technologies such as direct reduction of iron using hydrogen instead of fossil fuels)

Transportation

Note that the ACEEE estimates transportation accounts for one-fourth of greenhouse gas emissions.

- \$4,000 consumer credit for lower/middle income individuals (i.e., couples making less than \$300,000 and individuals \$150,000 annually)to buy used electric vehicles
- \$7,500 tax credit to buy new electric vehicles
- \$3 billion to the United States Postal Service for the purchase of zero-emission delivery vehicles
- New commercial tax credit for qualified commercial clean vehicles
- Alternative refueling property credit
- Extension of incentives for biodiesel, renewable diesel, and alternative fuels
- Sustainable aviation fuel credit (The Energy Marketers of America oppose this provision, arguing it would disrupt and eventually eliminate the market for on and off-road biodiesel and renewable diesel by diverting limited feedstocks to sustainable aviation fuel which would mean higher prices at the pumps and for home heating fuel.)
- Extension of \$1 per gallon tax credit for biodiesel or renewable diesel through 2024
- Support of the purchase and installation of zero-emission equipment and technology at ports
- Funding for clean heavy-duty vehicles
- \$500 million to expand E10 and B20 plus blend infrastructures such as underground storage tanks and heating oil blending facilities

Note that there is a question as to the ability of the United States to source materials (including battery components).

Incentives for domestic/allied minimal production are provided due to the tax credit for electric vehicles dependent on their containing a specified percentage of domestic/allied sources.

Housing/Buildings Energy Efficiency

- High efficiency electric home rebate program allocating \$4.5 billion in rebates for low and moderate-income electrification
- Extension, increase in modification of nonbusiness energy property credit

- Residential clean energy credit (including tax credits for heat pumps, insulation, etc., and income limitation could initially limit availability/purchase of electric vehicles)
- Energy efficient commercial buildings deductions (strengthens the criteria for and amount of the tax deduction)
- Extension, increase in modifications of new energy efficient home credit
- Home energy performance-based whole house rebates
- Funding for federal buildings fund to convert federal government-owned or managed buildings to high performance green buildings
- Funding for states to develop a high-efficiency electric home rebate program
- Funding to establish state programs providing training and education to contractors who install home energy efficiency and electrification improvements
- Funding to improve energy efficiency or water efficiency or climate resilience of affordable housing
- Assistance for latest and zero building energy code adoption

Note that the ACEEE estimates homes and commercial buildings account for almost one-third of greenhouse gas emissions.

Environmental Justice

- Environmental/climate justice block grants funded at \$3 billion for community-led projects in disadvantaged communities
- Greenhouse gas reduction fund which is described as a clean energy and sustainability accelerator funded at \$27 billion (at least 60% is slated for disadvantaged communities)
- Reinstatement of the federal Comprehensive Environmental Response, Compensation, and Liability Act ("Superfund") financing rate tax on oil production/import of 16.4 cents per barrel which would raise \$11 billion (Note prior legislation reinstated the financing rate on certain chemicals.)
- Neighborhood access/equity grants funded at \$3 billion for disadvantaged community projects

Public Lands/Agriculture and Waters

- \$20 billion to support climate-smart agricultural practices
- \$1.8 billion for hazardous fuels reduction on national forest system land within the Wildland-Urban Interface
- \$50 million for mature and old growth protection and nationwide inventory
- \$250 million for the United States Fish & Wildlife Service which would be allocated as follows:
- Endangered Species Act recovery - \$125 million
- National Wildlife Refuge and State Wildlife Management areas - \$125 million
- Reinstates an off-shore lease sale conducted for the Gulf of Mexico

Federal Agencies/Executive Branch Specific Funding

- The following federal agencies and/or parts of the Executive Branch will be funded as follows in regard to National Environmental Policy Act activities:
- United States Department of Energy - \$225 million
- United States Department of the Interior - \$150 million
- United States Forest Service - \$100 million
- United States Department of Transportation - \$100 million
- Federal Permitting Improvement Steering Council Environmental Review Improvement Fund - \$70 million
- Council of Environmental Quality - \$62 million
- National Oceanic Atmospheric Administration - \$20 million
- United States Environmental Protection Agency - \$40 million

The Progressive Caucus Center ("PCC") states that a summary released by the Senate Democrats indicates that part of the agreement calls for:

. . . comprehensive permitting reform legislation to be passed before the end of the fiscal year for all energy infrastructure including electricity transmission, pipelines, and export facilities.

The PCC also states that Senator Majority Leader Schumer has indicated that lawmakers plan to attach such permitting reforms as a rider to a stop-gap bill to keep the government running past September 30, 2022. The organization further indicates that the content of the permitting reforms is unknown but identifies as possible programs to be affected include:

- National Environmental Policy Act
- Revisions to the United States Army Corps of Engineers Clean Water Act Nationwide Permits

A link to the 725-page bill can be found [here](#).