Energy Communities Offer Energy and Environmental Benefits to Challenged Communities

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One of the many benefits of the Inflation Reduction Act (IRA) was the establishment of Energy Communities, a program which basically offers a bonus of up to 10% for tax credits for projects, facilities, or technologies in Energy Communities. Energy Communities are communities that are experiencing direct economic impacts from a shift away from a historical reliance on fossil fuels, such as areas that rely or relied on coal, oil, or natural gas production. Certain "brownfield sites" are eligible for the Energy Community bonus tax credit as well.

An Energy Community allows local communities to join forces and invest in clean energy, provided they meet the requirements of the IRA, and act as a single entity to access all suitable energy markets on a level-playing field with other market actors, while leveraging tax incentives. In this article, we'll discuss what defines an Energy Community, explore the associated tax credits and other basic requirements, and we'll also discuss how contaminated brownfields sites are eligible for the energy community bonus credit as well.

What is an Energy Community?

The IRA defines an Energy Community as an area where coal, oil, or natural gas makes up a certain percentage of an area's employment and where the unemployment rate is at or above the national average, and/or an area in which a coal mine has closed after 1999 or a coal fired electrical generating unit has been retired after 2009, and also provides eligibility for certain "brownfield sites." The IRA Energy Communities program allows where eligible members can form collaborative ventures to pool resources to generate, consume, and sometimes even trade renewable energy, while also covering certain residential, commercial, and utility scale renewable energy systems. The primary goal of an energy community is to provide equal access to clean energy to challenged communities, while fostering resilience and self-sufficiency within these localities.

The US Department of Energy has issued a map of these challenged areas considered eligible as Energy Communities across the United States that are eligible for the tax credit bonus, which un-surprisingly focuses heavily on states involved in the production and processing of coal, oil, and natural gas including parts of California. Through collective ownership, the Energy Community program allows participants to reduce their reliance on traditional fossil fuels, while facilitating access to renewable energy sources such as solar, wind, or biomass, while mitigating greenhouse gas emissions and contributing to a more resilient energy infrastructure.

Bonus Tax Credits

The IRA provides various tax credit programs to encourage individuals, businesses, and communities to invest in clean energy technologies, with other incentives that are also offered by various states to promote renewable energy adoption.

The Federal Investment Tax Credit (ITC) that is provided is a pivotal incentive that allows eligible entities to claim a percentage of their investment in renewable energy systems as a tax credit. For residential solar installations, the ITC covers up to 26% of the system cost, while commercial and utility-scale projects can receive a credit of up to 10%. However, it's essential to note that the availability and extent of tax credits may vary based on legislative changes and program specifics.

Additionally, states such as California offer their own suite of incentives, including the California Solar Initiative (CSI) for solar energy installations and various rebate programs administered by utilities. These incentives aim to supplement federal tax credits, further reducing the upfront costs associated with renewable energy investments.

What are Brownfield Sites and How are they Eligible?

The IRA indicates that "brownfield sites" are also eligible for the Energy Community bonus tax credit, but a more narrow definition of brownfields sites are eligible for this bonus than the more traditional brownfield site. A "brownfield" site is defined by the United States Environmental Protection Agency (US EPA) as a property where the development or reuse of that property may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

The types of brownfield sites that are eligible for the Energy Community bonus tax credit include:

- **Sites that are contaminated by hazardous substances including arsenic, asbestos, lead, polycyclic aromatic hydrocarbons (PAHs), polychlorinated biphenyls (PCBs), volatile organic compounds (VOCs), chromium, dioxin, or mercury.**
- **Mine scarred lands**

The more traditional brownfield sites that also include petroleum contamination or controlled substance contamination (e.g., for properties used for the manufacture or distribution of illegal drugs) also can be eligible for additional federal funding provided by the US EPA through the EPA Brownfields Program, which provides grants and technical assistance for communities, tribes, states, and others to help them assess, clean up, and reuse contaminated properties. The EPA Brownfields Program offers funding amounts ranging from $500,000 to up to $5 million to address contaminated brownfield sites, depending on whether the grant addresses the assessment or cleanup of contamination, and whether the grant applies to a single property or multiple properties.

Conclusion

Overall, the IRA Energy Communities program provides a viable pathway to challenged communities to drive meaningful change while capitalizing on tax incentives to expedite clean energy adoption. By understanding the intricacies of energy communities, leveraging available tax credits, and embracing environmental imperatives, the Energy Communities program offers a pathway to transitioning to renewable energy, while reducing reliance on fossil fuels and offering a means to cleaning up negative impacts to the environment on blighted properties.