EAST BAY MUNICIPAL UTILITY DISTRICT

DATE: August 7, 2025

MEMO TO: Board of Directors

THROUGH: Clifford C. Chan, General Manager CCC

FROM: David A. Briggs, Director of Operations and Maintenance

SUBJECT: Follow-up Regarding Phase Out of Federal Renewable Energy Tax Incentives

SUMMARY

At its June 24, 2025 meeting, the Sustainability Committee requested information on the impact of federal policy changes on renewable energy projects. Changes enacted by Congress and via Presidential Executive Order earlier this summer reduced federal tax incentives for constructing and operating renewable energy projects. No immediate impact is expected to the District's existing renewable energy projects – operationally or financially. Development of new renewable energy projects will be more costly, and therefore, less likely under the new federal policy. This memorandum responds to the Committee's request.

DISCUSSION

On July 7, 2025, the President mandated reductions to tax incentives for renewable energy projects in furtherance of the One Big Beautiful Bill Act (H.R. 1). Federal incentives for renewable energy projects have typically been structured as a Production Tax Credit (PTC) or an Investment Tax Credit (ITC). Projects may only claim one credit per facility. Additionally, H.R.1 denies tax credits when renewable energy projects utilize too many components such as solar panels or battery storage units from "foreign entities of concern". Clarification of various "safe harbor" options are pending release by the federal administration which may provide developers with more flexibility.

PTCs are paid to renewable energy generators as an annual tax credit on generation, typically amounting to a few cents per kilowatt per hour. ITCs are paid to renewable energy developers as a one-time tax credit on construction materials (up to 30 percent). H.R. 1 requires solar and wind projects to be placed in service by December 31, 2027 to qualify for tax credits if construction does not begin by July 4, 2026. The District's existing Photovoltaic (PV) projects previously utilized the ITC. Construction is underway for two PV projects (located in Stockton and at Oakport) and each have progressed enough to qualify for the ITC. Foreign-supplied component restrictions will not apply since these projects will begin construction by December 31, 2025.

The District has been exploring the feasibility of a battery storage project near Camanche Dam, which could be impacted by the changes to federal policy. Although the revised tax credit deadline is later for storage projects, battery storage projects have until December 31, 2033 to begin construction and qualify for the full amount of the tax credits. The District's battery storage project may not begin construction by 2033, if the project proves feasible otherwise.

Recent federal policy changes are not expected to impact the District's sale of Renewable Energy Certificates (RECs). RECs produced by the District's renewable energy projects are sold to entities at fixed prices under long-term agreements executed earlier this year. Additionally, the California energy markets operate with little direct influence from federal policy. REC prices are more influenced by state requirements for load-serving entities (e.g., PG&E) to include renewable energy in their respective energy portfolios.

NEXT STEPS

Staff will continue to monitor changes to federal and state policy that impact renewable energy projects.

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