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INTRODUCED

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4 A BILL to amend the Code of Virginia by adding in Chapter 19 of Title 45.2 an article numbered 4,
5 consisting of sections numbered 45.2-1918 through 45.2-1922, and by adding in Article 13 of Chapter 3
6 of Title 58.1 a section numbered 58.1-439.12:13, relating to Department of Energy; Virginia Solar
7 Energy and Battery Energy Storage Systems Program and tax credit; solar energy and battery energy
8 storage projects.
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HOUSE BILL NO. 1133

Offered January 14, 2026

Prefiled January 14, 2026

Patrons—Reid and Hernandez

Referred to Committee on Finance

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Chapter 19 of Title 45.2 an article numbered 4,
2 consisting of sections numbered 45.2-1918 through 45.2-1922, and by adding in Article 13 of Chapter 3
3 of Title 58.1 a section numbered 58.1-439.12:13 as follows:

*Article 4.**Virginia Solar Energy and Battery Energy Storage Systems Program.***§ 45.2-1918. Definitions.**

As used in this article, unless the context requires a different meaning:

"Qualified commercial and industrial project" means a new solar energy and short duration battery energy storage project (i) approved by the Department pursuant to § 45.2-1921; (ii) that began construction on or after July 1, 2026; and (iii) used for commercial or industrial use as determined by the customer rate class used to determine billing related to such project.

"Qualified project" means a qualified commercial and industrial project, qualified residential project, or a qualified utility-scale project.

"Qualified residential project" means a new solar energy and short duration battery energy storage project or a new standalone short duration battery energy storage project (i) approved by the Department pursuant to § 45.2-1920; (ii) in service on or after July 1, 2026; and (iii) used for residential purposes as determined by the customer rate class used to determine billing related to such project.

"Qualified utility-scale project" means a short duration battery energy storage project added to an existing solar facility or a new standalone short duration battery energy storage project (i) approved by the Department pursuant to § 45.2-1921; (ii) that began construction on or after July 1, 2026; and (iii) used for utility-scale use as determined by the customer rate class used to determine billing related to such project.

"Short duration battery energy storage project" means the installation of battery energy storage equipment and technology that is capable of absorbing energy, storing such energy for less than 10 hours, and redelivering such energy after it has been stored.

"Solar energy project" means the installation of a system of components designed to convert solar radiation into useable thermal or electrical energy.

§ 45.2-1919. Virginia Solar Energy and Battery Energy Storage Systems Program.

The Virginia Solar Energy and Battery Energy Storage Systems Program is hereby established and shall be administered by the Department for the purposes of (i) coordinating and supporting the development of solar energy and short duration battery energy storage industries and projects by other public or private entities; (ii) evaluating and approving solar energy and short duration battery energy storage projects as qualified projects for the purposes of the tax credit in § 58.1-439.12:13; and (iii) determining which items and services are considered eligible project costs for a given qualified project. The Department may consult with research institutions, businesses, nonprofit organizations, and stakeholders as the Department deems appropriate.

§ 45.2-1920. Qualified residential project requirements.

A. The Department shall evaluate and approve solar energy and short duration battery energy storage projects as qualified residential projects for the purposes of the tax credit in § 58.1-439.12:13. To receive approval as a qualified residential project, the following conditions shall be met:

1. The project shall be fully operational and installed in the Commonwealth by the time specified in subdivision 4;

2. The project meets the qualifications of one of the provisions of the federal Inflation Reduction Act (P.L. 117-169) as of June 30, 2025, that would have qualified for federal tax credits or other federal incentives;

3. The project is in service on or after July 1, 2026, but prior to the expiration of the tax credit in § 58.1-439.12:13, and construction is certified to be completed within five years of the date on which

59 construction began; and

60 4. The energy storage portion of the project provides a minimum storage duration of up to two hours.

61 B. No solar energy and short duration battery energy storage project shall receive a tax credit pursuant to
62 § 58.1-439.12:13 without approval by the Department pursuant to this section.

