

State Policy Key To Unlocking Inflation Reduction Act Electricity Sector Benefits

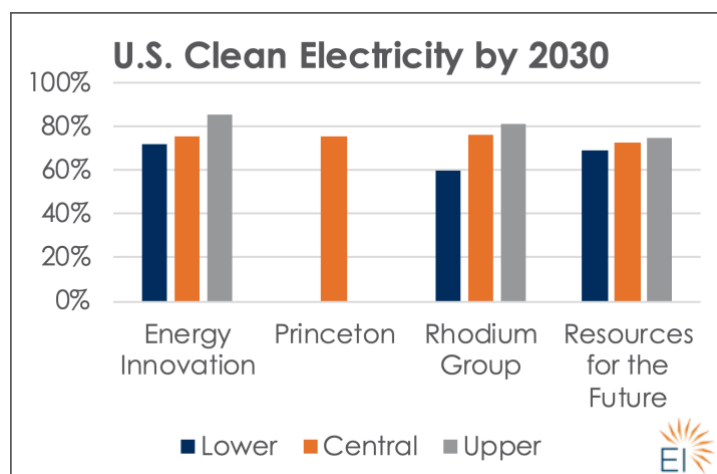
THE IRA TRANSFORMS CLEAN ENERGY ECONOMICS

The Inflation Reduction Act (IRA) is the most significant climate legislation in United States history, projected to help cut greenhouse gas (GHG) emissions roughly 40 percent below 2005 levels by 2030. Studies estimate most of these reductions will occur in the electricity sector, due to dramatically improved clean energy economics.

- **First**, it slashes clean energy costs by extending and expanding the production and investment tax credits. These tax credits will last at least ten years and feature bonuses for projects that pay prevailing wages, use apprenticeships, source domestic content, and are sited in energy communities.
- **Second**, it reduces barriers to transitioning from fossil fuels to clean energy, offering financing programs to help pay off debt for uneconomic fossil fuel assets that would otherwise increase electricity rates.
- **Third**, it creates manufacturing incentives to build domestic supply chains and spur economic growth.
- **Fourth**, it allocates funds for electric transmission planning and expansion to integrate clean energy onto the grid.

THE IRA COULD DRAMATICALLY REDUCE ELECTRICITY EMISSIONS

Four independent modeling efforts have shown that, with the IRA, the U.S. may reach 73 to 76 percent clean electricity by 2030, reducing electricity sector GHG emissions 67 to 78 percent below 2005 levels by 2030. The models find that 65 to 95 gigawatts of utility-scale wind and solar could be built annually, roughly tripling U.S. record deployment. This growth is projected to help create an additional 1.2 to 1.7 million jobs in 2030, with the law supporting strong labor standards. Finally, the IRA could result in tens of gigawatts of coal retirements and save households hundreds of dollars on utility bills annually by 2030, with savings totaling \$5 billion through 2024.



However, these benefits are not guaranteed due to the incentive-based nature of the IRA provisions and lack of binding requirements to reduce emissions. Open questions remain on how quickly the U.S. can build new transmission, which will require additional planning and investment. Uncertainty surrounds how much refinancing programs will reduce emissions and drive plant retirement. The IRA has opened the door to rapid, affordable decarbonization, but states and utilities must act quickly to realize its potential.

STATE POLICYMAKERS MUST ACT TO BRING BENEFITS HOME

Public utility commissions (PUCs) should:

- **Re-examine stale cost assumptions in planning and procurement.** IRA incentives render obsolete market-based solicitations and plans to invest in renewable contracts prior to August 2022. PUCs should insist utilities redo integrated resource plans and resource solicitations to reflect cheaper clean energy.
- **Enable competition to drive new investment and retirement.** All-source procurement, which asks utilities to assess resource need then bid those services to the market, can accurately compare clean energy prices to fossil fuels instead of favoring incumbent technologies.
- **Take a proactive role in community transition.** PUCs should encourage utilities to seek federal funds to lessen economic impacts of coal retirement, gather stakeholder input on community development goals, and consider incorporating temporary community transition funding into rates.
- **Streamline the clean energy interconnection process.** PUCs should examine their state's interconnection queue to assess whether proactive transmission build-out could connect cost-effective clean energy, particularly in states lacking regional transmission planning organizations.
- **Maintain healthy skepticism on carbon capture.** Utilities should be wary of carbon capture retrofits on coal-fired power plants due to the technology's unproven performance. A technology-neutral and competitive approach to reliability can avoid over-investment in risky technology.

State legislators should:

- **Increase clean electricity standard ambition.** Clean electricity standards are technology-neutral requirements for utilities to serve customers with a certain percentage of zero-carbon resources. IRA incentives mean states can accelerate these targets without increasing costs.
- **Require utilities to invest in electricity storage.** Battery storage is increasingly cost-effective for integrating renewable electricity but hasn't yet attracted significant investment. Procurement mandates can ensure utilities include storage in resource portfolios.
- **Create a transmission authority to enable cost-effective clean energy deployment.** A transmission authority can develop proactive intrastate transmission plans to access cost-effective clean resources and coordinate with other states, while representing the state at the Federal Energy Regulatory Commission.
- **Push for greater regional grid coordination.** Legislators should direct utilities to study, join, or form a regional transmission organization to optimize inter-state transmission planning and operation.
- **Dedicate resources to community transition.** Allocating funds to community development plans in current fossil-fuel dependent communities, while creating and funding a just transition office to oversee these efforts, can help communities diversify their economies in advance of plant closures.
- **Provide funding for PUCs and state energy offices to maximize IRA funds.** Legislators can provide additional resources to state energy offices and regulatory agencies to support engagement in federal processes and implementation of IRA programs.

Governors and state energy offices should:

- **Assess clean energy resource and market potential.** Wind and solar will make up the bulk of this decade's clean electricity buildout. Proactive stakeholder engagement and site identification can prioritize the necessary transmission and grid upgrades to attract development.
- **Support a clean energy workforce.** States can develop priority industries by analyzing current workforce capabilities and creating economic development plans to foster local clean energy jobs.
- **Connect state agencies and utilities driving clean energy deployment.** Coordinating decarbonization efforts across sectors can help maximize benefits and speed the transition.