



## Working Summary of Energy and Climate Related Provisions in the Inflation Reduction Act

President Joe Biden signed the budget reconciliation Inflation Reduction Act of 2022 (IRA) into law on Aug. 16, 2022, following its passage along party lines in the U.S. Senate and House of Representatives. This expansive legislation is the result of many months of negotiations among Democrats to advance some of President Biden's highest policy priorities. The IRA makes major investments in climate change, domestic energy production and manufacturing, and healthcare, while aiming to reduce the budget deficit.

The IRA does not contain a clean energy requirement – there are no mandatory emission reductions or requirements to close existing generation. The bill is said to put the United States on a path toward a 40 percent reduction in carbon emissions by 2030 through the single biggest climate funding investment in U.S. history.

A summary of key energy and climate provisions of the IRA is presented below; however, this document is not to be construed as an endorsement of any provision with the exception of refundable direct pay tax credits, which for years have been a top priority of FMEA, along with the American Public Power Association and our member utilities.

Additional information, guidance and regulations related to the numerous provisions outlined below will be released from the U.S Department of Treasury and other respective agencies as they implement the new provisions.

### Climate/Clean Energy Tax Provisions

The bill makes significant reforms and additions to current clean energy tax credits, including direct pay provisions for public power.

- Creates a new direct payment of tax credits for tax-exempt/not-for-profit entities, state and local entities and political subdivisions, rural electric cooperatives, TVA, tribal entities.
- Establishes new system of “base credits” and “bonus credits” for clean energy tax credits – eligible entities must meet prevailing wage, domestic, content, and apprenticeship requirements.
- Extends and expands energy production tax credits and investment tax credits for wind, solar, geothermal, battery storage, biogas.
- Extends and creates production tax credits for nuclear, clean hydrogen, biofuels, carbon capture and sequestration (public power not eligible).

### Carbon Reduction

The bill targets investments at reducing emissions in every sector of the economy.

- Tax credits for clean sources of electricity and energy storage and targeted grant and loan programs for states and electric utilities to accelerate the transition to clean energy.
- Tax credits and grants for clean fuels and clean commercial vehicles.
- Grants and tax credits to reduce emissions from industrial manufacturing processes.

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- Deployment program to reduce emissions from the largest industrial emitting plants (chemical, steel, cement).
- Over \$9 billion for Federal procurement of American-made clean technologies.
- \$27 billion clean energy technology accelerator to support deployment of technologies to reduce emissions, focused on disadvantaged communities.
- A Methane Emissions Reduction Program to reduce the leaks from the production and distribution of natural gas.

### **Incentives to Consumers**

The bill provides direct consumer incentives to buy energy efficient and electric appliances, clean vehicles, rooftop-solar systems, and investments in home energy efficiency.

- \$9 billion in consumer home energy rebate programs, focused on low-income households, to electrify home appliances and conduct energy efficient retrofits.
  - Total family annual income must be less than 150% of the median income where you live to qualify.
  - Qualifying homeowners can get rebates for as high as:
    - \$840 for stove, cooktop, range, oven, or heat pump clothes dryer
    - \$1,750 for a heat pump water heater
    - \$8,000 for a heat pump for space heating or cooling
    - \$1,500 for insulation, air sealing, and ventilation
    - \$2,500 for electric wiring
    - \$4,000 for an electric load service center upgrade
- New and expanded consumer tax credits for energy efficient and clean energy homes; heat pumps, rooftop solar, battery storage, electric HVAC and water heaters.
  - 30% of the costs for all eligible home improvements
  - Lifetime limit of \$500 in efficiency credits has been expanded to \$1200 annual limit on the credit amount. Annual limits for specific types of qualifying improvements:
    - \$150 for home energy audits
    - \$250 for an exterior door (\$500 total for all exterior doors)
    - \$600 for exterior windows and skylights; central air conditioners; electric panels; natural gas, propane, or oil water heaters
- \$2,000 for electric or natural gas heat pump water heaters or heat pumps
- \$1 billion grant program for energy efficiency upgrades in affordable housing.
- Expands tax credits for energy efficient commercial buildings
  - Up to \$5 per square foot to support energy efficiency improvements
  - Up to 30% of costs of installing solar power and purchase of clean commercial fleet
- Grants to help state and local governments adopt the latest building energy codes

