

Republican 2024 election trifecta: Implications for renewable energy

December 17, 2024

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Implications of the Republican trifecta

- If the Republicans are unified, then by using the budget reconciliation procedure to avoid the filibuster (i.e., the 60-vote requirement) they can pass any tax or spending changes they want
 - There can three reconciliation bills a fiscal year (ending Sept. 30): taxes, spending & raising the deficit ceiling
- During the campaign, Trump referred to the Inflation Reduction Act (IRA) as a green scam and said it would be repealed to pay for tax cuts

But broad change to the IRA will not be so easily passed



18 House members wrote a letter stating they don't support a total repeal of the IRA due to economic benefits it is creating in their districts



House Speaker Johnson said they would approach the IRA with a scalpel and not a sledgehammer



Oil company CEOs have asked Trump to not repeal the IRA

The IRA has spurred significant investment and economic activity

Grandfathering projects from tax changes



Whenever Congress has revoked incentives in the past, it has grandfathered taxpayers who committed to investments based on existing incentives. The deadline has historically been the date of first House Ways & Means committee action.



Three former Republican tax officials speaking on NRF webinars said that they expect the grandfathering would be based on beginning of construction.



Can projects begin construction for tax purposes (i.e., “safe harboring”) before the House committee action?

- Developers that can’t meet the begun construction rules in 2024 are giving suppliers until the end of March 2025 thinking that Ways & Means action before then is unlikely
- See the political calendar for the next two months on the next slide



Political calendar over the next two months

The US government runs out of funding on **December 20**

The “lame duck” Congress is in session perhaps until **Christmas**

2025

A new Republican controlled Congress will be seated on **January 3**

Trump will take office on **January 20**

Trump's math problem

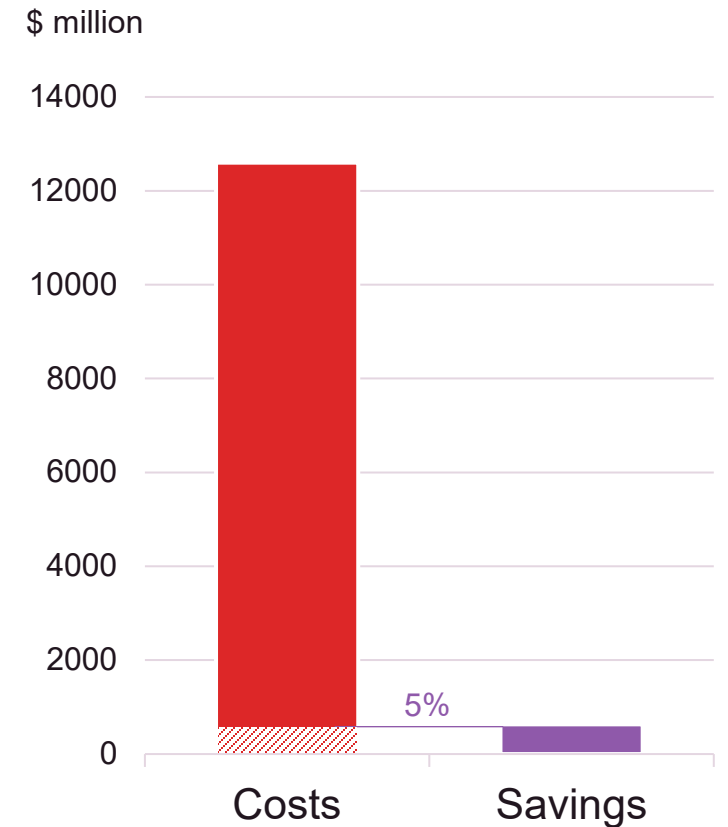
Extending the 2017 tax cuts would cost **\$4.6 trillion**.

Repealing the entire IRA would pick up only **\$633 billion**,* about 5% of what Trump needs for \$12.6 trillion tax cuts

*JCT revenue estimate, June 2023

Trump promised new tax cuts on the campaign trail that would cost at least another **\$8 trillion**.

