Sustainability Podcast

“Energy in the One Big Beautiful Bill Act”

Transcript, 11 July, 2025

Speaker 1 (00:00):

What's up everyone, and welcome to sustainability Now, where we cover how the environment, our society and corporate governance effects and are affected by our economy. I'm your host Mike Disto, and this week we discuss the one big beautiful Bill act. Thanks as always for joining us. Stay tuned. We were off last week and while we in the US were away celebrating the independence of our great nation on July 4th, the US House and Senate was passing a very large, very extensive tax and domestic policy bill. Now, much has been said about the bill, which is called the one Big Beautiful Bill Act, who and what got the tax cuts and the funding cuts and all that. But for us today for M-S-C-I-E-S-G research, the big changes that we want to discuss are those directed toward the energy sector because the bill is working to change the energy landscape as we know it.

(00:59):

In America, it rescinded tax cuts for solar and wind projects. It removed some clean vehicle and energy efficiency credits and it provided some big winds for oil and gas companies and on the cleaner side for geothermal, hydropower and nuclear. Now, where the energy sector goes is a very important topic for us and the global institutional investors that we serve. So we have to look at this bill and try to figure out where the energy sector is headed. Now the good thing for me is I work with Chris Cody, and Chris is our energy transition research and development lead. And during his tenure, he has been looking continuously at how policies around the energy sector are changing and what the implications of those changes are for the companies we cover. So even though it's early days on this with the bill becoming a law on July 4th, actually, I wanted Chris to take me through his initial thoughts on how this bill is set to change the energy industry in America.

Speaker 2 (02:00):

So my social media feed over the weekend was definitely blowing up with colleagues, friends, just different people contemplating whether this bill marks the end of the energy transition in the United States. And from what you just read and what we've all been reading, definitely wind, solar, and electric vehicles will no longer be subsidized in the us, right? They make that very clear. The White House even put out an executive order on Tuesday earlier this week, July 7th, to further drive the point home ending market distorting subsidies for unreliable foreign

controlled energy sources, right? And in this, they basically say that the secretary of the Treasury is yes, he's going to look and make sure with increased scrutiny and extra guidance that there are no subsidies going to wind and solar and that they're not effectively coming from foreign controlled energy sources. Most of this stuff is imported from China.

(03:02):

So reading between the lines, it's clear that that's what they're looking for. So where does this leave us? Right? So today in the US or as of the end of last year in the US, wind made up 11% of the electricity supply growing about 50% over the last five years. That's a lot of growth and solar made up of just 5% of the total supply, and that had grown 200% over the last five years. So together this is well short of what something like natural gas supplies, which is around 45%, but it's around the same level as nuclear power right now, wind and solar. So this is a big change. This is the fastest growing source of electricity renewables, and the question is whether they're going to be stopped in their tracks.

Speaker 1 (03:53):

And of course that depends on the provisions in the bill itself as it pertains to renewables. And I mentioned all of these provisions at a high level in the intro, but in detail there were about 35 green energy and environmental items in the bill. And I'm not going to list them all and there impact here, but I want to get into the details of some of the bigger ones that are going to affect the companies we cover, which I asked Chris about specifically. Mainly one that's called the removal of advanced manufacturing production credits, which terminated credits for wind power companies after the 2027 mark and disqualified facilities that use certain components from China and other foreign entities of concern. There was also the removal of the clean energy electricity investment credit and the clean energy production credit, which will phase down tax credits for both investments in zero emissions electricity sources, and only allow wind and solar projects to claim the credit if again they begin construction within a year of the law's enactment or come online before the end of 2027.

(05:01):

These dramatically shorten the timeline that the Biden administration set for these type of projects to take advantage of, which was about in the 2030s. So companies are sort of scrambling with what to do on that. They may be cutting back the amount of solar and wind projects are doing, they might be canceling them entirely. It really depends. We have to see there were also a number of credits for the electric and alternative fuel vehicles that were removed. So what does that all mean? Does that mean that all of these projects are doomed? Does that mean that all of these projects have to stop what they're doing? Are we going to have a lot of lost capital here? What is going on?

