Federal Inflation Reduction Act Key Community Solar Provisions

On Friday, August 12, the House voted to pass legislation that will provide $369 billion for energy security and climate change. The Inflation Reduction Act (IRA) will put the U.S. on a path to roughly 40% emissions reduction by 2030, representing the single biggest climate investment in U.S. history. The climate and energy investments included in the bill will bring down consumer energy costs and increase American energy security while substantially reducing greenhouse gas emissions.

The IRA contains the highest level and longest duration of energy incentives ever passed by Congress. Overall, the bill includes a combination of solar, wind, and other zero-emission technology incentives that apply to the solar industry writ large as well as a number of incentives that specifically support distributed and community solar, including several core priority provisions that Coalition for Community Solar Access, Local Solar for All, and the Solar Access Coalition crafted and advocated for.

CCSA and its Federal Committee will coordinate with other organizations to implement these provisions over the next few months. If you're not already a member of the Federal Committee, please reach out to Laurel Mawema (laurel@communitysolaraccess.org) for pricing and membership options.

This analysis is not exhaustive of all the solar provisions contained within the IRA. It only covers the provisions that have the biggest impact on community solar. For a more comprehensive view of all the provisions, see SEIA's summary of IRA provisions.

Key provisions of the IRA with the biggest impact on community solar:

LMI Bonus Credits.[1] Adders can be obtained for both the investment tax credit extension and technology neutral credit (see more details on these provisions on page 3 below) for projects serving or located in qualified low-to-moderate income communities.[2] Projects may receive a 10% bonus for facilities located in low-income communities or on Indian lands and a 20% bonus for projects installed on qualifying residential rental buildings or that provide at least 50% of the financial benefits of the electricity produced to households with income of less than 200% of the poverty line or less than 80% of area median gross income.

The 20% bonus applies only to the portion of the project serving eligible low-income households (i.e., if the project serves 50% offtake to qualifying LMI households, the 20% bonus ITC will apply to 50% of that project).

Up to 1.8 GW DC of projects can qualify for the bonus credits for both calendar years 2023 and 2024. Any unused allocations are carried over, increasing the capacity limit for the following year. Any excess capacity limitation after 2024 is carried over to a 1.8 GW annual capacity limitation under the tech neutral credit.

[1] *H.R.5376, SEC. 13103; page 284, starting line 6*

[2] *Defined as any census tract in which (1) the poverty rate is at least 20 percent; (2) in the case of a tract not located within a metropolitan area, the median family income for such tract does not exceed 80 percent of statewide median family income; or (3) in the case of a tract located within a metropolitan area, the median family income for such tract does not exceed 80 percent of the greater of statewide median family income or the metropolitan area median family income.*

***ANALYSIS**: The inclusion of dedicated funds for LMI located and serving solar was a major policy priority for CCSA and partners. The intention of our advocacy was to create a clear market signal and incentives to drive community solar projects toward serving lower income customers, at scale, with the highest amount of savings possible, which should be significantly accomplished with the 1.8 GW annual allocation for LMI bonus credits.*

***AREAS OF UNCERTAINTY FOR IMPLEMENTATION**: Further details on how individual projects can qualify for these adders are vague as of now and will become clearer after guidance. Specifically, the "financial benefits" requirement for the 20% bonus credit has little detail in the bill text as to how that may relate to a community solar project subscription. As written, the definition of financial benefit is as follows: "electricity acquired at a below-market rate shall not fail to be taken into account as a financial benefit." CCSA intends to be fully engaged on fleshing out these details through implementation.*

The timing of when a taxpayer secures the ITC bonus is currently unknown but an area of critical advocacy was that financeability of LMI projects is dependent on the bonus guaranteed prior to PTO, which will require the creation of an application and reservation system. The provision includes a one-year cure period to remedy their noncompliance if projects fail to maintain bonus eligibility (project drops below LMI percentage).

