MARCH 2023

How the Inflation Reduction Act Can Help Corporations Achieve Sustainability Goals

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As a corporation's Chief Sustainability Officer (CSO), you are responsible for reducing your company's carbon footprint and promoting sustainability. The recent passage of the Inflation Reduction Act (IRA) offers a unique opportunity to make significant progress toward achieving these goals.

The IRA represents a historic federal clean energy investment of over $380 billion in energy and climate reform. Designed to address climate change while also providing incentives for the fossil fuel industry, the Act seeks to reduce carbon emissions by a remarkable 40% by 2030, in line with the US re-entering the Paris Agreement upon President Biden's inauguration.

One immediate step that CSOs can take in response to the IRA is to evaluate their company's energy usage to identify areas where renewable energy can be implemented. The Act includes provisions that encourage renewable energy demand and lower energy costs. For instance, it expands tax credits for renewable energy sources such as wind and solar power, with the production tax credit for wind energy. Companies can optimize their energy usage and significantly reduce their carbon footprint by identifying areas where they can increase their use of renewable energy and making changes as soon as possible to meet the extended tax credit deadline to capitalize on the benefits of these tax credits.

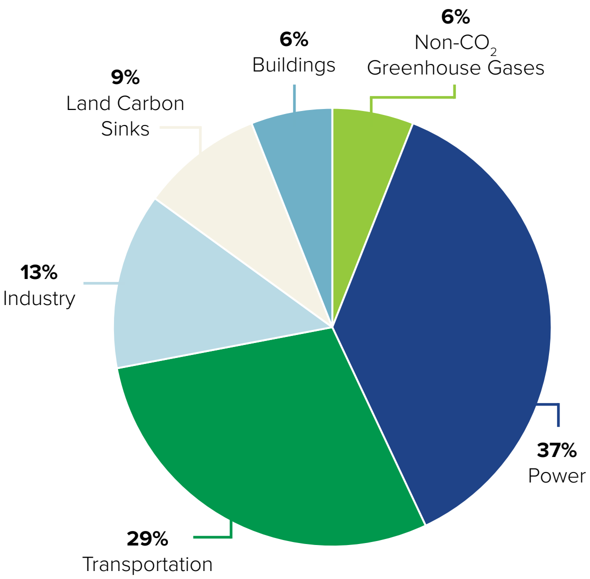
Another action item for CSOs is to evaluate their company's transportation fleet to identify opportunities for electrification. The IRA allocates funding to accelerate the growth of home electrification and electric vehicles (EVs). The Act includes a $3 billion allocation for the US Postal Service to electrify its fleet of over 200,000 vehicles, $3 billion to reduce pollution at ports, and $1 billion toward clean school and transit buses, garbage trucks, and other heavy-duty vehicles. The IRA also provides tax credits for new and used EVs, incentivizing individuals and companies to switch to cleaner transportation options.

Companies should aim to act on this item within the next 12 months. By evaluating their transportation needs, identifying opportunities to switch to electric or hybrid vehicles, and making changes accordingly, companies can take full advantage of the tax credits available for EV purchases until 2026.

In addition to energy and transportation, the IRA includes provisions to address equity and environmental justice, reducing pollution in low-income and disadvantaged communities. The Act includes a $3 billion allocation for environmental and climate justice block grants and establishes the Greenhouse Gas Reduction Fund – a $27 billion green bank. Of this, $7 billion is allocated for rooftop solar and air-pollution abatement technologies in disadvantaged communities, $8 billion for financial and technical assistance for clean energy projects benefiting low-income and disadvantaged communities, and $12 billion for direct and indirect investments in renewable energy projects nationwide.

Companies should act on this item within 24 months. By identifying potential community partners and engaging in dialogue to understand their needs and priorities, companies can invest in projects that promote environmental justice and support the goals of the Greenhouse Gas Reduction Fund.

Emission Cuts by 2030 with the Inflation Reduction Act



Source: Jenkins et al., REPEAT Project (August 12, 2022).

The IRA also includes provisions to address methane emissions, a potent greenhouse gas responsible for a significant amount of global warming. The Methane Emission Reduction Program charges oil and gas operators for wasteful emissions, with the fee starting at $900 per metric ton in 2024. This program provides a significant incentive for companies to reduce methane pollution, and CSOs can take action by identifying and implementing methane reduction strategies within their organizations.

The investor community has responded positively to the Inflation Reduction Act (IRA) passage, which provides significant opportunities for companies to make strides toward sustainability. According to a report by Forbes, "Sustainable investing hit a new high in 2020 as investors piled into ESG (environmental, social, and governance) funds and assets, while also divesting from companies that fail to meet sustainability criteria." The IRA is expected to accelerate this trend as investors seek companies taking concrete steps to reduce their carbon footprint and promote sustainability. A recent survey by Morgan Stanley found that 85% of individual investors are interested in sustainable investing, and sustainable investments have outperformed traditional investments during the COVID-19 pandemic. As companies act in response to the IRA, they are likely to attract more investor interest and improve their long-term financial performance.

In conclusion, the Inflation Reduction Act provides significant opportunities for companies to take immediate action toward reducing their carbon footprint and promoting sustainability. Chief Sustainability Officers can evaluate their company's energy usage, transportation fleet, and environmental impact to identify opportunities for improvement. By partnering with community organizations and investing in projects that promote environmental justice, reduce methane pollution, and support resilience and conservation efforts, companies can significantly contribute to a more sustainable future.

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