A Green New Deal or More Partisan Gridlock: the U.S. Election and its Impact on the Renewables Market

The election of Joe Biden will have important implications for the renewable energy industry. It is not clear how much of his ambitious Green agenda will be implemented and if he will have the Senate to support him. However, we believe it is clear that our Clean Energy Infrastructure strategy represents an opportunity for investors to invest in a strategy that will directly benefit from the outcome of the election.

Well before the election, market forces alone have been driving a major shift toward renewables. Even with an Administration that for the past four years favored fossil fuels, we have witnessed both a record number of coal plant retirements and a quintupling of battery storage installments. Cost competitiveness, technological improvements, and support by state and local governments and corporations have helped propel demand for renewables despite a lack of support at the federal level under the Trump administration. Today, the energy transition is driven by economic fundamentals and does not depend on the posture or predilections of the federal government.

Having said that, the outcome of the presidential election is an additional tailwind for renewables. Clean energy represents a significant part of President-elect Biden's economic plan and voter mandate. In his first four years in office, he has pledged to direct USD 2 trillion toward de-carbonization efforts and to target 100% clean energy by 2035.

Given the uncertainty around the Senate election outcome, it is not clear how much of this agenda will be implemented. However, even without control of Congress, there is much that the Biden administration is likely to accomplish with regards to renewables.

Below are a few key considerations as the election results stand today:

- **Continued state-level and local government support for clean energy:** Thirty states and the District of Columbia have Renewable Portfolio Standards (RPS). At the local level, energy was less prone to partisan politics in 2020. As an example, this year's voters in the battleground state of Nevada voted in favor of requiring utilities to source at least 50% of their electricity from renewables by 2030. As of November 15, this measure was approved by 58% of voters— broader support than either major presidential candidate received in the state. Similarly, the city of Columbus, Ohio (a historically coal-friendly state) established a Community Choice Aggregation (CCA) program that will provide the city with net-100% renewable energy by 2023. Almost 200 local governments across the United States have a pledge to transition to 100% renewable energy.

- **Executive orders:** A Biden administration also has substantial power to enact renewables-friendly change through executive order and without the support of Congress. In particular, these executive orders could overturn many of the actions taken by President Trump. President-elect Biden can also make it easier to build renewable power projects on federal land, require government agencies to procure more renewable power, and accelerate the development of nascent renewables-oriented industries such as electric vehicles, which faced challenges when the Trump administration relaxed fuel economy standards. According to a climate task force assembled by the Biden team, there are at least 56 policy changes on climate and energy that do not require Congressional action.

- **Environmental regulation:** Permitting and environmental regulation could make it more difficult for new construction of traditional fossil fuel projects. Combined with Biden's overarching goal of 100% clean energy by 2035, this could effectively kill the payback period for new gas plant construction. When combined with President-elect Biden's support of battery storage research, this bolsters our thesis with respect to the growing opportunity to invest in battery storage. Overall, a meaningful shift in environmental policy and regulation could both increase the cost of fossil fuel and decrease demand – a supply-demand dynamic that could result in a wave of stranded assets and further catalyze the transition to clean energy.

- **Extension of the solar Investment Tax Credit ("ITC"):** In recent years, Washington gridlock has prevented Congress from extending provisions until they are set to expire. As such, it is quite possible that we will have to take a "wait and see" approach with respect to the extension of ITCs beyond 2024. In the near-term, the legislative agenda will almost certainly focus acutely on passing a Covid-recovery stimulus package. As discussed above, if Republicans defend the Senate an extension of the ITCs would most likely be part of comprehensive legislation, which also achieves political objectives for Republican swing votes – such as such as an extension of the biodiesel tax credit due to expire in 2022.

- **Solar panel import tariffs:** Overall, we see reduced risk from a continued or escalating tariff war on solar panels and related equipment. If the Biden administration takes a hardline stance on trade, however, Section 201 tariffs on solar panels may not be immediately removed but rather allowed to roll off when they are set to expire approximately one year from now. In the meantime, the U.S. solar market continues to flourish despite these tariffs and is set to have record installments in 2020.

- **Federal funding:** The Biden administration will look to increase the staff of the Department of Energy (DOE) and set clear directives to support clean energy and viable climate solutions. Within the DOE, we can expect the Office of Energy Efficiency and Renewable Energy (EERE) to be prioritized and awarded a larger budget to fund grants, research, and programs to support the growth of renewables in the U.S.

- **Job growth:** President-elect Biden's plan links climate change to job growth. In fact, the outline of his climate plan mentions the word "union" 32 times, a sign of the potential for job creation and economic growth via clean energy. Renewables can have a broad economic impact in both red and blue states, especially as wind turbine technician and solar power installers represent two of the fastest growing categories of job creation in the United States.

While there is still more left to play out in this election cycle, America is poised to pivot its stance on climate change. During the first press conference after the election, Federal Reserve Chair Jerome Powell cited the importance of better understanding and measuring climate risk. This marked the first time that the Federal Reserve formally highlighted climate change as a potential threat to financial stability – a fact we know well as early supporters of The Task Force on Climate-related Financial Disclosures (TCFD). In summary, the heightened awareness by policy leaders combined with a clean-energy friendly administration can be expected to broaden the opportunity set for experienced, specialized investors in the renewables sector who can stay ahead of emerging trends. It is also a positive for causes of environment and climate impact— issues we care profoundly about at Capital Dynamics.

John Breckenridge

Senior Managing Director
Head of Clean Energy Infrastructure