

October 15, 2024

The Honorable Jason Smith
Chair
Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

The Honorable Mike Kelly
Chair
Tax Subcommittee
Committee on Ways and Means
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith and Subcommittee Chairman Kelly,

The American Council on Renewable Energy (ACORE) appreciates the Committee's proactive work to solicit input regarding potential tax reforms and respectfully submits this letter for your consideration.

ACORE is a 501(c)(3) national nonprofit organization that unites finance, policy, and technology to accelerate the transition to a carbon-free energy economy. ACORE's membership spans the entire energy value chain including clean energy developers, institutional investors, corporate buyers of clean energy, manufacturers, electric power generators, retail energy providers, and other stakeholders. In 2023, roughly 85 percent of the booming utility-scale domestic renewable energy growth was financed, developed, owned, or contracted for by ACORE members.

Demand for Energy is Rising for the First Time in Decades

As a net energy exporter since 2019, the nation is blessed with abundant, diverse energy generation capacity to support its commercial and industrial prowess, both at home and abroad.¹ In 2023, energy production in the United States surpassed total consumption by a record amount.² Concurrently, for the first time in nearly two decades, demand for electricity is expected to rise at an increasing rate. According to an analysis of 2023 filings with the Federal Energy Regulatory Commission (FERC), the nationwide electricity demand forecast for the next five years increased to 4.7 percent, which is nearly double the 2.6 percent estimate the year before. This is likely to be an underestimate and will require peak demand growth of at least 38 gigawatts (GW) through 2028.³ The North American Electric Reliability Corporation (NERC) forecasts 78 GW of winter peak demand growth over the next 10 years—a near doubling of their projections from two years prior (2021) and other forecasts demonstrate similar trajectories overall.⁴ These rising power needs are largely driven by growing areas of our economy, including the revitalization of large-scale domestic manufacturing and our growing leadership in

¹ EIA. U.S. total energy exports exceed imports in 2019 for the first time in 67 years (April 2020), available at: <https://www.eia.gov/todayinenergy/detail.php?id=43395>.

² Energy Information Administration (EIA). U.S. energy production exceed consumption by record amount in 2023 (June 2024), available at: <https://www.eia.gov/todayinenergy/detail.php?id=62407#:~:text=In%202023%2C%20energy%20production%20in,records%2C%20which%20date%20to%201949>.

³ John D. Wilson and Zach Zimmerman, Grid Strategies, December 2023, "The Era of Flat Power Demand is Over," available at: <https://gridstrategiesllc.com/wp-content/uploads/2023/12/National-Load-Growth-Report-2023.pdf>

⁴ Cy McGeady, CSIS, "Strategic Perspectives on U.S. Electricity Demand Growth, May 20, 2024, available online at: <https://www.csis.org/analysis/strategic-perspectives-us-electric-demand-growth>

advanced technologies, such as artificial intelligence (AI). For example, one estimate found that onshoring manufacturing and industrial electrification alone is projected to require an additional 36 GW of electricity, or enough to power 25 million homes, by 2030,⁵ and data centers are estimated to require an additional 16 GW.⁶ Whether America is able to meet these power needs will significantly affect our positioning in the global economic landscape.

Since the 1970s, Federal Tax Policies Have Resulted in a Diversified Energy Mix

Since the oil price shocks of the 1970s,⁷ there has been significant bipartisan support for tax policies that encourage the diversification of our nation's energy mix, primarily through provisions that help to reduce the upfront costs of capital-intensive energy investments. Clean energy resources are currently some of the cheapest forms of new electricity generation available and are widely favored by American consumers and businesses, but like many large infrastructure projects, involve project financing structures and complex development processes that tax policies help to incentivize. Current tax policies, which provide a minimum 10-year time horizon and technology-neutrality for clean energy sources, among other provisions, are helping to attract significant private sector investment in clean energy and provide a stable runway for clean energy firms which, like all American businesses, require certainty.

