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The Impact of Policies, Regulations, and Incentives on Decarbonization

Energy plans establish a clear roadmap for prioritizing actions and ensure that limited resources, like time and budgets, are deployed efficiently. The most effective and forward-thinking plans also consider the external impacts of policies and regulations. Each of these factors significantly influence the decision-making process and shape outcomes, ultimately determining the success and affordability of sustainability initiatives. By leaning into local decarbonization policies and regulations, and leveraging related incentives, organizations can align their energy plans to meet environmental, economic and equity goals simultaneously.

Understanding Policies & Regulations

While each business owner may have unique decarbonization strategies and energy plans, the influence of government policies and regulations is crucial in shaping them. It is important to understand the distinction between policies and regulations and how they can impact your organization.

*Policies*provide clear guidance and promote behaviors and actions that commit to more sustainable futures. Although policies are not mandatory, they are often set forth by governments and leading institutions to encourage organizations to follow them by providing financial incentives.

*Regulations*are laws put in place to standardize the actions of communities and organizations. Unlike policies, regulations often require strict and immediate action to comply, or you may face penalties or fines.

Policies inform regulations, and while both are important pieces of building a sustainable future, policies can be more innovative and adaptable. This allows organizations to develop unique energy goals, providing them more independence to set their own actions to achieve a unified purpose.

Indentifying the Financial Benefits

Fortunately, organizations can capitalize on a variety of incentives when adopting policy guidance or complying with regulations. These incentives can help offset project or operational costs or even provide profitable returns in some cases. Incentives allow business owners to tailor an energy plan that aligns with their organization's goals and resources while receiving support through a variety of funding options and incentives. Some commonly used incentives in decarbonization efforts include:

* *Utility Rebates*- Capture the billions of dollars’ worth of utility incentives offered every year.
* *Tax incentives*– Offset tax liabilities with energy project investment credits and deductions.
* *Revenue generation –*Profit from the production of renewable energy.
* *Grants programs* – Fund building modernization, electrification and clean energy projects with timely federal and state grants.
* *Project Savings* – Recover operational costs through improved efficiency and demand optimization.
* *Loans and other programs* – Leverage advantageous and often low-interest loan programs to update and modernize.

Making an Impact

Global policies set the stage for a sustainable world, providing guidance for countries and states to develop more specialized policies and regulations for local communities. One of the most notable global policies is the *Paris Agreement1*, which unites international communities with the goal to limit the increase of global average temperature by reducing greenhouse gas emissions (GHG). To meet these commits, the U.S.2, Canada3, and many other countries have committed to achieve net-zero emissions economies by 2050.

To support these national commitments, federal, state and local leaders introduce policies that drive more specific and actionable decarbonization strategies designed with local factors in mind.  For example,

* ***The Next Generation Energy Act***4– An example of a state-led policy in Minnesota aimed at reducing GHG emissions by 80% by 2050 (against a 2005 baseline) through clean energy generation, energy efficiency, and renewable energy standards.
* *Minneapolis City Climate Action Plan5* - To support the state’s initiative, the city of Minneapolis has committed to introducing building performance standards and other related policies that reduce GHG emissions from existing buildings to ensure they exceed the state’s goal and reach net zero emissions by 2050.
* *Xcel Energy – Business Incentives6*To help building owners in Minneapolis meet these standards and support the state’s decarbonization goals, a local electric utility, Xcel Energy, introduced incentives that help   fund emissions reducing building modernizations including energy efficiency and renewable technology solutions for HVAC, lighting, and on-site generation.

Committing To Decarbonization

Decarbonizing the places where we live, work, and learn not only supports the improvement of indoor environmental quality and sustainability, but it also has significant impacts on a larger scale. At Trane, our experts can help you navigate local regulations and identify financial incentives as well as collaborate and  develop the right energy or infrastructure plan for your organization.

This topic is incredibly dynamic and ever evolving. For more information on key policies, regulations, and next steps, you can visit our [legislation and incentives resource center](https://www.trane.com/commercial/north-america/us/en/legislation-and-incentives-resource-center.html).

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