



Energy Tax Credits Benefit Electricity Customers and Support Energy Dominance Goals

The electric power industry is one of the most capital-intensive industries in the country. EEI member companies are projected to invest more than \$200 billion this year to make the energy grid stronger, smarter, cleaner, more dynamic, and more secure. EEI's member companies are foundational to American-made products—we build here, our workers are here, and electricity powers the U.S. economy.

EEI's member companies are aligned with President Trump's goals to keep energy prices as low as possible for customers, bolster U.S. competitiveness and national security, and ensure energy dominance. To achieve our shared goals, it is critical that lawmakers consider the long-term impacts that sweeping changes in existing tax policy would have on U.S. energy security and the billions of dollars in current investments flowing to their communities and electricity customers, particularly as electric companies are working to meet rapidly growing energy demand.

Fighting Energy Inflation

EEI's member companies are highly regulated at the state level. Their prices are not self-determined, but, rather, state regulators approve what electric companies are authorized to collect from customers based on the company's cost of service. Tax policy is directly linked to what customers pay for electricity because federal income taxes are considered a cost of service.

For example, when lawmakers passed President Trump's Tax Cuts and Jobs Act (TCJA), the corporate rate reduction from 35 percent to 21 percent not only lowered future tax costs but resulted in nearly \$62 billion of taxes being returned to customers in the form of lower rates over time.¹ This was a primary reason why electric companies supported the TCJA.

Similarly, state regulators require regulated electric companies to factor federal tax credits into customer rates as a reduction in cost of service. That means every dollar EEI's member companies receive from federal tax credits or from the transfer of federal tax credits is reflected in lower electric bills. Between 2025 and 2032, EEI estimates that more than \$45 billion in the form of lower electricity rates will be passed through to customers due to existing tax incentives. In fact, we are already seeing the credits reduce energy inflation today. While the increase in inflation on all items for the 12-month period ending January 31, 2025 was 3 percent, the electricity index rose by only 1.9 percent, due in part to the benefits of energy tax credits.²

To provide safe and reliable electricity at the lowest cost possible, state regulators also review and approve our member companies' integrated resource plans (IRPs) for building new generation. Without existing tax incentives for generation, state regulators will have to decide between delaying or

¹ EEI Finance Department.

² Consumer Price Index Summary. *U.S. Bureau of Labor Statistics*.

cancelling additional generation—which is desperately needed for America’s energy and economic security—or significantly increasing electricity prices for customers.

Promoting National Security and Energy Dominance

“We need to double the energy we currently have in the United States... for AI to really be as big as we want to have it.” – President Donald J. Trump

The electric power industry is undergoing a period of rapid and significant growth, as electricity demand is increasing at the highest pace since World War II.³ Artificial intelligence (AI), advanced manufacturing, transportation electrification, crypto currency mining, and data centers are driving much of this growth.⁴ Furthermore, China has been investing billions of dollars in data centers to advance its computing and technological capabilities and the energy resources to support it. The new technological age of AI and advanced computing depends on an abundant supply of lower-cost electricity, and it is critical to U.S. national and economic security that America—rather than China—leads the world in AI advancement.

The North American Electric Reliability Corporation’s (NERC’s) *2024 Long-Term Reliability Assessment* (LTRA) projected that, over the next 10 years, summer peak demand and winter peak demand forecasts are expected to rise by more than 132 gigawatts (GW) and 149 GW, respectively.⁵ By comparison, the current combined peak demand for California, Florida, and New York state is about 130 GW. According to the NERC 2024 LTRA, even with delayed retirements of generation facilities, the United States is not equipped to meet its forecasted demand needs in the next decade, and new generation capacity is urgently needed. On average, natural gas facilities take twice as long to come online as renewable resources, and new nuclear facilities will take at least a decade to come online if the decision was made today to build.⁶ This is, in large part, due to the global demand for natural gas turbines,⁷ large upfront capital costs for nuclear, and complex permitting processes for all types of generation facilities.

