



STAFF REPORT

TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
MEETING DATE: AUGUST 18, 2025
FROM: CITY MANAGER TOM DUBOIS
SUBJECT: PROCUREMENT OF SOLAR PANELS AND BATTERY STORAGE

RECOMMENDATION:

Staff recommends authorizing the City Manager to sign and submit materials for a PG&E SGIP grant and to approve purchase orders to qualify for federal energy incentive tax credits, prior to completing contract negotiations for the design and construction of the new wastewater plant.

BACKGROUND:

The City's planned new wastewater plant will have more stringent requirements to produce cleaner recycled water, which will use more energy than the current plant. The use of solar panels with battery storage are planned to create significant energy savings by avoiding peak charges from PG&E. PG&E rates have gone up on average 9% annually.

The city is in the midst of negotiating a contract with the successful bidder for the wastewater plant design-build project, Schneider Electric. We anticipate that to take about six weeks. However, given recent changes at the federal level, and the first-come, first served policy for a PG&E grant, we may miss out on a large amount of financial assistance. This report is to explain the opportunity and the risk.

A new law, the One Big Beautiful Bill Act (OBBBA), signed on July 4, 2025, has fundamentally changed U.S. policy on clean energy. It specifically targets and creates major hurdles for new wind and solar power projects. This law is a major policy shift away from the previous administration's Inflation Reduction Act (IRA). It aims to boost American manufacturing and reduce reliance on foreign supply chains, but it creates significant challenges and uncertainty for infrastructure projects relying on solar energy.

OBBBA's three most important changes:

1. A Much Shorter Deadline for Wind and Solar - The main tax credits for building new wind and solar projects are being phased out much faster than planned. To qualify for these credits, projects now face a very tight deadline:

- They must begin construction by July 4, 2026.
- They must be up and running by the end of 2027.

This creates an urgent rush for solar developers to get projects approved and built. Many projects that were in the planning stages may no longer be financially viable.

2. Restrictions on Foreign Involvement - The law now blocks energy projects from receiving tax credits if they get "material assistance" (significant parts or funding) from companies in certain foreign countries, especially those considered rivals to the U.S. Companies building energy projects will have to carefully audit their supply chains to prove their parts don't come from these "Prohibited Foreign Entities." This is intended to cut reliance on countries like China for energy components.

3. More "Made in America" Requirements - To receive the most valuable tax credits, energy projects must now use a higher percentage of American-made steel, iron, and other components. The required amount of U.S. content will increase each year, reaching 55% for all projects starting in 2027. This is designed to force the development of American manufacturing for the energy sector. In the short term, it will very likely increase costs and cause delays as companies struggle to find domestic suppliers.

For decades, energy tax policy had relatively stable, bipartisan support. The last few years have seen dramatic swings:

- The Inflation Reduction Act (IRA): Passed by a narrow party-line vote, it created a technology-neutral system designed to aggressively support all forms of clean energy, especially wind and solar.
- The One Big Beautiful Bill Act (OBBBA): This new law reverses key parts of the IRA, specifically targeting wind and solar while favoring a different vision focused on domestic supply chains and a broader mix of energy sources.

This "policy whiplash" creates significant instability. Stakeholders in the wind and solar industry must now rush to complete existing projects and rethink their future strategies.

Under the IRA, the City is eligible for Incentive Tax Credits (ITC) of 30% of the cost of solar and battery projects. To qualify for ITC under OBBBA, we need to have started before the end of the year by getting at least 5% of the components. Schneider is working with the supply chain and has identified that we need to order about \$200,000 worth of solar invertors and panels by Sept 9, 2025 in order to receive them before year-end.

PG&E will fund about 50 % of the battery cost through their Solar Generation Incentive Program (SGIP). The money available is rapidly being assigned. We need to file out application to hold a place in line. PG&E will notify us within 8 weeks, at which point the city must pay a \$30K retainer.

For Sutter Creek we are looking at the following:

Dollar Amounts (Rough Order of Magnitude):

- Solar construction total: Approximately \$2.5M
- Expected ITC for solar: Approximately \$750K
- Amount needed to procure solar panels for safe harbor: Approximately \$200K
- Battery construction total: Approximately \$1.05M
- PG&E SGIP retainer: Approximately \$30K (required upon reservation of funds from PG&E)
- Expected/requested amount from PG&E for battery storage: Approximately \$530K

The other challenge is the changing requirements around Foreign Entity of Concern (FEOC) requirements, or how much of the product must be made in the US.

Timelines and FEOC Requirements:

- **Solar:**
 - To ensure delivery by December 2025 and transfer of ownership, all solar panels and inverters must be ordered no later than September 9, 2025.
 - A 5% safe harbor of panels can be used if Sutter Creek takes ownership by December 31, 2025. A signed construction amendment is also needed by December 2025 to safely receive ITC without FEOC requirements.

- Starting January 1, 2026, up to 60% of solar equipment costs can go to a FEOC, which is expected to significantly increase solar pricing.
- Solar ITC goes away completely by December 31, 2027, for new projects.
- If a solar project has a "begun construction" date before July 4, 2026, it has 4 years to complete installation. However, ITC amounts will be reduced by 20% to 40% per year starting July 4, 2026.
- Treasury will provide clarifications on August 18th regarding FEOC guidelines and the start of construction date.
- **Battery:**
 - The PG&E SGIP application is critical due to limited funding, and it's best to apply as soon as possible. The \$30K retainer is due approximately 8 weeks after application submittal and confirmation of PG&E reservation of funds.
 - Battery ITC remains until 2033.
 - FEOC requirements for batteries start January 1, 2026, and increase by 5% annually, meaning battery storage equipment must have more domestic content each year.

Finally, everyone should be aware that this is based on the best information we currently have on hand. Staff cannot guarantee there won't be changes soon to any of these requirements. Some interpretation of the new law is due to be reported on Aug 18th by the US Treasury.

DISCUSSION:

If the City commits \$200,000 for solar and \$30,000 for battery storage, we stand to receive \$750,000 back for solar and \$530,000 back for battery storage. If the wastewater plant project became totally infeasible for any reason, the downside risk is we have a commitment to purchase solar panels. Given coming increases in solar panel costs, we may very well be able to resell those components, potentially at a profit. Or we could pursue a solar project on City Hall and the Community Center. The \$30K retainer would be funds lost outright, if we decided not to pursue battery storage.

By getting started now, we ensure the city can buy the most affordable components. If we wait, it is not clear that US made alternatives will be available if we miss the deadline – OBBBA may effectively kill these clean energy options in the future. As the requirement for less foreign content goes up, not only do we lose the incentive tax credit, but the underlying cost to the city will go up as well.

BUDGET IMPACT:

All funds will come from the wastewater enterprise capital fund.

Battery storage is eligible for both ITC (30%) and SGIP from PG&E. For example, if the battery is **\$1M**, then the ITC will be approx. **\$300K**, and the SGIP is approx. **\$500K**. It is 80% paid if we are able to get all incentives. Even if not, the project is still cash positive.

Payback for the combination of both solar and battery is **8 to 9 years**. If the City pays for solar and battery in cash, the project cash flow over the life of the project is approx. **\$10M**. If the City finances at a **4.5%** interest rate and **20 years** terms, the cash flow over the life of the project is approx. **\$8M**. If we are unable to get the ITC for any given reason, the project is still cash positive around **\$5M**.

RECOMMENDATION:

Authorize the City Manager to proceed with all necessary steps to qualify for ITC and SGIP funding for solar and battery storage immediately.