

Government Incentives: Boosting Investor ROI

INVESTOR INSIGHTS | INCENTIVES & POLICY

Battery Energy Storage System (BESS) projects can benefit from a powerful combination of federal and state incentives that lower upfront costs, accelerate payback, and enhance cash flow.

Primary Incentives

- **Federal Investment Tax Credit (ITC):** Covers up to 30% of eligible project costs, with potential bonus credits tied to domestic content, energy-community siting, and prevailing wage/apprenticeship compliance.
 - **Bonus Depreciation:** Bonus Depreciation: 100% for qualifying property placed in service after Jan 19, 2025 (per 2025 law); earlier 2025 placements were 40%.
 - **State-Level Rebates/Programs:** Particularly strong in New York and New Jersey, with additional state programs improving project economics elsewhere.
 - **Location & supply-chain adders:** Energy Community bonus (location-based) and Domestic Content bonus (U.S. materials)
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How Incentives Drive Returns

This incentive stack reduces upfront capital requirements, accelerates payback, and improves ongoing cash flow, while enabling profitable energy arbitrage (buy low, store, discharge when prices are high) and bolstering grid resilience.

It's important to note how these incentives flow through the structure: the federal ITC, bonus depreciation, and state-level rebates are realized at the Qualified Small Business (QSB) level, where the projects are held. These benefits are a core driver of the strong overall returns generated by the assets. Investors participate through an LLC that owns equity in the QSB. While the QSB directly enjoys the tax incentives, investors benefit indirectly as those savings enhance the QSB's performance and, ultimately, increase returns at the LLC level.

The only (and most meaningful) tax benefit that investors receive directly on their own tax return is the capital gains exemption under the QSBS program. Provided the investment is held for at least five years, gains from an exit can qualify for this exemption — a potentially enormous advantage that can make profits effectively tax-free at the federal level.

Spotlight

- **Reid Gardner BESS (Nevada): A 220 MW / 440 MWh*** NV Energy facility converting a retired coal site into a clean-energy hub. The \$257M project secured roughly \$100M via Inflation Reduction Act incentives (including an energy-community adder); NV Energy indicated the full ITC benefit would be passed to customers.
- **Stanton BESS (California): 68.8 MW / 275 MWh** standalone system (W Power & Wellhead Electric) that reached COD in 2023 and successfully executed a \$60M transferable ITC, demonstrating how the new tax credit market can speed deployment and enable flexible financing.

***MW = power/maximum output (like engine size). MWh = energy/storage capacity (tank size).*

Investor Takeaways

- Federal + state incentives de-risk BESS investments.
- Stacking incentives can materially boost returns.
- Operational case studies (Reid Gardner, Stanton) show proven models of energy arbitrage supported by strong policy.

Bottom Line

With aligned federal and state policy, and real-world proof points, BESS stands out as a high-potential infrastructure investment that delivers attractive economics while advancing grid reliability and the clean-energy transition.