The Nation's Current Tax Policy Has Led to Record Clean Energy Installations and Increased Domestic Manufacturing

The market is responding powerfully to current tax policy: over 90 percent of the new generation capacity added to America's power grid in the first six months of the year came from solar, wind, and batteries, with similar forecasts for the end of 2024 and well into 2025.⁸ The United States brought enough of these resources online between September 2022 and March 2024 to supply carbon-free electricity to over 10 million homes, the greatest increase in new clean energy infrastructure the nation has ever recorded.⁹ Clean energy resources also comprise approximately 95 percent of the more than 2.6 terawatts of capacity waiting in the nation's interconnection queues, representing more than twice what the country has currently installed and demonstrating the continued interest in and potential for the market.¹⁰

In addition to supporting the growth of desirable, low-cost, carbon-free electricity generation, current energy tax policies are also fueling America's manufacturing comeback. Over the same two-plus year period that has brought substantial clean energy online, the nation has recorded

⁵ Id.

⁶ Bruce Tsuchida, Long Lam, Peter Fox-Penner, The Brattle Group, "Electricity Demand Growth and Forecasting in a Time of Change," May 2024, available online at: https://www.brattle.com/wp-content/uploads/2024/05/Two-Pager_Electricity-Demand-Growth-and-Forecasting-in-a-Time-of-Change_May-2024.pdf

⁷ Sherlock, M. F. Energy Tax Policy: Historical Perspectives on and Current Status of Energy Tax Expenditures (May 2011), available at: <https://sgp.fas.org/crs/misc/R41227.pdf>.

⁸ EIA. Preliminary Monthly Electric Generator Inventory (June 2024), available at: <https://www.eia.gov/electricity/data/eia860m/>.

⁹ American Clean Power Association. Clean Energy Investing in America (August 2024), available at: <https://cleanpower.org/investing-in-america/>.

¹⁰ Rand, J. et al. Queued Up: Characteristics of Power Plants Seeking Transmission Interconnection (April 2024), available at: <https://emp.lbl.gov/queues>. Note: Due to the uncertainty of the interconnection process, many of these projects will ultimately not be built. However, the interconnection queues demonstrate the significant potential availability of clean energy capacity.

new or revamped manufacturing announcements valued at nearly half a trillion dollars—estimated to support the creation of roughly 1.5 million jobs.¹¹ This is a substantial rebound from the 30 percent drop off in manufacturing employment between 2001-2015 that impacted families and workers in nearly three-quarters of U.S. counties.¹² These new investments will provide opportunities for new employment at more than 160 new factories or facility expansions across the country.¹³

Benefits Include Lower Electricity Rate Increases for Consumers

Clean energy projects also provide benefits beyond direct job creation and significant capital investment. Communities with greater access to clean energy are typically less susceptible to fuel cost spikes in the face of increasingly extreme weather and see lower electricity rate increases. For example, from 2010 to 2023, the percentage of electricity generated by wind in Iowa grew from 15 percent to nearly 60 percent; at the same time, Iowa’s electricity rates increased more slowly than 42 other states with a compound annual growth rate of under 2 percent.¹⁴ In addition, low-income families across the United States face energy burdens (i.e., the percentage of household income spent on home energy bills) three times greater rate than other households.¹⁵ The median energy burden for Black households is 43 percent higher than that of White households, 20 percent higher for Hispanic households, and 45 percent higher for Native American households.¹⁶ Access to affordable, clean energy resources helps to reduce these burdens. For example, a study of roughly half a million residents found that residential solar adoption provided a median savings of \$660 annually for low-income households, two-thirds of which would have experienced a “high” or “severe” energy burden absent solar.¹⁷

Taken together, clean energy tax policies are delivering a substantial return on investment. Between August 2022 and August 2024, the aggregate amount of federal government tax credits, grants, loans and loan guarantees for clean technologies was approximately \$78 billion—representing just 16 percent of the total \$500 billion in total public/private investment across all 50 states.¹⁸

The Clean Energy Industry Needs Continuity and Certainty in Federal Tax Policy

¹¹ Energy Futures Initiative & AFL-CIO. Inflation Reduction Act Analysis: Key Findings on Jobs, Inflation, and GDP (August 2022), available at: <https://laborenergy.org/wp-content/uploads/2022/08/8-6-22-IRA-Impact-Analysis-V14.pdf>.

¹² See American Clean Power Association.

¹³ Id.

¹⁴ Pierpont, B. Clean Energy Isn’t Driving Power Price Spikes (July 2024), available at: <https://energyinnovation.org/wp-content/uploads/2024/07/Clean-Energy-Isnt-Driving-Power-Price-Spikes.pdf>.