Interconnection costs included in ITC.[3] For projects placed in service on or after 1/1/2023, at or under 5 MW, the ITC is expanded to include interconnection costs that provide for the transmission or distribution of electricity produced/stored by a qualified energy facility, excluding microgrid controllers. Qualifying costs must (i) be part of an addition, modification, or upgrade to a transmission or distribution system which is required to accommodate the interconnection of the energy facility, and (ii) the original use of which, pursuant to an interconnection agreement, commences with a utility. The provision also applies to the tech neutral credit that begins in 2025.

***ANALYSIS**: This provision was developed and strongly advocated for by CCSA and partners, given the disproportionate effect that high interconnection costs have on community solar projects. To mitigate future costs, CCSA and our partners worked with the House Ways and Means Committee and Senate Finance Committee to negotiate the inclusion of costs for projects 5 MW or under, a provision that is in line with labor and prevailing wage requirements applying to all projects larger than 1 MW.*

***AREAS OF UNCERTAINTY FOR IMPLEMENTATION**: Costs ineligible for the solar ITC may remain ineligible if included in an ISA, but that remains TBD.*

[3] *H.R.5376, SEC. 13102; page 274, starting line 10*

$7 billion for states to create or expand distributed solar programs.[4] Funds are available through September 30, 2024 on a competitive basis to States, municipalities, Tribal governments, and eligible nonprofits that will provide financial or technical assistance to deploy zero-emission technologies, including distributed generation programs, that benefit low-income and disadvantaged communities. Funds must be made available no later than 180 days after the enactment of the bill and will be distributed by the EPA.

ANALYSIS: *This CCSA developed-provision allows states to leverage federal dollars for solar programming, given the limitations of budget reconciliation as a legislative vehicle. Given that distributed solar programs, specifically community solar, are created and implemented at the state level, CCSA and our partners wanted to encourage states to create or expand these programs through their own mechanisms.*

AREAS OF UNCERTAINTY FOR IMPLEMENTATION: *Due to parliamentary restrictions on creating new policy, the original bill language was amended to be very brief and high-level. CCSA will work with other allied stakeholders to communicate the original intent of the program to support state distributed solar programs, including community solar.*

Other provisions that will also impact community solar:

ITC extension through 2024 followed by a tech neutral credit program.[5] The bill renews the 30% credit rate before guidance is issued for ITC-eligible facilities that meet new requirements (described below), through 2024. In 2025, a tech neutral credit takes over through either 2032 or when power sector emissions are 25% of 2022 levels, whichever arrives first. The program rules for the tech neutral credit are effectively the same as the rules under the ITC extension.

For projects that start 60 days after guidance is issued, the new ITC rate, as well as the tech neutral credit rate is 6%, but projects can gain a 24% additional credit for a total of 30% if the project meets prevailing wage and apprenticeship standards detailed below.

Additional requirements now apply to both the PTC and ITC in order to qualify for the full credit rates, including satisfying certain prevailing wage requirements and minimum thresholds for employment of apprentices, both applying to the construction and maintenance of facilities and including employees of contractors and subcontractors. All employees must be paid wages at rates not less than the prevailing rates for construction in the locality where the facility is located, as most recently determined by the Secretary of Labor. For projects that begin construction before January 1, 2023, apprentices must account for a minimum of 10% of total labor hours for construction. This minimum requirement increases to 12.5% for construction that begins through calendar year 2023 and 15% for construction beginning in or after 2024.

Direct pay is not included in the ITC extension, except for solar-only projects accountable to any non-profit or state and local government, TVA, or Alaska Native Corporation.

[4] *H.R.5376, SEC. 134; page 667, starting line 7,* [5] *H.R.5376, SEC. 13102; page 263, starting line 1*

Option to take PTC for solar.[6] Projects may elect to take either the PTC or ITC, so long as the facility's carbon emissions are at or below zero. Projects may qualify for a base credit of 0.5 cents per kWh or a bonus credit 2.5 cents per kWh of electricity produced and sold in the 10-year period after a qualifying facility is placed in service.The prevailing wage and apprenticeship provisions apply in the same manner as the ITC in order to receive the bonus credit rate.

