

Rural Cooperative Utilities and the Inflation Reduction Act

The Inflation Reduction Act of 2022 (IRA) provides powerful new tools for rural electric cooperatives to tap low cost clean energy. From direct pay tax credits for clean energy to grants and loans, cooperatives have a unique new opportunity to **build and own** clean energy, driving lower bills for members, clean energy jobs - both at the local and utility scale, and rural economic development. But these programs are not self-implementing: cooperatives have to move quickly and transparently to develop plans that will maximize the use of credits, grants, and loans, and drive benefits to members and the communities they serve.

Direct Pay Tax Credits for Clean Energy

Historically, not for profit utilities such as rural cooperatives have been unable to take full advantage of clean energy tax credits such as the production tax credit (PTC, [Section 45](#)) and investment tax credit (ITC, [Section 48](#)), which appealed to corporations with tax liability. Under the IRA, non-taxable utilities and rural cooperative utilities can tap each of the IRA's tax major tax credits as "elective payments" - payments from the IRS equivalent to the amount of the tax credit, issued after a clean energy project is in service.

These **direct pay tax credits are substantial**, and far more flexible than previously available credits. For projects constructed before 2025, the **production tax credit (PTC)** provides [\\$26 for every MWh](#) of **wind, geothermal, or biomass**-based energy produced, for the first ten years the facility is in operation (assuming that developers meet minimum labor standards). In certain parts of the country, this credit might pay for a [quarter or more](#) of the cost of a wind project (over a twenty year life).

The PTC tax credit is enhanced by significant bonuses - a **10% adder** for projects sourced with US steel and components, and another **10% adder** for projects that are built at brownfields, in communities where a fraction of the population worked in the energy community but suffers above national average unemployment, or in census tracts with a closed coal mine or coal generating electric unit. Current estimates are that a substantial fraction of US land area (potentially up to [50%](#)) would qualify as an energy community, land that is mostly in rural America. Projects qualifying for both bonus adders could see an incentive of \$31/MWh.

After 2025, the PTC is replaced by a similar program (45Y) with yet more flexibility, allowing **any** zero emissions technology to claim a production tax credit - and for non-profit cooperatives, a direct payment.

The **investment tax credit (ITC)** allows entities to reclaim 30% of the cost of **solar, battery storage, and geothermal**, as well as combined heat and power, microgrids, and small wind turbines, from the IRS for projects installed prior to 2025. After 2025, the ITC is replaced by a similar, but more flexible provision (48E) that allows entities to claim an investment credit for any zero emissions technology. Like the PTC, the enhanced version of the ITC has substantial bonuses available for projects sourced from domestic steel and components, and projects sited at "energy communities." In fact, domestically-sourced projects sited in energy communities would have **half of their costs** paid by the tax credit. Rural electric cooperatives can claim this incentive as a direct payment from the IRS.

The ITC holds yet another **near term bonus** for smaller scale solar and wind energy projects built on Indian land or in low-income communities. Small-scale solar and wind energy projects less than 5 MW, built in low-income or tribal communities, and commencing construction in 2023 or 2024 can take another 10% bonus - or a 20% bonus if part of a qualified low-income building.

How it works: Utilities and other entities that build eligible clean energy claim the credit on their tax forms after the clean energy is put into service (i.e. producing energy). For rural electric cooperatives, it is expected that the credit claim would be identified with the submission of Forms 990 or other tax forms, and provided as a direct payment to the cooperative.

What it means for cooperatives: Direct pay for clean energy is transformational for rural electric cooperatives and other non-profit utilities. Previously, cooperatives have generally had to use power purchase agreements to tap into solar and wind energy, much less battery storage. By owning these resources, cooperatives improve their balance sheets with assets (the clean energy) rather than liabilities (the power purchase agreements), which in turn allows them to take older uneconomic plants out of service. Cooperatives serve most of the “energy communities” in the IRA, particularly in the Intermountain West, Gulf Coast, Southern Plains, Illinois Basin, and Southeast.

When cooperatives can get started: Now. While the IRS will likely issue guidance in early 2023, and must have firm rules in place by early 2024, those guidelines will generally *not* bar entities from claiming the credit following the plain text of the statute - **and the credits are available immediately.**

What it means for planning: Cooperatives should assume that the cost of wind, solar, and storage is reduced by either the level of the PTC, or at least 30%. Cooperatives should also seek to identify eligible energy communities that would both benefit from the economic development, and reduce project costs. In the near term, cooperatives should connect with municipalities, counties, and tribal communities in and connected to their service area to determine if there are project areas eligible for small-scale wind or solar development using the incremental bonus.