63 **§ 45.2-1921. Qualified commercial, industrial, and utility-scale project requirements.**

64 A. The Department shall evaluate and approve solar energy and short duration battery energy storage
65 projects as qualified commercial and industrial projects for the purposes of the tax credit in
66 § 58.1-439.12:13. To receive approval as a qualified commercial and industrial project, the following
67 conditions shall be met:

68 1. The project shall be fully operational and have begun construction in the Commonwealth by the time
69 specified in subdivision 3;

70 2. The project meets the qualifications of one of the provisions of the federal Inflation Reduction Act (P.L.
71 117-169) as of June 30, 2025, that would have qualified for federal tax credits or other federal incentives;

72 3. The project has begun construction on or after July 1, 2026, but prior to the expiration of the tax credit
73 in § 58.1-439.12:13, and construction is certified to be completed within five years of the date on which
74 construction began; and

75 4. The energy storage portion of the project provides a minimum storage duration of up to four hours.

76 The Department shall also evaluate and approve such qualified commercial and industrial projects
77 pursuant to this subsection based upon the applicant's willingness to opt-in for the State Corporation
78 Commission's virtual power plant pilot program established in § 56-585.1:16.

79 B. The Department shall evaluate and approve solar energy and short duration battery energy storage
80 projects as qualified utility-scale projects for the purposes of the tax credit in § 58.1-439.12:13. To receive
81 approval as a qualified utility-scale project, the conditions listed in subdivisions A 1 through 4 shall be met.
82 The Department shall evaluate and approve such utility-scale project pursuant to this subsection based upon
83 the applicant's ability to reduce electric utility costs for ratepayers.

84 C. No solar energy and short duration battery energy storage project shall receive a tax credit pursuant
85 to § 58.1-439.12:13 without approval by the Department pursuant to this section.

86 **§ 45.2-1922. Regional uptake dashboard for approved solar energy and short duration battery energy
87 storage projects; reports.**

88 A. The Department shall monitor allocation of the tax credit in § 58.1-439.12:13 and publish quarterly
89 transparency reports summarizing such allocation.

90 B. The Department shall maintain a public dashboard displaying regional uptake, demographic
91 distribution such as low to moderate income and non-low to moderate income data, and sectoral progress
92 toward allocated targets.

93 **§ 58.1-439.12:13. Tax credit for investments in solar energy equipment and short duration battery
94 energy storage.**

95 A. For purposes of this section:

96 "Eligible project costs" means (i) for residential projects, costs incurred for the construction, installation,
97 purchase, or lease of qualifying solar energy equipment or qualifying energy storage resources, including
98 labor costs incurred for installation and electrical integration, and costs incurred for permitting, inspection,
99 engineering, and system design services necessary for such project; (ii) for commercial and industrial
100 projects, costs incurred for such project that would otherwise be eligible for residential projects, feasibility
101 studies and resources assessments, environmental review and mitigation measures, interconnection studies
102 and utility interconnection application fees, project-specific legal and financial services, site preparation,
103 purchase or lease of land solely dedicated to project operation, onsite electrical upgrades, switchgear, and
104 transformer installation necessary for grid compliance; and (iii) for utility-scale projects, costs incurred for
105 such project that would otherwise be eligible for commercial and industrial projects, and high-voltage
106 interconnection and substation construction, transmission-level engineering, permitting, and intertie
107 infrastructure, long-term site development, roadwork, and land lease or purchase strictly for operational
108 footprint. "Eligible project costs" includes only costs directly associated with energy generation, storage, and
109 grid integration. "Eligible projects costs" does not include land acquisition unrelated to system operation, or
110 where the project is not completed, general property improvements, renovations, or unrelated construction;
111 transmission upgrades not directly attributable to project interconnection; costs associated with speculative
112 land banking or site prospecting without approved interconnection plans; legal fees, lobbying, or
113 administrative costs unrelated to project execution; backup generators, fossil fuel systems, or hybrid diesel-
114 photovoltaic integrations; energy efficiency upgrades such as insulation or lighting; heating, ventilation, and
115 air conditioning (HVAC) unless integrated with a solar and storage project and separately itemized; or any
116 leased residential systems.

117 "Qualified commercial and industrial project", "qualified project", and "qualified residential project"
118 mean the same as those terms are defined in § 45.2-1918.