Let's look at if it is worth repealing the IRA to cover **5%** of what is needed



Economic benefits of the IRA are significant

\$3 trillion of investment

Goldman Sachs has estimated the IRA will drive \$3 trillion of investment in US infrastructure and manufacturing. Investments are fundamentally supported by tax credits.

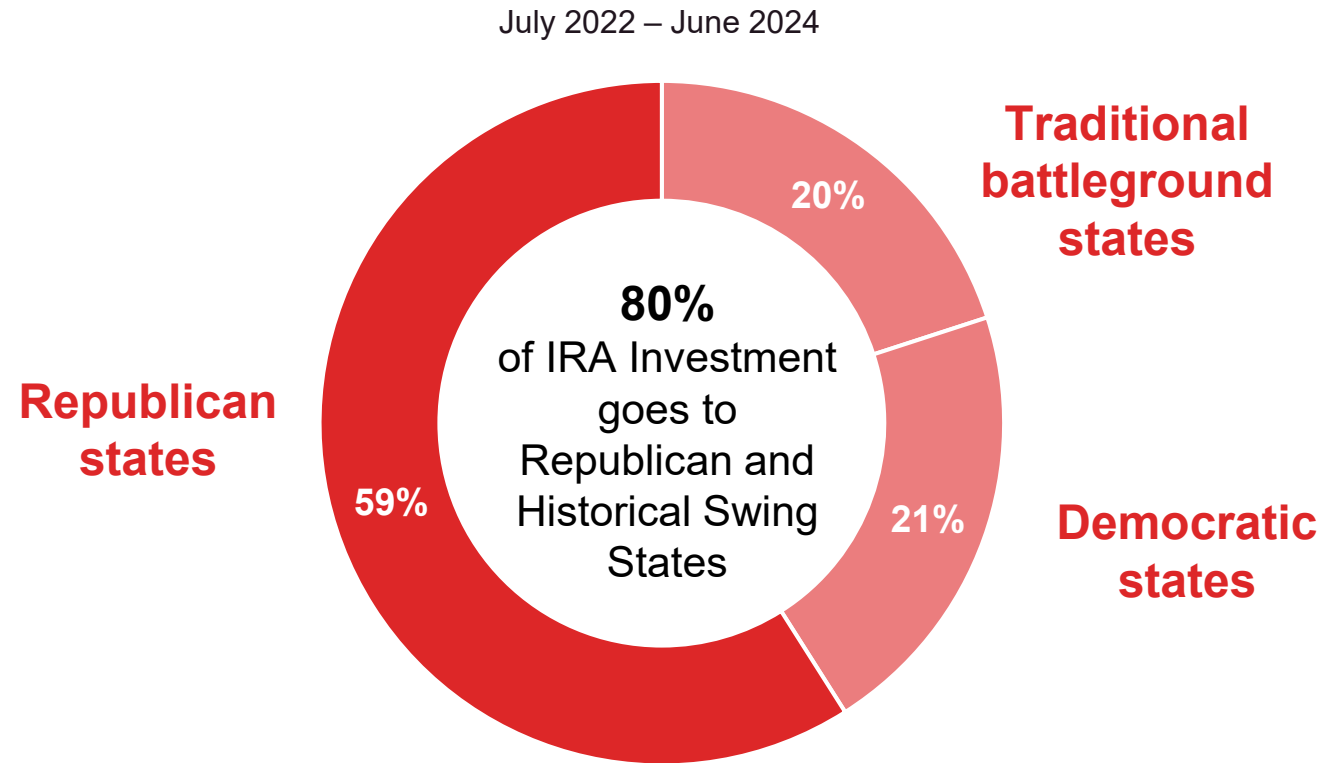
\$250 billion of GDP benefit

Electric power and construction GDP grow by hundreds of billions each by 2030 in impact models.

1.5 million jobs

Government and external estimates forecast millions of net additional engineering, construction, manufacturing and mining jobs, which are broadly distributed across the country. Union labor disproportionately benefits from the law.