### **Electric Vehicle Credits**

The bill introduces a number of significant changes to the tax credit for new electric vehicles

- Maintains the existing up to \$7,500 consumer credit for the purchase of a qualified new clean vehicle (electric vehicles, plug-in hybrids, hydrogen fuel cell vehicles)
  - Credit is reduced or eliminated if certain percentage is not manufactured in North America
  - Implements an income eligibility limit of \$150,000 or \$300,000 for joint filers
  - Implements caps of \$80,000 per vehicle for vans, SUVs and pickups, and \$55,000 for other vehicles
  - Credit will be applied directly to car purchase starting in 2024
- Creates new consumer tax credit for purchase of used non-commercial clean vehicle

- Credit equal to lesser of \$4,000 or 30% of vehicle cost
- Sets maximum sale price of \$25,000
- Model must be at least two years older than the year of sale
- Income eligibility of \$75,000 or \$150,000 for joint filers
- New commercial clean vehicle credit
  - \$7,500 tax credit for class 1-3 (under 14,000 lbs.)
  - \$40,000 for class 4 and above (over 14,000 lbs.)

### **Investments in American Clean Manufacturing**

The bill includes over \$60 billion for domestic clean energy manufacturing.

- \$30 billion in production tax credits for domestic manufacturing of solar panels, wind turbines, batteries, and critical minerals processing.
- \$10 billion investment tax credit to build clean energy technology manufacturing facilities.
- \$500 million in the Defense Production Act for heat pumps and critical mineral processing.
- \$2 billion in grants to retool existing auto manufacturing facilities to manufacture clean vehicles.
- Up to \$20 billion in loans to build new clean vehicle manufacturing facilities.
- \$2 billion for the national labs to accelerate breakthrough energy research.

### **Department of Energy Programs**

- \$4.3 billion grants to state energy offices for clean energy rebates to homeowners.
- \$4.3 billion for purchase and installation of home electric appliances
- \$3.6 billion clean energy loan guarantees
- \$75 million for energy development in Tribal communities
- \$2 billion direct loans for certain transmission projects
- \$760 million for transmission siting improvements – studies, analysis
- \$100 million for planning, modeling, analysis and development of interregional transmission for offshore wind
- \$700 million nuclear energy program for activities that support uranium industry

### **Oil and Gas Provisions**

- Federal lands and offshore waters that are used for renewable energy development must also be opened up for oil and gas drilling.
- Concessions that could streamline a West Virginia gas pipeline and ease permitting for new energy projects.
- New fees for natural gas extraction and methane leaks, and Superfund taxes on crude oil and its related products.

### **Investments in Disadvantaged Communities**

The bill includes over \$60 billion in environmental justice priorities.

- \$3 billion in Environmental and Climate Justice Block Grants for community led projects to address disproportionate environmental and public health harms related to pollution and climate changes.
- \$3 billion in Neighborhood Access and Equity Grants to support neighborhood equity, safety, and affordable transportation access.
- \$3 billion in grants to reduce air pollution at ports.
- \$1 billion for clean heavy-duty vehicles (buses, garbage trucks).

### **Investments in Rural Communities**

The bill includes investments in clean energy development in rural communities.

- \$20 billion to support climate-smart agriculture practices.
- \$5 billion in grants for forest fire resiliency.
- Tax credits and grants to support the domestic production of biofuels.
- \$2.6 billion in grants to conserve and restore coastal habitats.
- Tax credits for renewable energy projects located in a low-income community or on tribal lands

### **USDA Assistance for Rural Electric Cooperatives**

- \$9.7 billion to the Department of Agriculture for loans and other assistance to rural electric cooperatives for purchase and deployment of renewable energy and improvements to generation and transmission systems.