119 B. For taxable years beginning on and after January 1, 2027, but before January 1, 2032, a taxpayer
120 shall be allowed a one-time, refundable, installment credit, in the manner provided in subsection C, against

121 the tax levied pursuant to § 58.1-320 or 58.1-400 in an amount equal to:

122 1. For a residential qualified project, 35 percent of eligible project costs, not to exceed \$6,000.

123 2. For a commercial and industrial qualified project, 35 percent of eligible project costs, not to exceed

124 \$2.5 million per project.

125 3. For a utility-scale qualified project, 35 percent of eligible project costs, not to exceed \$5 million per

126 project.

127 The taxpayer shall submit purchase receipts with the income tax return satisfactory to the Tax

128 Commissioner.

129 C. One hundred percent of the tax credit shall be earned in the year the project is placed in service and

130 shall be claimed over a five-year period in installments of 20 percent per year. If the amount of the credit

131 allowed in any given year exceeds the taxpayer's liability for the taxable year, the amount that exceeds the

132 tax liability shall be refunded by the Tax Commissioner on behalf of the Commonwealth for 100 percent of

133 face value within 90 days after the filing date of the income tax return on which the individual applies for the

134 refund. However, no credit may be claimed for a taxable year during or after which the taxpayer disposes of,

135 takes out of service, or moves outside of the Commonwealth any qualifying solar energy equipment. In such

136 instance, any remaining, unpaid installments of the credit allowed to such taxpayer for such given project

137 shall expire and become non-claimable for such project.

138 D. The aggregate amount of credits allowed under this section shall not exceed \$50 million per applicable

139 budget cycle. Of this amount, \$12.5 million shall be reserved for residential qualifying projects, and the

140 remaining \$37.5 million for commercial and industrial and utility-scale qualifying projects, or an amount

141 appropriated by the General Assembly during the applicable budget cycle, with 25 percent allocated for

142 qualified residential projects and 75 percent allocated for qualified commercial and industrial projects.

143 Credits shall be allocated subject to the availability of funds within each category and tranche, upon

144 submission of a complete application as determined by the Department of Energy and the Department. If,

145 after nine months from the start of the taxable year, the Department of Energy determines that the amounts

146 reserved for a given qualified project are unlikely to be fully allocated, the Department of Energy may

147 reallocate any unreserved or uncommitted amounts, provided that such reallocation does not exceed the

148 aggregate annual credit cap. Credits shall be allocated by the Department on a first-come, first-served basis.

149 E. The amount of any credit attributable under this section to a partnership, limited liability company, or

150 electing small business corporation (S corporation) shall be allocated to the individual partners, members, or

151 shareholders, in proportion to their ownership or interest in such entity.

152 F. To qualify for the tax credit under this section, a project shall be installed in compliance with Article 4

153 (§ 45.2-1918 et seq.) of Chapter 19 of Title 45.2.

154 1. Once the taxpayer has satisfied all the requirements to the satisfaction of the Department of Energy, the

155 Department of Energy shall provide the taxpayer with a certificate of approval for a qualified project,

156 identifying whether the project qualifies as residential, commercial and industrial, or utility-scale. Such

157 certificate shall include the amount of eligible costs incurred and the fiscal year in which such costs were

158 incurred for which the taxpayer may claim a tax credit pursuant to this section. The Department of Energy

159 shall send a copy of such certificate to the Tax Commissioner in a reasonable time and manner as determined

160 by the Commissioner.

161 2. The taxpayer shall retain all proof of cost documentation, including invoices and scope of work, and

162 any certificate of approval for a qualified project received pursuant to subdivision 1 for at least five years

163 from the receipt of such certificate.

164 G. The Tax Commissioner shall develop guidelines, in consultation with the Department of Energy, for

165 claiming the credit provided by this section, including establishing application procedures, reservation

166 requirements, tranche schedules, and reallocation criteria consistent with this section. Such guidelines shall

167 be exempt from the provisions of the Administrative Process Act (§ 2.2-4000 et seq.).

168 2. That the provisions of this act shall become effective on January 1, 2027.