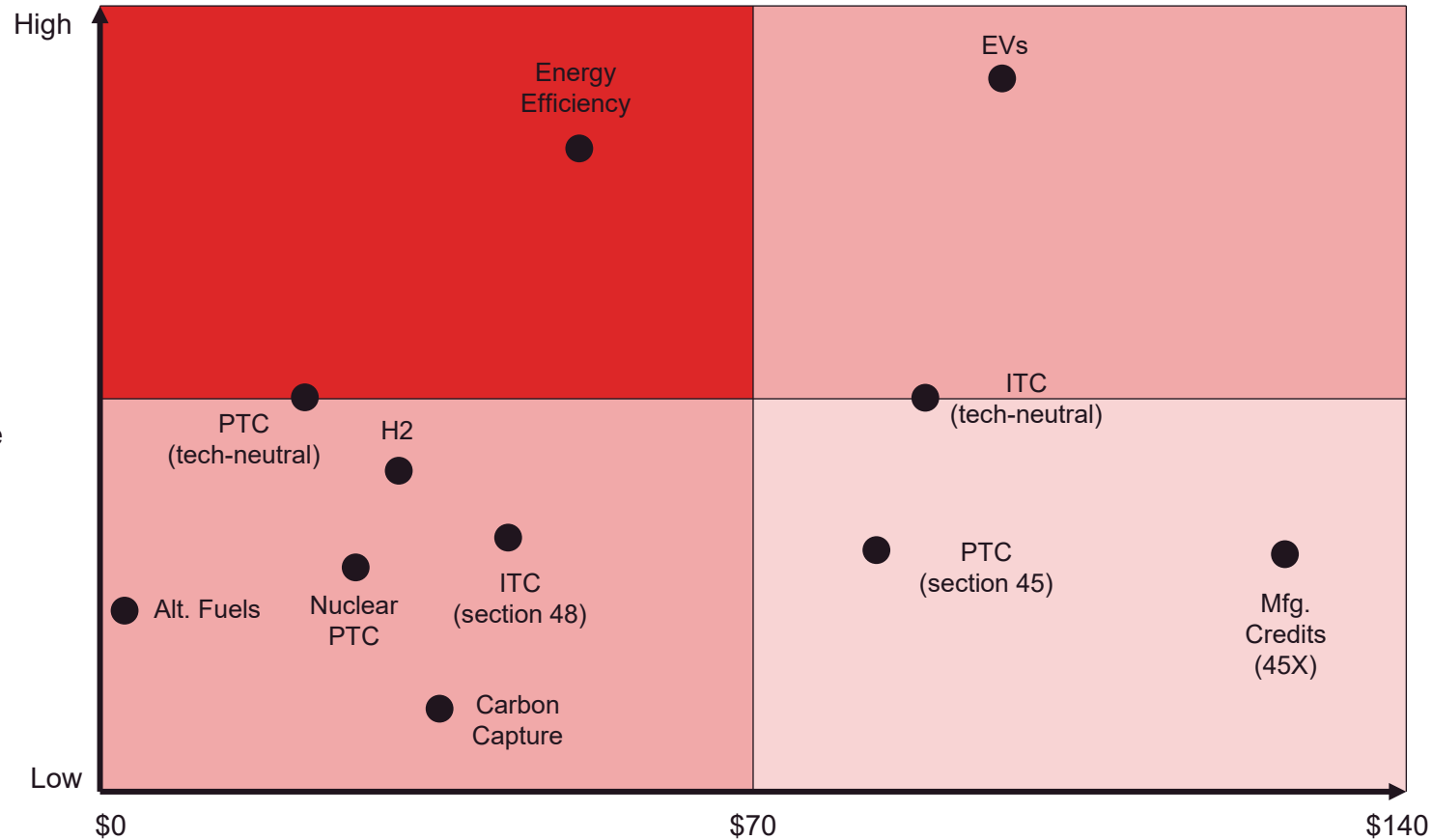
\$439 billion in actual investment in technologies eligible for IRA tax credits



Source: Ciper | Rhodium Group and MIT CEEPR

Each IRA tax credit has its own risk profile & will be handled differently

Political risk with Republicans
Based upon public statements and proposed legislative efforts from Republican policymakers



Cost savings from repeal or modification to extend TCJA
In billions; JCT analysis from May 2023 (modified to focus on costs in 2025-2033)

Slide source: PowerBrief

Can tariffs pay for Trump's tax cuts?