Regulators carefully weigh costs to customers and reliability metrics when approving electric companies’ IRPs, which currently take into account existing energy tax credits. In the event of a significant reduction in these tax credits, EEI estimates that installed generation capacity will decline by about 75 GW through 2031. While some of the planned renewable generation will shift to natural gas, it is not enough to meet the anticipated energy demand.

Bottom line—the speed at which electric companies can place a new generation facility into service is critical to meeting the fast-paced demand we see today. We will need every megawatt we can get. Without existing generation incentives, new generation facilities—and America’s economic leadership—are at risk. In addition, there is a national security imperative to outpace China in data center buildout, which will depend on the availability of lower-cost, reliable electricity.

Transferability Is Critical to the Efficiency of Energy Tax Credits

Financing large, expensive projects like generation facilities requires significant upfront capital. Congress has recognized the importance of providing tax incentives to encourage capital investment

³ Wood Mackenzie. *U.S. utilities to face significant challenge as power demand surges for the first time in decades.*

⁴ AI, advanced manufacturing and data centers are particularly energy-intensive – on average, a ChatGPT query needs nearly 10 times as much electricity to process as a Google search. Goldman Sachs. <https://www.goldmansachs.com/insights/articles/AI-poised-to-drive-160-increase-in-power-demand>

⁵ NERC 2024 Long Term Reliability Assessment.

⁶ EEI Finance Department.

⁷ GE Vernova, a manufacturer of gas turbines, expected to finish last year with 20 gigawatts of orders globally, almost double what it booked in 2023. https://www.gevernova.com/sites/default/files/gev_investor_update_transcript_12102024.pdf

through the tax code for many years, including through accelerated depreciation and tax credits. Furthermore, monetizing energy tax credits has been in the tax code since the 1970's and has enjoyed bipartisan support.⁸ The ability for our member companies to transfer credits for cash, as provided by section 6418 of the Internal Revenue Code ("transferability"), is consistent with the bipartisan principle to encourage capital investment. Importantly, it also enables EEI's member companies to obtain the value of a credit today that otherwise might be delayed. This is paramount to the goals of customer affordability, maximizing the efficiency of the credits, and bolstering American energy dominance.

State regulators require EEI's member companies to pass tax credits directly through to customers, including those that are transferred for cash. EEI's member companies often make such large capital investments that they do not have sufficient tax liability to utilize these credits. Without transferability, the credits lose significant value and delay cost savings for customers. While transferability has been criticized because it allows the transferee the benefit of the credit, it is important to recognize the transferee (or buyer) is *paying* the investor for that benefit.

For example, EEI's member companies typically receive about 95 percent of the amount of the credit, and their regulators permit them to sell the credit because the 95 percent received today is more beneficial to customers than 100 percent received at some future date. In other words, before a credit transfer can occur, state regulators must approve the transfer to ensure it is in the best interest of the customer. Monetization mechanisms, like transferability (section 6418) and direct pay (section 6417), are critical to the efficiency of the credits and the reduction of energy prices.

In short, repealing transferability or direct pay is not a scalpel approach that would impose limitations on the credits; it is a sledgehammer that undermines capital investment to build energy infrastructure and devalues the credits to the detriment of customers across the nation.

Conclusion

Keeping electricity costs as low as possible in the midst of skyrocketing energy demand is a national imperative. Repealing the energy tax credits or transferability would increase costs for tens of millions of electricity customers, undermine energy projects already underway, and harm short- and long-term economic growth opportunities in communities across the nation. The tax credits also incentivize a wide range of technologies that historically have had broad bipartisan support and that also greatly benefit from preserving transferability.

America's electric companies stand ready to work with Congress on reasonable policies that will keep America globally competitive, accelerate investments in the generation needed to keep our nation at the leading edge of technological innovation, and help to reduce the deficit.

February 2025



Edison Electric Institute
701 Pennsylvania Avenue, NW
Washington, D.C. 20004-2696
202-508-5000 | www.eei.org

⁸ CRS Report. <https://crsreports.congress.gov/product/pdf/IF/IF10479>