Transferability of the ITC and PTC. The ITC and PTC may be transferred to a third party for cash.

ANALYSIS*: See SEIA's summary of IRA provisions, including details on the ITC extension, tech neutral credit, and PTC for solar.*

Standalone storage added to ITC and tech neutral credit.[7] For projects placed in service on or after 1/1/2023, standalone energy storage systems up to 5 MW are eligible for the full 30% ITC. Energy storage technology is defined as property (other than property primarily used for transportation rather than production) which receives, stores, and delivers energy for conversion to electricity, as well as thermal energy storage technologies. The provision also applies to the tech neutral credit.

ANALYSIS*: Storage projects up until this provision were only eligible to qualify for the ITC when tied to solar and wind through private letter rulings through the IRS. This will allow for all tied and standalone storage projects in operation after 1/1/2023 to receive a credit under the extended ITC and tech neutral credit.*

Other Bonus Credits.[8] Under the PTC, ITC, and tech neutral credit, projects may receive a 10% bonus credit for meeting domestic content standards. Domestic content requirements require that any steel, iron, or manufactured product that is part of the project at the time of completion was produced in the United States. Steel and iron must be 100% produced in the United States. Manufactured products must meet an adjusted percentage of the total cost of the components and subcomponents of the project that are attributable to components that are mined, produced, or manufactured in the United States. The adjusted percentage starts at 40% for projects that begin construction prior to 2025, and escalates to 55% for projects beginning after 2026.

Projects may also receive an additional 10% bonus credit for any facility placed in service in an energy community, defined as a brownfield site, an area with significant fossil fuel employment, or a census tract or any immediately adjacent census tract in which, after December 31, 1999, a coal mine has closed, or, after December 31, 2009, a coal-fired electric generating unit has been retired.

ANALYSIS*: Alongside bonus credits for LMI located and serving projects, these credit increases have the potential to significantly increase the financial viability of distributed solar development. As of now, it is unclear as to whether all of the bonus tax credits can be stacked to create a total tax credit that is between 70% and 80%.*

[6] *H.R.5376, SEC. 13101; page 242, starting line 3,* [7] *H.R.5376, SEC. 13102; page 265, starting line 14,* [8] *H.R.5376, SEC. 13101; page 254, starting line 1,*

The following provisions may impact community solar and are being further researched:

The Establishment of a National Climate Bank,[9] funded at $27 billion, that would focus on investments in renewable energy, energy storage, clean transportation, transmission, climate resiliency measures, energy and water efficiency, reforestation, agricultural projects, electrification and decarbonization of industrial processes.

Environmental and Climate Justice Block Grants,[10] funded at $3 billion, to invest in community led projects in disadvantaged communities and community capacity building centers to address disproportionate environmental and public health harms related to pollution and climate change.

Funding to support climate-smart agriculture practices,[11] funded at approximately $20 billion, to support projects that make agriculture more environmentally friendly, including the planting of pollinator species and cover crops.

***ANALYSIS**: CCSA continues to review the IRA in full for other opportunities for potential engagement with community solar .*

Appendix A: Important Dates

2022 — 12/31/2024: ITC Extension effective

1/1/2023: LMI bonus credits effective

1/1/2023: Standalone storage eligibility begins for projects placed in service on or after 1/1/2023

1/1/2023: Interconnection inclusion eligibility begins for projects placed in service on or after 1/1/2023

9/30/2024: $7b funding to states expires

1/1/2025: Tech-Neutral Clean Electricity Credit takes over from ITC Extension

[9] *H.R.5376, SEC. 60103; page 667, starting line 1,* [10] *H.R.5376, SEC. 60105; page 673, starting line 10,* [11] *H.R.5376, SEC. 21001; page 538, starting line 18*