The Inflation Reduction Act, One Year Later

The Winners, The Disadvantaged, and How We Move Forward

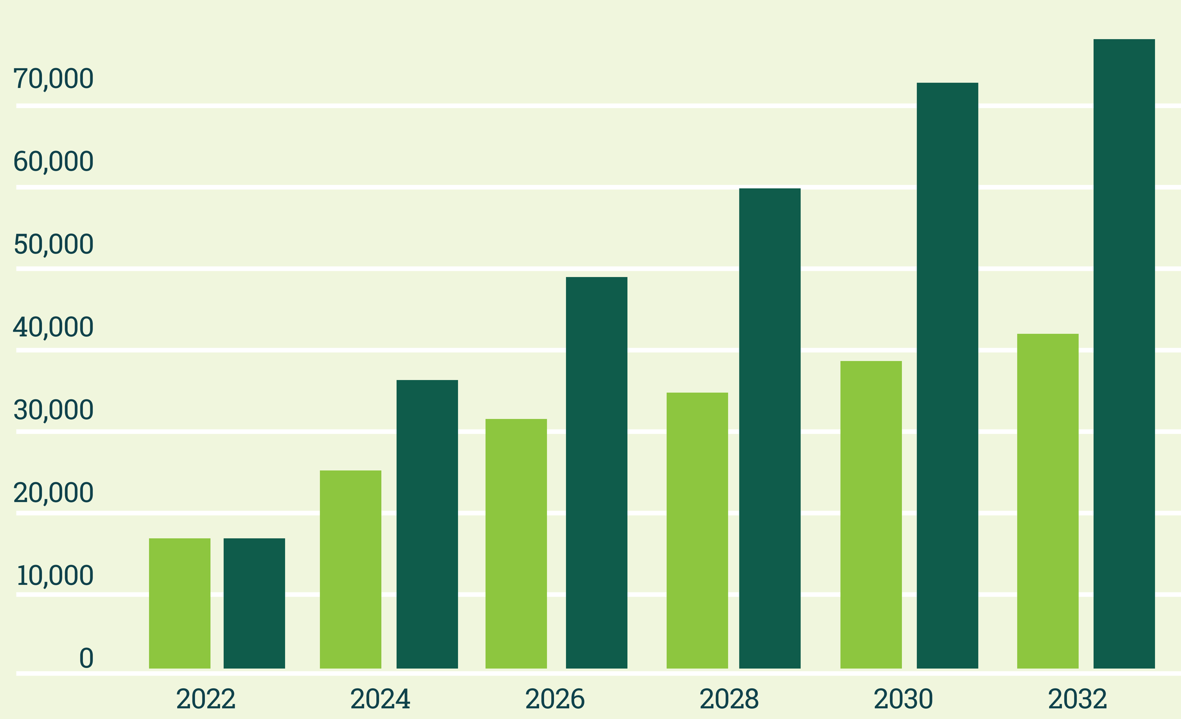
The Inflation Reduction Act (IRA) was signed into law in August 2022. A year later, is the IRA achieving what it was meant to do? Here we lay out the promises of the legislation, who is winning, who is struggling, and what the future may hold.

Provisions and Promises of the Inflation Reduction Act for Solar

- Extension of the 30% solar ITC for solar and creation of a 30% ITC for stand alone energy storage
- A 10% credit for projects with a certain amount of domestically produced content
- A 10% credit for projects in designated “energy communities” and 10-20% credit for low-income communities or housing projects
- Generation-based PTC extended to solar and a manufacturing PTC
- Projections from the Solar Energy Industries Association are that, because of the IRA, by 2032 there will be:
  - 69% more solar deployment
  - $200 billion in new investment
  - 200,000 more jobs
  - Increase in CO_2 emissions offsets from 139 MMT to 492+ MMT
  - 50 GW of domestic solar manufacturing capacity across all key industry segments

Impact of the Inflation Reduction Act on Solar Marketing Outlook

ANNUAL U.S. SOLAR INSTALLATION (GWDC)



Source: SEIA analysis of Wood Mackenzie forecasts

Who is Winning?

Well-Funded and Larger Developers

Despite rising interest rates, inflation, and systemic supply chain issues across all market sectors, the well-funded medium to larger developers have fared relatively well.

- Access to capital has made them better equipped to navigate these issues
- Many have successfully partnered with states to use the IRA provision that supports state energy financing institutions to lower their cost of capital
- The IRA’s $5 billion in credit has allowed some to realize energy storage projects at shuttered fossil fuel facilities
- $7 billion worth of grants available through the LMI 10% ITC adder has facilitated their project development in disadvantaged communities

Module Manufacturers

Solar module companies seeking to bolster their presence in the United States have hastened to capitalize on the bill’s manufacturing PTC.

- 12+ solar module manufacturing facilities are being constructed or expanded
- These businesses include Qcells, First Solar, and JA Solar
- This development represents a 300% increase in American module manufacturing capacity

Energy Consumers

Many states are enjoying clean energy savings for residents and businesses.

- Example: customers for Minnesota’s largest utility are saving an estimated $1 billion from IRA incentives
- Community solar, a model that assists those not normally able to capitalize on clean energy savings like renters and LMI communities, has been experiencing a boom
- The IRA’s 10% ITC adder for designated energy communities has helped city, municipal, and housing authorities pursue community solar projects

Who is Facing Challenges?

Smaller Developers

- Small developers, contractors, and subcontractors are having a hard time accessing the greater tax credits provided by the IRA due to certain provisions, such as the prevailing wage set by the U.S. Secretary of Labor and the use of apprentices
- For some companies without deep pockets, meeting these requirements is simply not economically feasible

Inverter Manufacturers

Inverter manufacturers have been slow to take root in the U.S. this past year given the IRA’s narrow definitions of inverter types that qualify for incentives. For example, in the legislation, micro-inverters receive the largest incentive per watt despite the fact that they represent a small portion of the inverter market.

Companies Seeking Project Interconnection

No matter the size of the developer, the aging grid and interconnection bottlenecks are thwarting IRA benefits from coming to fruition. Almost 1.3 TW of clean energy projects, including ones located in “energy communities,” have applied for grid interconnection and are delayed or canceled due to transmission issues.

Looking To The Future

While there are those already reaping the benefits of the Inflation Reduction Act and others not faring quite as well, there is reason to be optimistic about the law’s impact on the industry going forward.

There are likely to be more changes on the horizon. Industry advocates, business owners, and community members should stay vigilant in order to take full advantage of the opportunities presented by this groundbreaking legislation.