\$9.7 Billion in Clean Energy Grants from USDA

The Inflation Reduction Act created a new program specifically designed to help rural electric cooperative utilities level the clean energy playing field. Under Section 22004 of the IRA, the US Department of Agriculture (USDA) has been provided \$9.7 billion of authority to extend grants, loans, and other forms of financial assistance to rural electric cooperatives for purposes of purchasing clean energy and zero emissions systems. The **competitive grant** program from USDA provides an extraordinary opportunity for cooperatives to quickly advance clean energy deployment while buffering their balance sheets.

How it works: Under USDA's program, cooperatives will likely submit funding proposals to USDA, focusing on maximizing utility greenhouse gas reductions. Cooperatives will likely be able to bring together both grant and loan elements in this program structure; USDA will require that any grants are matched 3:1 with other financing (likely including direct-pay tax credits and other low-cost loans), and limit the appropriation to any given utility to 10% of the total pool, or \$970 million.

What it means for cooperatives: This program is tailor-made to ease the transition for cooperatives, providing extraordinary flexibility on implementation. Assuming that USDA elected to allocate dollars

preferentially to cooperatives with the largest greenhouse gas burdens today, some of the largest and fossil-heaviest cooperative utilities could be looking at grants of \$300 million (like Southern Illinois) to more than \$800 million (like Associated, Basin, and Seminole). In many cases, the clean energy replacement is already substantially cheaper than operating fossil plants, so a failure to plan and apply for these grants hurts cooperative members. Moving quickly to apply for these funds can provide enormous economic development opportunities for rural energy communities.

When cooperatives can get started: Now. USDA is actively soliciting input for the rules around the creation of this program, and is seeking to have a formal process in place in early 2023. Nonetheless, cooperatives can start putting together plans that would meet the statutory guidelines, and seek to maximize greenhouse gas emissions reductions. Since this funding is competitive, USDA may seek to orient dollars towards programs with clear long-term emissions benefits.

What it means for planning: While there are several unanswered questions about the structure of this program, the legislative intent appears to allow utilities to pull together comprehensive clean energy programs that significantly reduce emissions. The clearest indication of emissions reductions will be signaled by the replacement of fossil resources with zero-emissions clean energy. A utility might, for example, propose a billion dollar program that retires an existing coal plant, builds replacement solar, storage, and transmission upgrades. USDA's share of the program might be \$250 million in grants or forgivable loans, and low-cost refinancing to help pay down any remaining debt in the coal facility. If sited on or near the retired coal facility, the solar and storage could qualify for a 50% direct-pay tax credit, and have another quarter of its capital costs paid down by USDA's grants - in other words, **75% of the project cost paid by credits and grants**. Under this type of program, USDA would have a clear indication of achieved emissions reductions (the replacement of the coal plant) and clarity of financing.

\$4.75 Billion in Greenhouse Gas Reduction Grants from EPA

Section 60114 of the IRA creates a novel, and **very short term**, competitive grant program for EPA to reduce emissions. Available to states, tribes, municipalities, and air pollution control agencies (or a combination), the grants are relatively open-ended. To qualify, an eligible entity must first develop a greenhouse gas emissions reduction plan, the requirements of which will be specified by EPA no later than May, 2023. EPA is appropriated \$250 million in grants to help eligible entities develop robust plans, and \$4.75 billion that it can competitively award to then implement those plans. The grant dollars are available only through September 2026.

Rural electric cooperatives that serve small municipalities or tribes can work with those communities, or directly with their state, to develop integrated emissions reduction plans, from building or transportation electrification to electric system transition. These grants may be most effectively deployed for programs that are incremental, but complementary to utility programming, such as for electrification, efficiency, rooftop solar, or distributed storage.

How it works: EPA will likely issue guidelines for potentially eligible entities to signal their interest in developing emissions reductions plans (which can include programs, policies, and/or projects). EPA can provide granting assistance to develop those plans, and is required to identify at least one eligible entity per state. EPA can start issuing the competitively awarded implementation grants as of fiscal

year 2022, and is directed to assess plans on their ability to reduce greenhouse gas emissions, and how they benefit low-income and other disadvantaged communities.

What it means for cooperatives: This sleeper of a program could end up being absorbed entirely by fast-acting states with aggressive decarbonization goals, or could provide a serious booster to states and municipalities with ready-made transition opportunities. Cooperatives with substantial outdated fossil generation might be able to make a convincing case that their state, or associated municipalities, could tap EPA's grants to pay down the costs of permanent reductions at a very low cost per ton.

