



## Perspectives

# Constructing the future

## Incentives to fuel sustainable data center development

Welcome to The Deloitte Flash for Construction – A quick read from Deloitte designed to provide you with insights into today's business issues related to construction. Our current Flash highlights strategies to help data center developers achieve their energy efficiency ambitions.



### THE ISSUE:

With the proliferation of artificial intelligence, the internet of things, 5G networks, and other technology that connects people and devices around the world, data center capacity demand has surged, leading to a wave of data center construction.<sup>i</sup> But this digital transformation comes with an environmental tradeoff, largely stemming from the immense power consumption needed to operate data centers.

Some of the largest data centers can require more than 100 megawatts of power capacity<sup>ii</sup>—enough to power approximately 80,000 US households.<sup>iii</sup> Moreover, by 2030, data centers could consume up to nine percent of US electricity generation, which is more than double the amount currently used.<sup>iv</sup>

Data center developers are increasingly looking for strategies to reduce and offset their carbon footprint, with some of the most ambitious hyperscalers looking to achieve net zero carbon emissions by 2030.<sup>v vi</sup> Savvy data center developers are implementing innovative approaches to meet construction and operational sustainability goals. With tax credits available under the Inflation Reduction Act (IRA), data center developers have more flexibility in how they deploy capital to implement these innovative solutions. However, whether companies avail themselves of incentives under IRA or not in their missions to improve the energy efficiency of their data centers, there is increased scrutiny from boards of directors over compliance with documenting energy usage and tracking carbon emission.

### INSIGHTS:

The IRA was passed in 2022 and is intended, in part, to incentivize investment into domestic energy production while promoting clean energy.<sup>viii</sup> The IRA introduced more than \$369 billion in clean energy tax incentives that can be used to support sustainability strategies, such as:

- Building onsite power generation that uses off-grid solar power
- Replacing older, less efficient equipment
- Using hydrogen fuel cells for primary and backup power

However, for companies to qualify for the credits and incentives, projects must meet prevailing wage and apprenticeship (PWA) requirements for their renewable energy projects.<sup>ix</sup> Satisfying these requirements increases the amount of the base credit equal to five times the base statutory credit. To put this in perspective, a qualifying capital investment with eligible basis of \$750M can have a 6% investment tax credit of \$45M. If the project meets the prevailing wage and apprenticeship requirements, that same project may qualify for a 30% investment tax credit of \$225M.

### HOW DELOITTE CAN HELP:

Deloitte's *Infrastructure & Capital Projects* team advises clients with renewable energy projects, including for assets such as data centers and semiconductor fabrication plants (fabs), on strategies to meet their sustainability objectives, and help to plan sustainability programs, monitor progress and compliance, and report to boards of directors and the Internal Revenue Service (IRS). We assist clients across the project life cycle from real estate location selection, financial modelling, construction planning and oversight, and operations and maintenance.

Deloitte can help companies:

- Develop a strategy and roadmap to help companies achieve their sustainability goals including scenario planning.
- Plan data center or fab operations maintain compliance with local, national, and international environmental, health, safety, and sustainability regulations.
- Perform a current state assessment and gap analysis of a facility's current energy consumption versus company goals including collecting carbon emissions data and maintaining a database to facilitate ongoing carbon emission tracking.
- Develop models to assist in evaluating investment scenarios and, through Deloitte Tax LLP, provide tax advice and recommendations, and analyze the potential value of IRA incentives or incentives for fabs under the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act of 2022. These credits and incentives present unique short-term opportunities for organizations to accelerate their long-term growth.
- Identify incentives, compute eligible spends, facilitate stakeholder collaboration, and provide data visualization platforms to support data-driven decision making; Deloitte uses our IncentivesHub technology to provide these services.
- Be sensitive to contract language and considerations for contractors and subcontractors for PWA compliance and monitoring.
- Establish document retention requirements and collect records of work performed by contractors or subcontractors to demonstrate compliance with PWA requirements.
- Track PWA hours tracking and compliance.
- Assess whether wages paid to each laborer meet or exceed prevailing wage.
- Prepare project records to support IRS examination.

For more information, please contact one of our leaders. We look forward to assisting you with these important issues.