Speaker 2 (05:40):

I think what this means, what we can assume is means is that only a select number of projects are going to be built. They're going to get pulled forward. Those that can be pulled forward will be pulled forward. And for everybody else, it doesn't mean that the projects can't go forward, but the finances definitely need to be reevaluated, right? The assumptions in the model depended on these tax credits, and once those are removed, the project may or may not work. There may be other types of ways to structure the deal, but it's not going to work as currently structured. So these things will be revisited. It will definitely slow down growth in these sectors, but it doesn't also mean that they're dead in the water. We can look elsewhere for examples of how solar and wind can stand on their own legs. You may think I'm going to go talk about Europe and China, and I definitely could, but I actually want to draw our attention to two smaller countries, not small countries, but smaller areas, Pakistan and Turkey, that have seen massive solar growth over the last few years at the combination of sky high energy prices in part due to rising natural gas prices as Europe and China play tug of war over importing liquified natural gas, but also because of some policy tweaks that have made this easier.

(07:01):

I think Pakistan installed 15 gigawatts of new solar in the past year and Turkey just over seven gigawatts. These are really, really big numbers making them some of the largest solar markets in the world now,

Speaker 1 (07:15):

Meaning solar and wind are two of the transition technologies, if I may use that term, that are able to stand on their own because they are supported by more than just subsidies and policies. They're supported globally. Many countries are moving toward them. And if you think about investment in clean energy as a global phenomenon, one that can support the industry as a whole, one country isn't going to make or break the sector's growth. The business pressure is still there even as the policy pressure shifts in certain regions. What may matter much more in some cases is how interest rates, for example, play out because those have had a serious effect on wind development, especially because rising interest rates raise the cost of financing, delay or downsize. Wind projects compel longer what are called power purchase agreements. While period of low interest rates have historically been a major catalyst for rapid expansion and wind energy, basically there's more factors going on than just what's in this bill.

Speaker 2 (08:13):

So the other big, really big area where subsidies end is clean transportation, namely electric vehicles including for heavy duty vehicles, not just for light duty pack cars. And this really matters. These were beginning to grow fast. Americans were taking advantage of the tax breaks and analysts were expecting more and more growth over the next few years. This will definitely now be put on hold as will the industry built around it, where both there was more onshoring happening in order to be able to take advantage of the tax credits rules built into the reduction act and importing more batteries from countries like China. This now gets more difficult not

only because of the reduction or the removal of tax credits, but also because of the tariffs that are being put on. And it's not just about China where the tariffs are high, but also there's more trans shipments or assembly happening for solar wind, but also new battery development in countries like Vietnam, the Philippines, South Korea and Japan. Well guess who received a bunch of letters today or will receive them shortly, South Korea and Japan with tariff rates of 25% and 24%, 20% for Vietnam and 40% on transship goods through Vietnam, right? So costs are going up across all of these supply chains.

Speaker 1 (09:43):

The electric vehicle point is an important one to hammer because EVs sort of get forgotten in a way as it pertains to large scale carbon reduction projects because they're at the individual level. You're buying a car, an individual is going out and buying a car, but they're vital if countries want to cut their emissions. I'm going to give you an example of that, A study. Lemme quote you a study. It's put out by the International Council on Clean Transportation, the ICCT. They're peerless, they're based in the eu, and they do studies on all types of clean energy transportation. They found recently on July 9th that not only are electric vehicles getting cleaner faster than expected, but only battery electric vehicles can deliver the large scale emission cuts needed to address Europe's most polluting transport mode. Because passenger cards account for nearly three quarters of the sector's emissions.