When cooperatives can get started: Cooperative utilities should start working with their states and other eligible entities to identify their interest in developing competitive plans. While it is not clear the extent to which EPA will award more than each state's pro-rata share of the granting dollars, utilities and eligible entities with robust plans that clearly meet EPA's requirements may be able to make a stronger claim under the statute's prioritization criteria.

What it means for planning: Until EPA issues further guidance, its granting program might be considered incremental to robust utility decarbonization plans. Cooperatives might identify how additional non-ratepayer dollars could accelerate programs parallel to utility work, such as electrification, locally-based clean energy, or deeper efficiency programs. Utilities should seek to identify how additional dollars could spur deeper emissions reductions, in preparation for potential grant applications.

Energy Infrastructure Reinvestment (EIR) Loans from DOE

The IRA creates a new, **but also short term**, Department of Energy (DOE) loan program specifically for the purposes of allowing uneconomic fossil energy infrastructure to be repurposed, retooled, or replaced. [Energy Infrastructure Reinvestment \(EIR\)](#) or Section 1706 loans are **guaranteed loans** that can be offered to utilities (or other fossil infrastructure owners) at a much lower rate than corporate bonds.

The EIR program is designed to help the owners of fossil-based energy infrastructure (and particularly utilities) finance one of the trickiest parts of transitioning: handling legacy debt and environmental obligations. Through 2026, DOE is authorized to extend low-cost loans to utilities, generation owners, and owners of other aging or defunct fossil infrastructure to refinance higher cost debt and equity, buy replacement power, or finance novel uses for infrastructure taken out of service. For example, a utility with an aging coal plant might seek a loan that would allow the utility to retire the coal plant, refinance any remaining debt in the coal plant, and purchase a clean energy replacement.

DOE's loan programs have traditionally been designed for very large projects - in the tens to hundreds of millions of dollars. While a rural electric cooperative might look first to the USDA grants and refinance program, the DOE EIR loan program might provide an additional avenue for financing fossil to clean transition, specifically supporting stranded asset costs, legacy pollution costs (such as coal ash cleanup), and even transmission upgrades.

How it works: DOE is working to rapidly gather input and propose a rulemaking, with the hope of initiating the program in early 2023. DOE's Loan Program Office has a well-established loan application process, and is working to clarify guidelines for application. DOE loans can take longer than a year to

reach approval: therefore, the office is **already** [asking for applications](#) and consultations, even before the rulemaking process is finalized.

What it means for cooperatives: Cooperatives that have recently closed fossil generators, might cost effectively replace fossil generation, need to unwind costly fuel contracts, or need to clean up coal ash or other fossil-generated waste can now approach those projects with federal support, using very favorably priced loans. Unlike other debt, these loans are specifically tailored to pay down stranded asset costs.

When cooperatives can get started: Now. DOE is calling for consultations and applications today. Projects with a clear value proposition (i.e. that achieve the purposes of the program, and achieve clear long-term emissions reductions) are likely to help set DOE's direction in establishing guidelines.

What it means for planning: Planners should look at refinancing high-cost debt with DOE's lower cost loans for fossil transition programs. For example, a utility planner looking at coal retirement should examine a case in which the remaining asset balance of the coal plant is replaced by a low-cost loan when the plant is retired, and the resulting customer savings. Based on the type of program being proposed, and the entity applying, DOE's guaranteed loans are typically 0.375% to 2.0% above Treasury rates. Since this program is not targeted at "innovative" or speculative technologies, and will be offered to well-established utilities, the loan cost is expected to be very low.

Taking the Next Step - Cooperative Planning and the IRA

The Inflation Reduction Act of 2022 is easily the most substantial change in financing for rural electric cooperatives in decades: the IRA makes available not only enormously beneficial tax credits and bonuses, but provides direct funding and refinancing for cooperative utilities to accelerate - and lead - the transition to clean energy.

But these tax credits, grants, and loans are not simply self implementing: cooperatives need to take proactive steps to drive economic development. Cooperatives need to **move quickly to develop transparent plans** to use the credits to their best advantage, compete for USDA and EPA grant and refinancing dollars, and engage with DOE. The opportunities are far too valuable to be ignored: in this case, delay will inevitably waste member and ratepayer dollars, or even forgo critical windows.

Cooperative generation and transmission utilities should engage internal or external planners to start building [portfolios of clean and reliable energy](#), assess how the tax credits and grant and loan programs can benefit their customers over the long run, and work to socialize the value of those programs as soon as viable.

