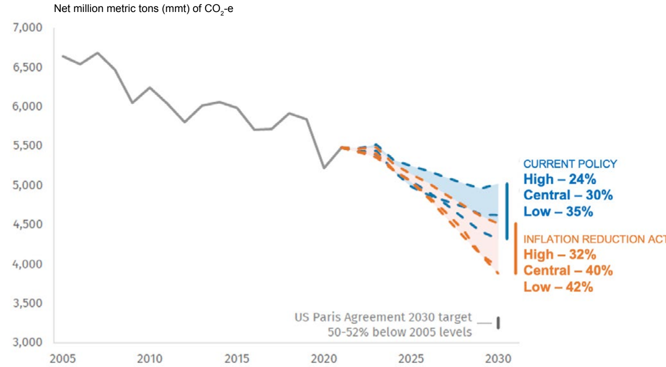
The Inflation Reduction Act of 2022: Summary and EQ Implications

NOVEMBER 2022

The Inflation Reduction Act of 2022 (the "Act") represents the largest commitment to clean energy transformation and carbon sequestration in U.S. history. Through tax credits ($140+ billion) and concessionary capital ($300+ billion), the Act provides long-term, robust incentives and a decade of policy certainty for the clean energy industry to scale. The amendments to clean energy tax credits are particularly transformative, as effective dates have been extended, the scope of eligible projects expanded, headline credit rates increased, and the need for complicated tax equity financing reduced.

As a consequence, the Act makes concrete progress towards mid-century climate objectives. According to modeling by the Rhodium Group, **US greenhouse gas emissions in 2030 are projected to be 32% to 42% below 2005 levels because of the Act** vs. 24% to 35% below 2005 levels under a business-as-usual scenario.[1] Most of the emissions reductions are due to reduced coal and natural gas in the U.S. energy sector.

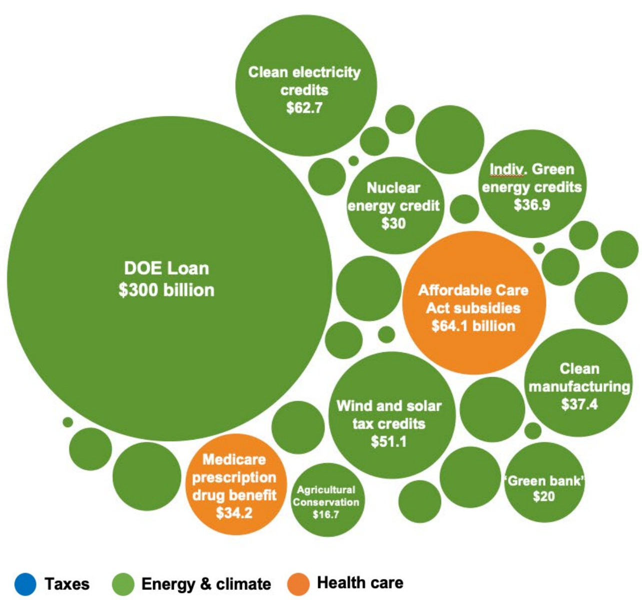
FIGURE 1
US Greenhouse Gas Emissions
Net million metric tons (mmt) of CO_2-e



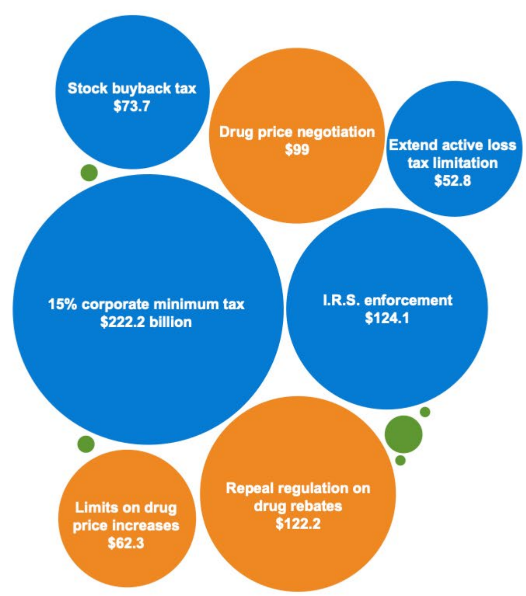
Source: Rhodium Group. The range reflects uncertainty and future fossil fuel prices, economic growth, and clean technology costs. It corresponds with high, central, and low emissions Scenarios detailed in **Taking Stock 2022**.

The Act will have far-ranging impacts across climate priorities. In addition to the strategy-specific impacts outlined below, we expect a transformation of the U.S. energy sector, a reduction or elimination of the green premium on pricey technologies (e.g., clean hydrogen), and an acceleration of network effects of electric vehicles and renewable electricity. Allocations for research and development will accelerate the evolution of new technologies and concessionary financing will help scale production and enhance proven deployments.

