



# Monetizing Clean Energy Tax Credits: A Utility Industry Perspective

The Inflation Reduction Act (IRA) of 2022 fundamentally expanded federal clean energy tax credits, transforming them from minor financial incentives into substantial financial instruments crucial to U.S. electric utilities' growth strategies. Based on Guzman & Company estimates, over the past two years, these tax credits have delivered over \$4 billion in realized value for major U.S. utilities. According to our forecasts, this figure is projected to escalate to between \$8–10 billion over the next two years. Utilities now heavily rely on these credits to finance major infrastructure projects, stabilize customer rates, and support robust financial health. Critical projects, such as NextEra Energy's extensive \$120 billion project pipeline, Duke Energy's ambitious \$145 billion capital expenditure program, and Southern Company's expansion of the Vogtle nuclear plant, are significantly dependent on these credits. In this report we explore different strategies that utilities implement in monetizing the tax credits.

## Guzman & Company

---

Ruslan Magdeev  
[rmagdeev@guzman.com](mailto:rmagdeev@guzman.com)  
203-451-2375

Bill Robertson  
[wrobertson@guzman.com](mailto:wrobertson@guzman.com)  
516-768-6475

Guilherme Jacob  
[gjacob@guzman.com](mailto:gjacob@guzman.com)  
413-379-8888

The Inflation Reduction Act (IRA) of 2022 fundamentally expanded federal clean energy tax credits, transforming them from minor financial incentives into substantial financial instruments crucial to U.S. electric utilities' growth strategies. Over the past two years, these tax credits have delivered over \$4 billion in realized value for major U.S. utilities. According to Guzman & Company forecasts, this figure is projected to escalate to between \$8–10 billion over the next two years. Utilities now heavily rely on these credits to finance major infrastructure projects, stabilize customer rates, and support robust financial health. Critical projects, such as NextEra Energy's extensive \$120 billion project pipeline, Duke Energy's ambitious \$145 billion capital expenditure program, and Southern Company's expansion of the Vogtle nuclear plant, are significantly dependent on these credits.

### Key IRA Tax Credits Relevant to Utilities

The significant financial impact of these tax incentives has mobilized utility companies to fiercely advocate for their continuation amidst potential repeal risks. Without these credits, the utility sector could face stalled growth, rising customer rates, and compromised financial stability. Here is an overview of Key IRA Tax Credits Relevant to Utilities:

- **\$45Y Clean Electricity Production Credit (PTC):** A technology-neutral credit, effective from 2025, providing a base rate of \$0.0275 per kWh (adjusted for inflation) for the initial 10 years of generation. Utilities plan to leverage this credit for renewable and potentially nuclear energy developments.
- **\$48E Clean Electricity Investment Credit (ITC):** Also starting in 2025, this new, technology-neutral ITC offers a base credit which can increase to 30% when certain bonus conditions are met.
- **\$45U Nuclear Production Credit:** Aimed at sustaining existing nuclear plants operational before 2023, providing credits at a rate of 1.5¢/kWh from 2024 through 2032. This credit is means-tested, targeting plants with economic vulnerabilities.

Guzman & Company anticipates the annual market for transferable tax credits to reach between \$50–80 billion, significantly higher than traditional tax equity markets previously valued at approximately \$20 billion per year. We estimate that U.S. utilities represent roughly one-third of this expanding market.

### Utility Monetization Strategies:

Utilities typically monetize IRA tax credits through three primary, interlinked mechanisms:

1. **Enhancing Cash Flow & Earnings (Credit Sales or Utilization):** Utilities frequently sell transferable credits through §6418 transactions, converting tax credits directly into cash proceeds. These transactions directly boost operational cash flow, reduce external financing needs, and consequently enhance earnings per share (EPS). For example, NextEra Energy notably sold approximately \$1.4 billion worth of credits between 2023–2024 and anticipates between \$3.0–\$3.6 billion in additional sales for 2025–2026. This capital significantly underwrites its expansive investment plans without increasing leverage or diluting shareholder value.
2. **Reducing Tax Liabilities (Internal Tax Shield):** Utilities can utilize the credits internally to offset their federal tax liabilities, freeing cash for reinvestment and improving net earnings. Southern Company effectively used these credits to accrue a significant carryforward, currently amounting to \$765 million, significantly enhancing its financial flexibility. DTE Energy similarly offset substantial tax obligations, leveraging over \$120 million in credits in 2023 alone.
3. **Lowering Customer Rates:** Particularly prevalent among regulated utilities, credits are often passed through to customers, offsetting rate increases tied to clean energy investment costs. Duke Energy, for example, utilized nuclear credits to implement rate reductions of approximately 0.6% for its Carolinas customers starting in 2024. Similarly, DTE Energy incorporated these credits to mitigate rate hikes through Michigan's PSCR mechanism.

Utilities often blend these strategies based on the type of credits available, regulatory conditions, and specific financial needs, resulting in varying utilization patterns across the industry.

