Policy Update

Post-Election Special / November 2024

After months of uncertainty, the outcome of the U.S. election is no longer an investment variable. As in 2017-2019, Donald Trump and a Republican Senate will govern. As of this writing, control of the House of Representatives is not finalized, however Republicans are projected to retain a small majority, though not as large as their House majority in President Trump's first term. Consistent with our recently published Policy Update, infrastructure investment activity related to the energy transition will continue robustly in a more Republican federal government. Within the secular growth of clean infrastructure, the sectors in which investors focus and the timing of such investments will continue to determine success.

What May Change Due to Election

Based on his negative comments about the March 2024 Environmental Protection Agency tailpipe emission rules, the electric vehicle tax credits of the Inflation Reduction Act ("IRA") are most likely to be reviewed by a Trump administration. Although Tesla CEO Elon Musk has been a public ally of President-elect Trump, Mr. Musk's recent public statements have been anti-federal tax support. However, any amending of the IRA is highly unlikely until 2026 (see below).

Other renewable energy policies that would be within the White House purview to scale back are clean energy technology grants and unfunded Department of Energy loans, both with significant remaining funds authorized under the IRA. Withdrawal of such funds is possible under rescission rules, which have shorter White House and Congress approval timelines than the full annual budgeting process. Further, President-elect Trump has indicated pausing new offshore wind leases.

Conversely, a lifting of the moratorium on LNG exports will raise the bid for natural gas, which for regional electric grids makes renewables more attractive. Historically, a Republican White House has eased the project permitting process at the federal level. While the majority of infrastructure projects are more dependent on state and local approval processes, regulatory easing is specifically relevant to electric grid improvements and could potentially ease project interconnection delays. Note the bipartisan Energy Permitting Reform Act is presently pending in Congress and theoretically could be passed in the current lame-duck session.

Additionally, the renewable gas and fuels sectors have strong cases as domestic resources, and made-in-USA was a significant component of Trump's campaign. State-level incentives for clean transportation and regulated utility renewable requirements may become more robust as a reaction to a Republican White House, as we saw in 2017-2020. The Trump White House is likely to be more actively resistant to state-level legislation that has implications for interstate commerce, such as California's vehicle emission regulations.

What Won't Change Due to Election

Neither the Republican nor Democratic 2024 party platforms made meaningful reference to the IRA. Its core clean electricity investment tax credits, which have been in existence since the 2005 Energy Policy Act and extended by the IRA, are not likely to be meaningfully amended in the near future. Many red states benefit significantly from those provisions. In his one debate with Kamala Harris, President-elect Trump stated, "I love solar."

Certain IRA provisions, for example the investment tax credit for biogas, are already set to expire at the end of 2024 and were unlikely to be renewed ahead of 2026 budgeting regardless of election outcome. Also independent of election outcome, the first several months of any new administration are typically taken up with confirming new appointees at key agencies, which stalls any significant legislative changes. Mr. Trump has also stated immigration policy is his top immediate priority.

The government's fiscal year 2025 budget (October 1, 2024 – September 30, 2025) was nominally due on October 1, 2024. However, consistent with almost all previous years, this year's budget has not yet been approved by its deadline. Based on its current status, approval is not likely until Q1 2025. While Republicans may retain control of the House, the margins will be very small as they have been the prior two years, and the particulars of the 2025 budget will be heavily negotiated based on the local concerns of specific representatives. As one example, on August 18, House Republicans publicly stated their support of the renewable energy policies in a letter to House leadership. For all these reasons, federal tax policy is forecasted to remain largely stable through at least 2025.

Year 2026 Federal Budgeting

Looking ahead, the income tax rate reductions passed by the 2017 Tax Cuts and Jobs Act ("TCJA") will sunset at the end of 2025. The fiscal year 2026 federal budget (October 1, 2025 – September 30, 2026) will need to address whether these tax cuts are extended, regardless of who won the election. Conventional wisdom says Republicans are more likely to cut both taxes and spending, however 2024 Republicans are not traditional Republicans. Generally, they're more populist, less anti-spending, and any extension of the TCJA may not exactly resemble the 2016 legislation. Therefore, the form of the to-be-negotiated 2026 budget may not include deficit neutrality as one of policymakers' principles. Even so, it's important to remember the IRA was passed as deficit-reducing legislation, with the majority of its deficit-reduction scoring stemming from changes to healthcare reimbursements, per the Congressional Budget Office.

With the House remaining effectively tied between the parties, the more meaningful result of the election for budgeting is change in Senate control. To estimate the likelihood of some of the at-risk portions of the IRA cited above, one needs to analyze how individual Senators may act. As an example, in one of the tightest Senate races of the election, Dave McCormick of Pennsylvania and the Republican Party, is currently in the lead over the incumbent. The former CEO of Bridgewater Associates, Mr. McCormick has suggested curtailing the IRA, consistent with our forecast that certain provisions will be under question. However, his campaign's published Energy Policy Plan notes support for the Republican "all-of-the-above" approach towards energy independence that includes clean energy. Incoming Republican Senator Bernie Moreno has campaigned on avoiding wind and solar while placing an emphasis on natural gas. Senate changes such as these emphasize the need for caution when making investments dependent on market growth linked to 2027 and beyond IRA subsidies.

Alternatively, the Democratic Senator-elect Lisa Blunt Rochester of Delaware was previously a Representative and member of the House Energy & Commerce Committee and has been a proponent of the IRA. Angela Alsobrooks of Maryland retained Democratic control of the seat following Senator Cardin's retirement. This will be her first time as a lawmaker in the Capitol, but her campaign has laid out support for expanding tax credits towards clean energy. We expect them to be proponents of continued federal support of the IRA with significant influence, as incumbents not up for re-election in 2026 during the peak of budget horse trading. Overall, any substantial amending of the IRA would have to be carefully negotiated by both parties, and once federal support for particular sectors is law it is historically very difficult to remove it. While broad tax policy changes remain unlikely, we remain focused on monitoring if and how such policy may oscillate to uncover new investment opportunities.

Overall Infrastructure Market

The policy debates over the coming years will be conducted against a different macro landscape than the past few years. The U.S. has seen a surge of domestic manufacturing production, which greatly impacts political decision making. Most significantly, the overall demand for electricity has recently increased substantially and is expected to continue to grow due to the power requirements for the technology industry.

We view large policy changes as highly unlikely, and not seriously debated until 2026 at the earliest, when Republicans in swing districts that have benefited from infrastructure spending will be up for re-election. It is highly plausible that beginning in 2027, energy infrastructure project proformas will overweight even more towards demand-driven revenue and less on federal tax incentives. In the meantime, North Sky Capital will continue to locate the best local markets for clean infrastructure on behalf of our investors and underwrite our deals only to known and stable revenue environments within specific geographies. We look forward to issuing continued policy updates to our valued partners and clients.

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