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INSIGHT

Offshore Wind Provisions in the Inflation Reduction Act

August 5, 2022

On July 28, 2022, Senate Democratic leaders released draft text of the Inflation Reduction Act of 2022 (IRA), a proposed amendment in the nature of a substitute to budget reconciliation legislation (H.R. 5376). The draft IRA contains multiple provisions related to offshore wind, including provisions on offshore wind leasing, transmission planning, and tax credits.

Offshore Wind Leasing Provisions

Offshore Wind Leasing Authority. Section 50265 of the IRA would set new limits on the Department of the Interior's (DOI's) authority to issue offshore and onshore renewable energy leases. With regard to offshore wind, during the 10-year period following the IRA's enactment, DOI's Bureau of Ocean Energy Management (BOEM) would not be allowed to issue a lease for offshore wind development unless the agency had held an offshore oil and gas lease sale in the previous year that offered at least 60 million acres on the outer continental shelf (OCS). In addition to potentially affecting future federal offshore wind leasing efforts, enactment of such a provision could affect decisionmaking for BOEM's upcoming offshore oil and gas five-year leasing program. BOEM recently released a proposed program that considered a range of offshore oil and gas leasing scenarios for the 2023-2028 period, some of which would offer sufficient sales and acreage to meet the IRA's criteria for enabling offshore wind leasing, whereas others would not.

Wind Leasing in the Mid- to South Atlantic and Eastern Gulf of Mexico. On September 8 and September 25, 2020, President Trump used his authority under Section 12(a) of the Outer Continental Shelf Lands Act (43 U.S.C. §1341(a)) to withdraw from leasing disposition—from July 1, 2022, through June 30, 2032—areas off the coasts of North Carolina, South Carolina, Georgia, and Florida in the Atlantic and off the coast of Florida in the Gulf of Mexico. President Biden announced the Administration's interest in furthering offshore wind leasing in the withdrawn areas. Section 50251(a) of the IRA would authorize the Secretary of the Interior to issue renewable energy leases, easements, and rights-of-way in these areas despite the presidential withdrawal. Oil and gas leasing would remain prohibited in these areas.

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IN11980

Offshore Wind for U.S. Territories. Section 50251(b) of the IRA would amend definitions of the OCS in the Outer Continental Shelf Lands Act to include specified submerged lands adjacent to U.S. territories. The IRA would direct the Secretary of the Interior to issue calls for interest in offshore wind leasing off territorial coasts and to hold wind lease sales in areas where leasing is deemed feasible and of sufficient interest, after consultation with the territorial governor.

Offshore Wind Transmission Provisions

Interregional and Offshore Wind Electricity Transmission Planning, Modeling, and Analysis. Section 50153 of the IRA would appropriate $100 million for convening stakeholders and conducting analysis related to interregional transmission development and development of transmission for offshore wind energy. Planning, modeling, and analysis would take into account factors including the economic, reliability, resilience, security, public policy, and environmental benefits of interregional electricity transmission and transmission of electricity from offshore wind energy generation. Specific issues for analysis include the following, among others:

- clean energy integration;
- effects of climate change on the reliability and resilience of the grid;
- cost allocation methodologies that facilitate the expansion of the bulk power system;
- effect of increased electrification on the grid;
- benefits of increased grid interconnection;
- opportunities for nontransmission alternatives (e.g., energy storage);
- economic development opportunities; and
- a planned national transmission grid that includes a networked transmission system to optimize the interconnection of offshore wind farms.

If developed, electricity from offshore wind energy generation, in theory, could be transmitted to any of the three interconnections (i.e., grids) of the continental U.S. transmission system: the Eastern Interconnection, the Western Interconnection, and the Electric Reliability Council of Texas. These interconnections have limited connections among them. The Eastern Interconnection (the largest interconnection) has multiple regions, and transmission development involving two or more regions is relatively rare. Some analysis indicates that increased interregional electricity connection could promote greater use of renewable energy, and an ongoing study will examine the extent that offshore transmission and coordinated transmission solutions could further offshore wind energy deployment. If enacted, the IRA would provide funding through Section 50153 for studies and coordination to further inform future transmission infrastructure development. The IRA contains other provisions related to transmission that also could have implications for offshore wind development.

Offshore Wind Tax Credit Provisions

Tax Credit for Project Developers. The primary federal tax provision supporting offshore wind is the energy investment tax credit (ITC). This provision provides a 30% tax credit for offshore wind projects that begin construction before January 1, 2026. Section 13702 of the IRA would provide a new clean electricity investment tax credit, designed to phase out once greenhouse gas emissions reduction targets are achieved (i.e., when electric power sector emissions fall to 25% of 2022 levels). The ITC would be 6%, with the tax credit rate increased to 30% for facilities that pay prevailing wages and meet registered apprenticeship requirements. Projects meeting certain domestic content requirements could be eligible for a bonus credit, equal to 10 percentage points for projects meeting wage and workforce requirements (or 2 percentage points otherwise). Section 13801 of the IRA would allow certain tax-exempt entities to receive tax credit amounts as payments ("direct pay"). The ability to receive the credit as direct pay would be conditioned on meeting domestic content requirements, with those requirements becoming more stringent over time.

Tax Credit for Manufacturers. Section 13502 of the IRA would provide a new tax credit for the domestic production of wind components and related goods such as specialized offshore wind installation vessels. For offshore wind vessels, the credit would be 10% of the sales price. For other offshore wind components, the credit would be a function of the type of component and the total rated capacity of the project, with credits available for blades, nacelles, towers, and offshore wind platforms. Taxpayers investing in establishing, reequipping, or expanding offshore wind energy manufacturing facilities also might be eligible for an allocation of an advanced energy project credit, as would be provided in Section 13501 of the IRA.

Further Reading

For background and discussion of offshore wind development on the OCS, see CRS Report R46970, *Offshore Wind Energy: Federal Leasing, Permitting, Deployment, and Revenues*. For further discussion of renewable energy tax credits in the IRA, see CRS Report R47202, *Tax Provisions in the Inflation Reduction Act of 2022 (H.R. 5376)*.

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