### Case Studies: Individual Utility Monetization Strategies:

Utility	2023–2024 Monetization (\$M)	2025–2026 Monetization (\$M)	Primary Monetization Strategy	Key Credits Utilized	Distinctive Mechanism
<b>NextEra Energy</b>	1,400	3,000–3,600	Cash Flow & EPS Enhancement	\$45, \$48, \$45U, \$45Y/\$48E	Extensive \$6418 credit transfers
<b>Duke Energy</b>	100–200	1,000	Customer Rate Relief	\$45U, \$48, \$45Y/\$48E	Competitive credit auctions
<b>Southern Company</b>	100–200	1,000–1,600	Tax Liability Reduction	\$45U, \$45J, \$48, \$45Y/\$48E	Strategic municipal PTC acquisitions
<b>American Electric Power (AEP)</b>	350–400	800–1,000	Tax Liability & Customer Rates	\$45U, \$45, \$48	Internally absorbed credits
<b>DTE Energy</b>	280–300	500–600	Customer Rate Relief	\$45U, \$45, \$48	Direct PSCR rate adjustments

### Utility-by-Utility Analysis of Tax Credit Monetization (2023–2026)

#### *NextEra Energy*

- **Profile:** Largest global wind and solar generator, parent of Florida Power & Light (FPL) and NextEra Energy Resources.
- **Strategy:** NextEra rapidly monetized renewable tax credits through direct sales enabled by IRA's transferability provision. In 2023, NextEra sold ~\$400+ million in credits, projected to reach ~\$1.0 billion in 2024, and approximately \$1.6–\$1.8 billion annually by 2026. Sales convert future tax benefits to immediate cash, funding extensive clean energy expansion without issuing new equity or debt.

NextEra primarily monetizes credits for cash flow and earnings (Method 1). At its regulated utility (FPL), unused credits reduce taxes benefiting customers through rate adjustments (Method 2). Transferability significantly reduces financing costs compared to traditional methods.

#### *Duke Energy*

- **Profile:** Major utility operating across Carolinas, Florida, Indiana, Ohio, Kentucky; extensive nuclear fleet (~10.7 GW), expanding renewables and storage, and a planned \$145 billion investment by 2032.
- **Strategy:** Duke primarily uses IRA credits to offset customer costs (Method 3). Duke's nuclear fleet qualifies for significant \$45U nuclear PTCs (~1.5¢/kWh), implemented in 2024 to directly lower customer bills by ~0.6%. Duke expects IRA credits, especially nuclear and solar ITCs, to substantially mitigate customer rate increases.

Duke is exploring selling credits via competitive auctions (Method 1) to optimize value, potentially achieving prices near \$0.95 per credit dollar. For renewable projects, Duke uses credits internally to reduce tax liabilities and customer rates (Method 2 & 3), with normalized ITCs integrated into long-term rates.

### *Southern Company*

- **Profile:** Major Southeastern utility (Georgia Power, Alabama Power, Mississippi Power, Southern Power). Diverse generation portfolio including nuclear (Vogtle, Farley), significant solar capacity, and recent new nuclear additions (Vogtle Units 3 & 4).
- **Strategy:** Southern employs a blended approach—credits are primarily used to reduce taxes and customer rates, with plans to transfer excess credits for cash. Starting in 2024, existing nuclear units (45U credits) could generate ~\$400–500 million annually, likely lowering customer fuel or production costs. Vogtle 3 & 4 also qualify for advanced nuclear credits (45J), yielding ~\$79 million in credits in 2023 alone.

Southern's regulated utilities apply solar ITCs/PTCs against tax liabilities and pass benefits to customers through reduced revenue requirements. Southern Power, holding \$765 million unused renewable credits, plans to sell excess credits (~\$0.90 per credit dollar) to generate cash. Southern's monetization through 2026 will exceed \$500 million annually, significantly enhancing financial flexibility.

Interestingly, Southern Company, through its subsidiary Georgia Power, has also purchased production tax credits (PTCs) from its co-owners in the Plant Vogtle Units 3 and 4 project. In 2024, Georgia Power paid \$131 million to the other Vogtle owners for advanced nuclear PTCs, following a \$39 million payment in 2023. These transactions were part of amendments to the Vogtle Joint Ownership Agreements, allowing Georgia Power to purchase PTCs at pre-established prices

### *American Electric Power*

- **Profile:** Large Midwest/Texas utility (Ohio, Indiana, Michigan, Virginia, etc.), diverse generation including nuclear (Cook plant, ~2.2 GW), wind (~1.5 GW North Central Wind), and expanding solar.
- **Strategy:** AEP leverages credits internally, primarily benefiting customers through lower rates and reduced taxes. Cook nuclear plant's 45U credit could yield ~\$240–270 million annually from 2024, directly lowering costs for customers. Wind projects provide substantial PTCs, reducing required customer revenue for these investments.

Credits significantly lowered AEP's 2024 tax expense and contributed to earnings growth. By 2026, annual credits utilized could exceed \$400 million. AEP currently plans no external transfers, focusing instead on internal utilization and customer rate mitigation.