¹⁵ Drehobl, A., Ross, L., & Ayala, R. How High Are Household Energy Burdens? (September 2020), available at:

https://www.energy.gov/sites/default/files/2022-10/16.%20How%20high%20are%20household%20energy%20burdens_ds_0.pdf.

¹⁶ Id.

¹⁷ Forrester, S.P. et al. Modeling the potential effects of rooftop solar on household energy burden in the United States (June 2024), available at: https://link.springer.com/article/10.1038/s41467-024-48967-x?utm_source=rct_congratemail&utm_medium=email&utm_campaign=oa_20240601&utm_content=10.1038%2Fs41467-024-48967-x.

¹⁸ Bermel, L. et al. Clean Investment Monitor: Tallying the Two-Year Impact of the Inflation Reduction Act (August 2024), available at: https://rhg.com/wp-content/uploads/2024/08/Clean-Investment-Monitor_Tallying-the-Two-Year-Impact-of-the-Inflation-Reduction-Act-1.pdf.

The current structure and duration of federal tax policies allow clean energy firms to plan effectively which helps to generate this substantial economic activity. However, sudden changes to the availability and design of these incentives could threaten this progress. This is because, consistent with other categories of critical infrastructure, clean energy projects are capital-intensive endeavors that require extensive planning and involve multiple stakeholders, including project sponsors, investors, debt providers, offtakers, equipment suppliers, and labor contractors. Even before financing considerations, these parties must advance through numerous steps in the project development process, from initial site selection, design, and engineering to environmental permitting and interconnection approvals. Assuming successful navigation of these phases, which can take months to years depending on the size of the project, the parties will typically enter into multi-year contracts known as power purchase agreements (PPAs) with a utility or corporate offtaker. PPAs facilitate the purchase of energy generated by a project at a fixed rate and tend to range between 10-20 years.

Tax Equity Financing Is Important for Clean Energy Projects, and Preservation of Current Federal Tax Policy Will Support Continued Deployment and Spur Market Innovations

Project developers must also secure the financing necessary to construct the project and realize the PPA. Along with debt and other equity sources, a primary method to acquire financing for clean energy transactions is through tax equity. Clean energy projects typically have a high level of contracted revenue, limited variable operating costs, and relatively predictable cash flows. Projects are often held in an LLC and taxed as partnerships. In most cases, project developers do not have sufficient tax liabilities to use the tax credits and therefore sell non-controlling passive interests in the LLCs to tax equity investors in structured transactions. These structures are designed to allow tax equity investors to fund a large portion of the capital cost of the project and to receive a pre-negotiated rate of return, which consists primarily of the value of available tax credits and other tax benefits. Tax equity is responsible for approximately one-third to two-thirds of a renewable energy project's overall financing.¹⁹ Recently enacted enhancements, such as allowing for transferability of credits, are also proving to be beneficial tools for project financing.

While tax equity and other types of clean energy project finance are highly dependable structures, abrupt alterations to the federal incentives underpinning the lion's share of such transactions risks throwing these arrangements out of balance. If allowed to continue to reach completion, pending financial agreements reliant on existing clean energy tax incentives will continue to build on the economic development these provisions have stimulated thus far. With useful lives of at least 25-30 years, the clean energy projects coming online today will provide the nation's communities with good-paying jobs, local tax revenues, private landowner lease payments, downstream supply chain activity, and other benefits reaching far outside the project fence line and into the future.

Moreover, preservation of the current clean energy tax regime will sustain the world-leading market innovations that U.S. financial institutions are spearheading through emerging credit

¹⁹ ACORE. The Risk Profile of Renewable Energy Tax Equity Investments (December 2023), available at: <https://acore.org/wp-content/uploads/2023/12/ACORE-The-Risk-Profile-of-Renewable-Energy-Tax-Equity-Investments.pdf>.

monetization mechanisms such as credit transferability and direct pay, which enable new entrants to clean energy finance—including local, state, and tribal governments, school districts, rural electric cooperatives, and unconventional corporate investors—to play a meaningful role in realizing the full economic benefits of clean energy expansion.

ACORE and our membership stand ready to work with the Committee to provide any technical, analytical, or other insights that may be helpful.

Thank you for the opportunity to submit these comments. Please do not hesitate to contact ACORE's Senior Vice President of Policy and Engagement, Lesley Hunter, at hunter@acore.org with any additional questions you may have.

Sincerely,

/s/ Lesley Hunter

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