SPENDING AND TAX CUTS



SAVINGS AND NEW REVENUE



Source: New York Times / Edited from original version

[1]Larsen, et al., "A Turning Point for US Climate Progress: Assessing the Climate and Clean Energy Provisions in the Inflation Reduction Act," The Rhodium Group (August 12, 2022), available at https://rhg.com/research/climate-clean-energy-inflation-reduction-act/. ("Larsen")

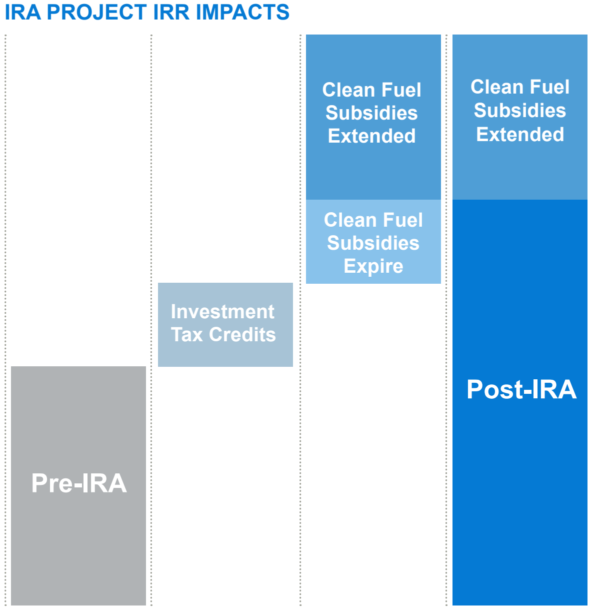
IMPLICATIONS FOR EQUILIBRIUM

The effect of the Act on Equilibrium's Carbon Transition Infrastructure ("CTI") strategy cannot be overstated. The Act directly subsidizes biogas investments up and down the value chain, creates multiple opportunities for concessionary financing, has macro effects on carbon credit pricing, natural gas production and distribution, and impacts all aspects of the energy economy, both traditional and renewable. Equilibrium's Controlled Environment Food ("CEF") portfolio will see fewer material impacts although discounted financing options and credits for co-located clean energy projects may apply.

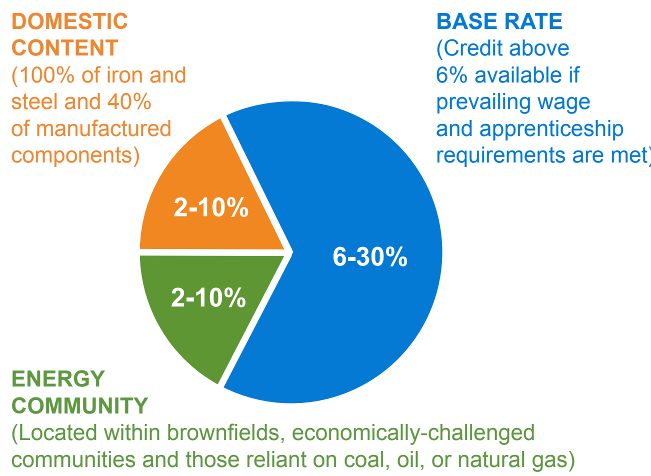
CTI

The Act will significantly alter clean energy economics, **making previously marginal projects viable and inducing an influx of new entrants into CTI's target sectors.** For illustrative purposes, we estimate an approximate 30% increase in gross unlevered returns for a typical CTI biogas project, which increases to 60% if the Act's clean fuel subsidies are permanently extended. These clean fuel subsidies create tax credits for the production of renewable fuels, such as biogas for use in transportation. The investment tax credit (ITC) provides a transferable credit on capital expenditures for biogas projects, covering up to 50 percent of costs for qualified projects placed in service after December 31, 2022 and beginning construction before December 31, 2024. The base rate for this credit can increase from 6 to 30 percent if prevailing wage and apprenticeship requirements are met. The payment of a living wage is a key social sustainability metric for Equilibrium and we expect to be eligible for the full base rate offered by the ITC.

IRA PROJECT IRR IMPACTS



ENERGY INVESTMENT TAX CREDIT



Our projected IRR boost takes into account additional costs associated with these prevailing wage and apprenticeship conditions. Further, there are significant new subsidies for new activities that CTI may wish to pursue, including clean hydrogen and carbon capture.

While project costs may be subsidized, **the Act introduces new headwinds to the commodities that drive CTI's returns – state-level carbon credits.** The Act may negatively impact credit prices by subsidizing credit-generating projects and increasing credit supply. There is, however, a bullish case that the Act is evidence of growing global consensus on the need to regulate, and that regulators will respond with tightening of carbon targets, which will boost credit demand. The clean fuel subsidies also add a new revenue stream at the federal level for clean fuel generation.

CEF

The Act's impact on Equilibrium's CEF strategy is limited. There may be some benefit from tax deductions and concessionary loan programs for energy efficiency upgrades and/or co-located clean energy projects. CEF partners and vendors may also benefit from the Act's grant and loan programs with positive impacts to the production and installation of energy efficiency improvements and greenhouse equipment such as HVAC, lighting, refrigeration, etc.

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