IBEW POLICY BRIEF

Chapter 11: Tax Normalization for Utilities

The IBEW is supportive of Congress allowing regulated electric utilities to be able to opt-out of their current obligation to "normalize" federal investment tax credits (ITCs) over a long period and allow regulated utilities to compete on a level playing field as independent energy developers who are not required to normalize federal ITCs.

Regulated utilities are obligated under federal law to divide and spread, or "normalize," a federal ITC benefit to customers over an asset's life, typically at least 20 years but often longer. Standards within the U.S. tax code for normalization are different for deregulated companies and independent power producers than normalization standards for regulated electric companies. As a result, deregulated companies and independent power producers can share ITC benefits much faster with their customers. As a result, regulated electric companies are at a competitive disadvantage when proposing new investments in clean energy technologies. Instead, regulated utilities should be permitted to account for federal ITCs in the same manner as independent power producers do, including the abilities provided in Section 48 solar tax credit. Independent power producers can allow their customers to realize the benefit of the tax credit as soon as possible, usually within the first five years of the investment.

Regulated electric utilities are among the largest employers of IBEW members. Nearly a quarter million IBEW members hold full-time positions in the utility sector. Therefore, it is paramount that the members of the IBEW and their employers be allowed to compete on an equal basis as independent power producers. Independent power producers can utilize federal ITCs without the requirement to normalize.

Recent Developments

The Inflation Reduction Act's Changes to Tax Code

The Inflation Reduction Act made two fundamental changes to the tax code to allow investor-owned utilities to opt-out of their tax normalization obligations. These modifications enable investor-owned utilities to compete as independent power producers on an equal financial footing.

First, the Inflation Reduction Act reauthorized the solar production tax credit. The solar PTC initially expired in 2005. Congress extended and modified the credit to allow all commercial-sized solar generation taxpayers to receive the tax credit for power generation. Commercial-sized solar generation taxpayers will receive the credit at the same rate as wind generation, 0.3 cents per kilowatt hour. In addition, the credit is multiplied by five if the solar PTC project satisfies the new prevailing wage and apprenticeship requirements.

Second, the Inflation Reduction Act consolidates the various renewable and clean energy tax credits into two new technology-neutral credits after 2024, the Clean Energy Production Tax Credit (Section 45Y) and Clean Energy Investment Tax Credit (Section 48E). Both credits, which will go into force in 2025, will provide similar rates of benefit as the earlier renewable tax credits but will not have any tax normalization obligation for investor-owned utilities.

Government Affairs Department Points of Contact

Danielle Eckert Danielle_Eckert@ibew.org	Director of Government Affairs
Sergio Espinosa Sergio_Espinosa@ibew.org	Energy & Environment, Healthcare, Pensions & Telecommunications