



Capital energy storage policy

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Energy storage: the technology that will cash the checks written by the renewable energy industry. Energy storage can transform intermittent clean energy—primarily derived from wind and solar—into a reliable source of 24/7 generation. As a result, energy storage has seen tremendous policy support from the public sector, including through federal investment tax credits in the United States, as well as a large influx of capital from private investors seeking environmental, social, and governance (ESG) focused investments.

The global energy storage market will continue its rapid growth, with an estimated 387 gigawatts (GW) of new energy storage capacity expected to be added by 2030—a 15-fold increase in global energy storage capacity compared to the end of 2021.

Morgan Lewis lawyers lay out some important trends in the 2023 energy storage market.

In the United States, installed storage capacity more than tripled in 2021 and that growth is expected to continue, especially following the enactment of significant new federal income tax incentives for energy storage deployment (and manufacture) under the Inflation Reduction Act of 2022 (IRA). As a result, the annual amount of storage installations in the United States is expected to increase from approximately 4.6 GW in 2021 to more than 27 GW by 2031.

The acceleration of energy storage deployment has led to increasing demand for battery materials, variability in procurement contracts and financing models to reflect the developing market, and evolving global regulations. Uncertainty relating to these and other general market conditions has resulted in headwinds for the industry, including a slowdown in the pace of installations relative to prior projections.

Demand for battery metals in 2022 increased almost 30% over the prior year. The increased demand for batteries from both the utility-scale energy storage industry and the electric vehicle (EV) market has put a strain on the market and increased costs. The dollar-per-kilowatt cost of storage increased from \$1,580 in the first quarter of 2021 to \$1,993 in 2022.

Continued pressure in the supply chain for storage components, including battery metals, has sustained these increased prices and led to production and delivery delays. However, this increased demand will hopefully drive manufacturers to develop economies of scale that could eventually alleviate these pressures. Manufacturing capacity for lithium-ion batteries is expected to increase more than five-fold between 2021 and 2030.

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In the United States, the IRA has the potential to revolutionize the manner in which renewable energy and

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green technology project financing is structured and to expand the investor base for “green” technology industry facilities, including with respect to energy storage. At a high level, the IRA includes approximately \$370 billion in energy and climate expenditures, much of which relates to changes to the federal income tax law that significantly extend and expand tax credit benefits for green technology energy and fuel production, equipment manufacturing, carbon capture, and other technologies.

The IRA also enacted a special rule permitting regulated utilities to elect out of “public utility property” limitations with respect to energy storage facilities, thereby permitting them to realize the benefit of the ITC on an accelerated basis (rather than spread over the projected life of the facility). Further, the IRA enacts new methods for monetizing green tech tax credits (including the energy storage ITC), consisting of the transfer of credits for cash and the ability of certain types of owners to receive refundable credits.

Read more about energy storage and the IRA >>>

The majority of new energy storage installations over the last decade have taken place under procurement contracts between project developers and utilities. These contracts allocate the risks of project development, construction, and performance between the parties and include the price that will be paid by the utility for the resource or energy storage services provided.

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