### *DTE Energy*

- **Profile:** Parent of Detroit Edison (DTE Electric), serving Michigan with diverse generation (Fermi 2 nuclear plant, coal retiring by 2030, increasing wind/solar).
- **Strategy:** DTE primarily uses IRA credits to reduce net capital project costs and lower customer rates (Method 3), indirectly benefiting earnings via tax savings (Method 2). DTE Electric's credits (wind PTCs ~\$79 million, solar ITCs ~\$44 million in 2023) significantly reduced its tax liability and customer costs through rate mechanisms.

Starting 2024, Fermi 2 nuclear credit could provide ~\$135 million annually, likely reducing customer rates. Through 2026, annual credits could total \$250–300 million, substantially mitigating rate increases. DTE has not pursued credit sales, favoring direct internal utilization to support affordability and clean energy transition goals.

## Outlook:

The IRA's expanded clean energy tax credits have rapidly evolved into essential financing instruments critical to utility sector growth and financial stability. Importantly, tax credit monetization is not a one-size-fits-all strategy – it is tailored by each utility to its circumstances: NextEra prioritizes cash generation to fuel aggressive growth, Duke and Southern blend customer bill relief with opportunistic sales, and AEP and DTE focus on using credits to cushion the cost of their transitions for both customers and shareholders. By adopting diverse and innovative monetization strategies, utilities have been able to bolstered their investment capabilities, reduced tax burdens, and moderated customer rate impacts.

Looking forward, we expect:

1. **Continued growth in the transferable credit market** – as utilities like Duke and Southern enter the fray alongside pure renewable developers, annual credit transfer volumes could indeed approach the \$60–80 billion level predicted, turning tax credits into a veritable commodity market;
2. **Continued regulatory evolution** – state commissions will refine how credit benefits are allocated (e.g. some may allow utilities to retain a share of monetization gains as an incentive, most will insist on passing the majority to consumers, and all will monitor for proper transparency in credit tracking);
3. **Utilities optimizing credit value** – through measures such as timing projects to maximize bonus credits, potentially partnering with tax-exempt entities to utilize direct pay where applicable (for example, public power partners or co-owners can do direct pay and share benefits with IOUs) and employing innovative finance (like Duke's auction concept or Southern's internal credit purchases from partners).

In sum, the IRA's tax credits have opened a new era in utility finance. Clean energy tax credits are no longer just line items for tax accountants – they are **strategic financial assets**. Major utilities are treating them as such: integrating them into growth plans, stakeholder messaging, and rate strategies. As one industry letter put it, preserving these credits is “critical to strengthening U.S. energy security, fostering economic growth and bolstering competitiveness”, enabling investment in affordable, reliable energy. For the next several years and likely well beyond 2030, monetized tax credits will remain a cornerstone of utility finance, helping power the twin goals of decarbonization and growth.

## DISCLAIMER

---

Information in this document is prepared for our institutional clients and is for information purposes only and may not be communicated, reproduced, distributed, or disclosed to any unauthorized person. The material contained herein has not been based on a consideration of any individual circumstances and as such should not be considered to be a personal recommendation. Unless otherwise indicated, any opinions expressed herein are the views of the authors as of the date hereof and may differ or conflict with those of other Guzman & Company ("Guzman") personnel. Guzman undertakes no obligation to update information in this publication. Without limiting any of the foregoing and to the extent permitted by law, Guzman accepts no liability whatsoever for any consequential losses arising from the use of this document or reliance on the information contained herein. Guzman and others associated with it may currently or in the future enter into proprietary positions (long or short) and effect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking, brokerage or other services for those companies. We may at any time modify or liquidate all or a portion of such positions and we are under no obligation to contact you to disclose any modification or liquidation. Nothing herein shall be deemed to constitute investment, legal, tax, financial, accounting or other advice. No services offered may be misconstrued as to characterize Guzman as a fiduciary or advisor.

This communication has been prepared by sales, trading, or other non-research personnel of Guzman. It is not a Research Report and the information contained herein is insufficient to form an investment opinion. The foregoing materials have been provided by Guzman to certain persons in their capacity as agent for the corporate entity. Any prices shown are indicative and Guzman is not offering to buy or sell or soliciting offers to buy and sell any financial instrument. The material contained herein has not been based on a consideration of any individual circumstances and as such should not be considered to be a personal recommendation. Unless otherwise indicated, any opinions expressed herein are the views of the authors as of the date hereof and may differ or conflict with those of other Guzman personnel. We undertake no obligation to update the opinions or the information in this publication. Other than disclosures relating to Guzman, the information contained in this communication has been obtained from publicly available information and sources that Guzman believes to be reliable, but Guzman does not represent or warrant that it is accurate or complete. Guzman makes no express warranties with respect to any data included in this communication, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use. Without limiting any of the foregoing and to the extent permitted by law, Guzman accepts no liability whatsoever for any consequential losses arising from the use of this document or reliance on the information contained herein. Unless stated otherwise, any performance data quoted represents past performance. Neither such data nor any modeling or back-testing contained herein is an indication as to future performance. Guzman & Company is a registered broker dealer in Coral Gables, FL, Member FINRA, SIPC.