

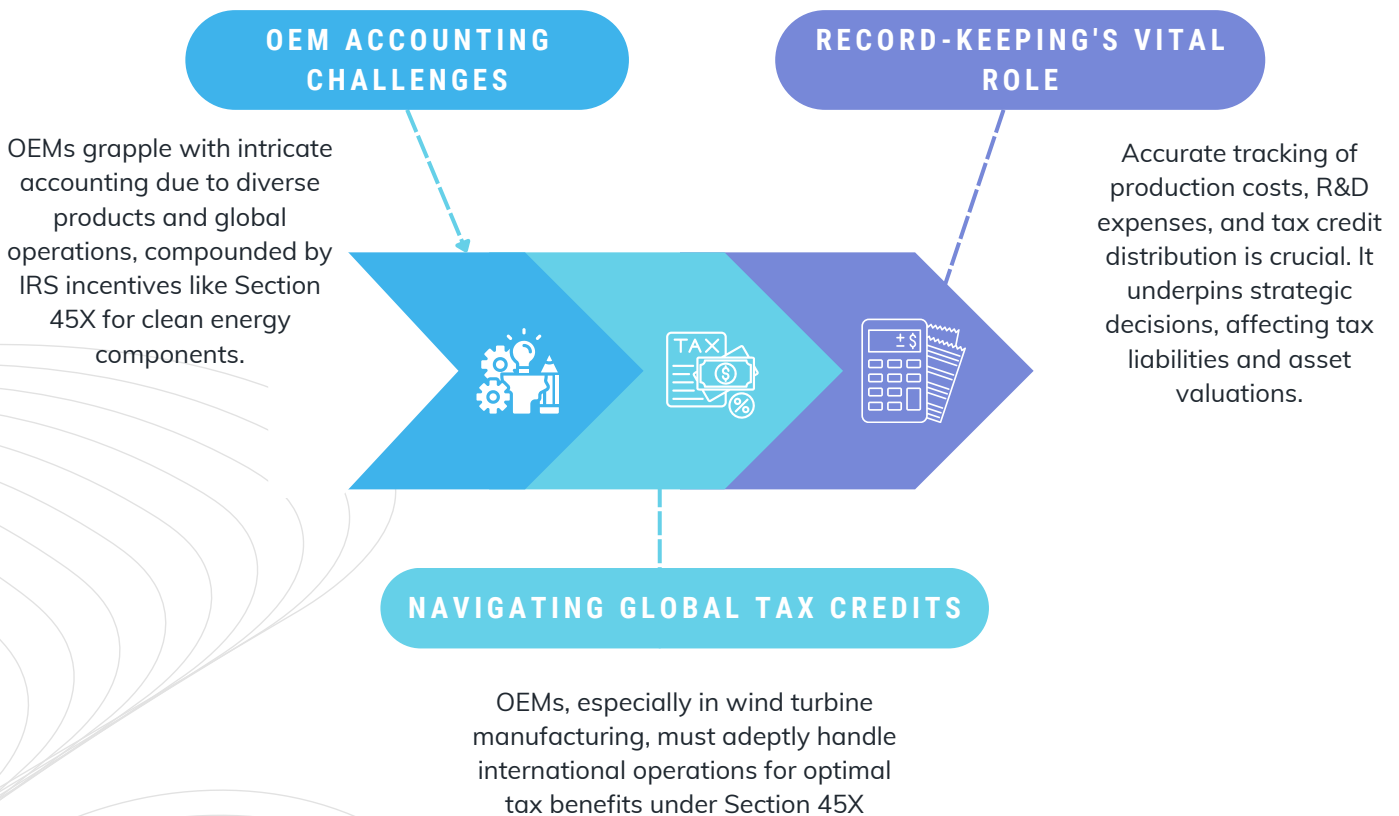
Maximizing IRA Benefits for Power Businesses using Operational Finance

A CEO's Guide

Introduction

In the power and utilities industry, industry players like OEMs, Service Companies, Contractors/EPC Project Developers, T&D Utilities, DERMs, and VPPs face complex financial challenges due to IRS incentives (Sec. 45X, 45Q, 45Y, and 48). Success hinges on adept operational financial management, setting up robust and automated finance processes, establishing stringent financial controls that adhere to policies and compliances. Business leaders have the opportunity to leverage Operational Finance as a key instrument to maximize these incentives.

How should Original Equipment Manufacturers (OEMs) navigate the impact of IRA incentives?



OEMs face complex accounting for diverse product lines and international operations, further complicated by IRA incentives like Sec. 45X for clean energy component production. Strategic decision-making and financial reporting depend on accurate record-keeping of production costs, R&D expenditures, and tax credit distribution.