Trump

called for a

10% to 20%

across-the-board tariff on all imports and at least a

60%

tariff on Chinese imports.

Martin Sullivan,

a widely read economist in tax circles, estimates that a

10% tariff

would raise

\$3.97 trillion over 10 years,

assuming imports grow at the same rate as GDP growth.



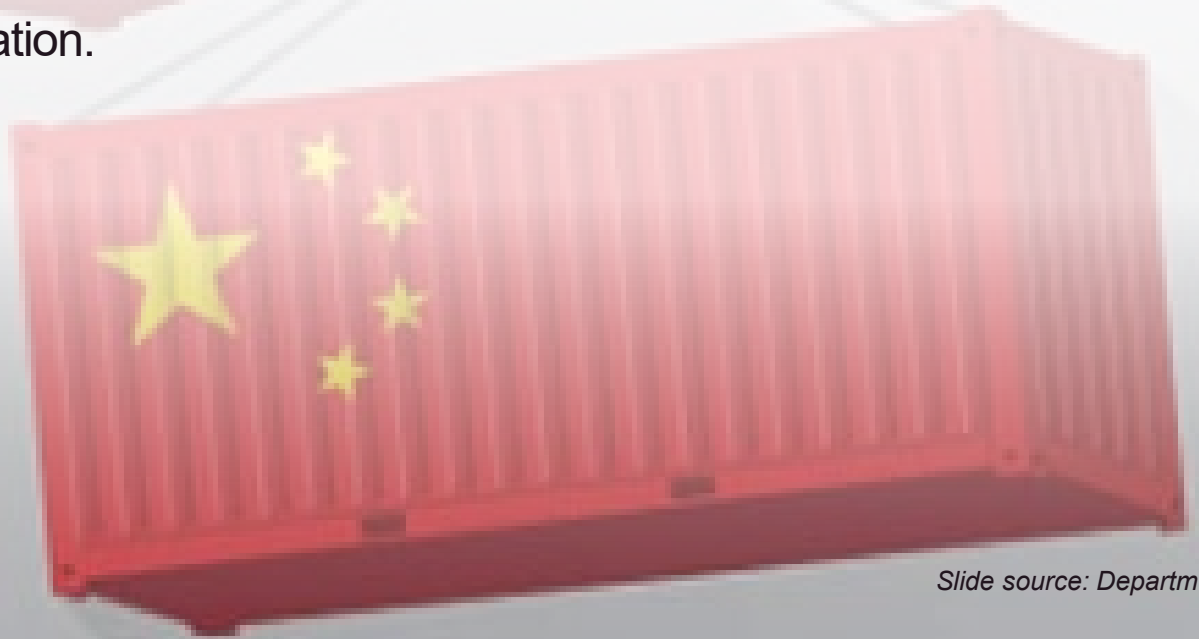
US tariff collections in FY 2023 were **\$80.3 billion.**

Economic benefits of the IRA are significant

92%

of the \$66 billion in revenue raised from China tariffs during the Trump first term went to payments to US farmers to offset their losses from Chinese trade retaliation.

92% of \$66 billion is \$5 billion



How will the U.S. meet the unprecedented demand for electricity?



New data centers and factories are driving up land costs in smaller markets as they look for utilities that can accommodate their power needs.

The average ChatGPT search takes

10x

the electricity as a Google search.

Northern Virginia welcomed **250 new data centers** during the four-year period 2018 to 2022. Peak demand in the state increased **50%**.

Dominion now supplies **20%** of its electricity to data centers.

There are at least **155 new factories** on the drawing board.

Projected electricity demand for industrial use in Georgia in the next decade is now is

17x

what it was before.

Utilities are telling data center, factory and housing developers that they cannot accommodate the additional load.

Electricity shortages have the potential to dampen economic growth.



Airports are expected to triple the electricity they will need by 2040 to serve airport and rental car lot electric vehicle fleets.

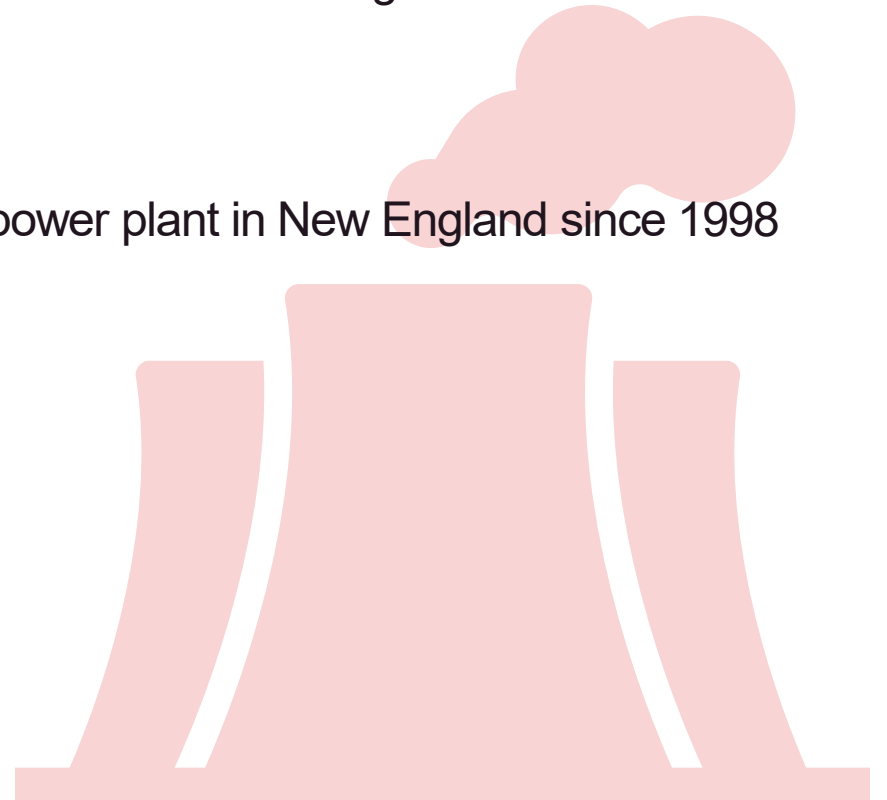
Transmission will remain a bottleneck.

Unfortunately, regional planning and cost sharing have become a partisan flashpoint as red states chafe at having to support blue state policies to grow renewables.



Trump's 50% reduction in energy costs can't be reached without renewables

- Trump promised during the campaign to reduce energy costs by 50% by the end of his first year in office
 - That means more supply of electricity to bring down cost
 - Difficult to decrease costs when demand is increasing due to AI etc,
- Towantic Energy Center in Oxford, Connecticut is the last gas fired plant built in New England
 - Online in 2018
 - 20-years to permit
 - No one has started a successful permitting process for a gas fired power plant in New England since 1998



What is the impact on project development?



Expect a day one order stopping any further guidance under the Inflation Reduction Act and climate-directed spending and loan guarantees.



Many developers have been starting construction this year to insulate projects by preserving an option to claim tax credits under the existing ITC and PTC statutes before the tax credits move to new statutes next year.

This also locks in a 40% threshold to claim a domestic content adder. It works for projects that can be completed by the end of 2028.



Customs is not yet detaining utility-scale batteries over forced labor concerns, but the fear is it will do so after it finishes analyzing data from a current survey of battery manufacturers.

The market for CATL batteries has stalled over such concerns. CATL has produced a detailed supply chain map in an effort to jump-start sales. A letter in September from key Republicans to the US defense secretary asserting that CATL products are a security risk is a further complication.

Look for Trump to restore a bulk power system order that made it illegal to own equipment made by foreign adversary companies that could be used to harm the US power grid.

Biden let the order expire.