Example: Oversighting production costs and research and development expenses across several projects and jurisdictions is crucial for an OEM manufacturing wind turbine component. When claiming tax credits under Sec. 45X, the finance team must ensure these credits are accurately reflected in the financial statements, affecting both tax liabilities and asset valuations.

How should Services Companies navigate the impact of IRA incentives?

Narrative: Service companies in the renewable energy sector must manage complex project accounting, with challenges in tracking billable hours, project expenses, and reconciling accounts monthly. The indirect benefits from the IRA, through increased demand for renewable projects, necessitate robust financial processes to manage cash flow and profitability.

Example: Comprehensive accounting software must be implemented by a consulting business that specializes in renewable energy projects to track time and expenses for several projects concurrently, guaranteeing correct invoicing and revenue recognition. The increased demand for IRA incentives requires enhanced financial controls to manage the growing volume of transactions.



How should Contractors/EPC Project Developers navigate the impact of IRA incentives?

Narrative: EPC contractors deal with large-scale projects with significant capital expenditures and long-term revenue recognition schedules. The IRA's Sec. 48 and 45Q incentives for renewable energy and carbon capture projects introduce additional layers of financial complexity, requiring precise accounting of project costs, tax credits, and revenue recognition.

Example: For an EPC firm building a large solar power plant, project costs must be meticulously recorded, distinguishing between direct construction costs, which are capitalized, and indirect costs, which are expensed. The firm must also account for IRA tax credits, adjusting the project's financials to reflect the anticipated benefits, impacting cash flow forecasting and project valuation.

How should T&D Utilities navigate the impact of IRA incentives?

Narrative: T&D utilities engage in extensive capital projects for grid modernization and infrastructure upgrades, with financial operations governed by regulatory compliance and rate cases. IRA incentives like Sec. 45Y for clean electricity production credits add complexity to utility accounting, requiring accurate capitalization of infrastructure investments and recognition of tax credits.

Example: A utility upgrading its transmission network to support more renewable energy must capitalize the associated costs, from new substations to upgraded transmission lines. The utility's finance team must then navigate the implications of Sec. 45Y credits, ensuring these are properly accounted for in financial statements and regulatory filings, impacting rate cases and revenue requirements

How should DERMs and Virtual Power Plants navigate the impact of IRA incentives?



DERMs and VPPs operate in a rapidly evolving market, aggregating distributed energy resources and participating in demand response and energy trading. The financial operations of these entities are complex, involving revenue recognition from multiple streams and accounting for incentives like Sec. 48 for energy storage. In this strategic growth and operational efficiency, accurate financial reporting is essential.

To manage money from energy sales, capacity fees, and ancillary services, a VPP combining household solar and battery systems for grid services needs to build a strong financial system.

The VPP's finance team must apply Sec. 48 tax credits for energy storage across many small-scale installations, which presents a challenge that calls for accurate accounting to assure compliance and maximize financial performance.

The strategic opportunities offered by the IRA are closely tied to the operational finance and accounting problems in each situation, emphasizing the necessity of sound financial procedures and strategic planning to fully capitalize on these incentives in the power and utilities industry.



In Summary

Different categories in the power and utilities industry, encompassing OEMs, service companies, EPC contractors, T&D utilities, and DERMs/Virtual Power Plants, face complex financial challenges shaped by Investment Tax Credit (IRA) incentives. From precise accounting for clean energy production components to overseeing project expenses and adhering to regulatory compliance, each category necessitates robust financial procedures and strategic planning to maximize IRA opportunities and enhance financial performance.



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About the Author:

Karthikeyan V Raaj has over 18 years of experience as a Senior Finance Executive and as a CFO business partner. He has championed strategic projects and helped transform finance functions to enable growth of his client organizations. Currently, he is the Founding Partner of ValueXPA, a Global technology-enabled Finance-as-a-Service Partner for Small and Mid-sized Businesses and Institutions. As a CFO Partner, he has advised and helped over 50 small and mid-sized businesses, start-ups and Not-for-profit Institutions - across areas like financial planning, tracking and managing their financial performance through systems, optimizing finance processes through automation and outsourcing.

His specialties include CFO Partnering on Strategic and Business Financial Advisory, Finance Transformation, Financial Modelling, Financial Planning and Analysis, Performance Management Reporting & Decision-support, Development of KPIs and Management Dashboards, Valuation and Analytical Process Automation using Low code/ No code tools. Earlier, he held leadership roles at Barclays and S&P Global. For Global Business Leaders/companies & Financial Institutions, he offered Financial Decision and Controller Solutions and also built & led Investment Research teams globally. He holds an MBA degree specializing in Finance and is also a qualified Engineer.

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