(10:35):

That means that EVs are really important to cut your country's emissions and since they are a burden to the individual rather than to a large scaled utility, let's say a loss of a credit, and thus purchasing power may be a serious blow to the industry, especially now in the us. That also means things are going to get harder for battery manufacturers and for charging stations and every other industry that follows EVs around. This is a situation if we take the pillars of the energy transition language that I used earlier, this is a situation where the business pressure might not be there in the same way as it is for solar and wind, since the business pressure is much more reliant on the individual as it pertains to buying a car. Now, those are the losers of this in terms of the energy sector. This act does pick some winners in the low carbon arena, specifically hydrogen storage, advanced nuclear hydropower and geothermal energy as well as some biodiesel. What effects do we see those as having on this energy landscape in America?

Speaker 2 (11:42):

Yeah, the language that this bill and the White House have used is dispatchable sources, right? So when you flick your switch, they come new nuclear hydropower, geothermal, and then carbon capture and storage is also lumped in there. And now there are even tax credits for metallurgical coal, which is used for steel making and is not really part of this energy situation, but it made it in there also. Same with for bio fuels, small agro biodiesel producers, their tax credit doubled from 10 cents a gallon to 20 cents a gallon in the bill. That's a lot for those needing to translate to liters or something else. Gasoline's around $3 a gallon here, so that's 6%

a credit. This is a lot of money now that's going to support agriculture and this dispatchable fuels. Yep. So there were criticisms in the inflation reduction act that the government was getting involved in picking winners and losers.

(12:40):

I think now there's a narrower scope for who the government wants the winners and losers to be. When I started earlier in this conversation, I was mentioning wind and solar representing a lot of the growth in electricity supply over the past five years. We have not yet seen that for new nuclear geothermal and the like we could. These are promising technologies that with the right support, with the right investment could grow by leaps and bounds, but it's not at all clear that they will. These are still commercially risky technologies that have worked great in some pilot cases or in the lab. Geothermal has worked in other sites, but they need capital incentives and the right demand to scale up. One point I want to make on demand in general is it's a real question mark, what's going to supply the expected growth in electricity demand in the next five years?

(13:47):

Right? This bill, I think does not answer that question. In fact, it just I think gives us reason to ask it more loudly because one thing that's become very clear listening to earnings calls and just the general chatter and energy over the last several months is that we should not expect new gas turbines to be available and installed in the US in the next five, five to seven years. Orders are already booked out through that period. So maybe gas is a generally viable option. It is a generally viable option, but not to add substantial new capacity anytime soon from what we're hearing from CEOs and then these other sources, they're going to take some time to ramp up. We're not expecting new nuclear to really come online for another five to seven years. Geothermal only exists in small pockets. So there's a big question mark about what's going to meet demand for the data centers fueling the artificial intelligence boom right now. And someone's going to have to pay for this either by squeezing your margins on the new electricity projects for solar and wind and still having those go forward or consumers who are going to have to pay for the same electricity that they've been getting, but with less supply and more customers competing for it.

Speaker 1 (15:08):

So taking that train of thought to its quote, dirty conclusion would make me think fossil fuel companies are set to benefit from this building. And that does seem to be what the bill is trying to do with some of its mandatory oil and gas lease sale provisions in Alaska and other public lands and at sea that it's now enshrined in law as well as the postponement for 10 years of the implementation of a fee on methane leaks from oil and gas operations and a rescinding of funding for other programs to reduce those leaks. And if energy demand continues to climb in the US due to data centers as we see year over year and probably into the future for a while. And if this bill hampers the growth of alternative energy sources that have seen the most

growth over the past decade, then the ones that have been around since the industrial revolution should likely benefit, right?

Speaker 2 (16:02):

Yeah, I think when it comes to oil and gas, it shows the limits of government intervention in such a large mature sector. I mean, the bill definitely puts its thumb on the scale of increasing tax credits for oil and gas producers making it easy for them to develop more on federal lands, which is always a political football that switches back and forth between parties. But I think the market generally wins in this one compared to any government subsidies. Demand is still growing in general on a global level, but at a slower rate than it has historically. So I think projections are set for under a million barrels a day, 750 to 800,000 barrels a day compared to maybe a historic average of a million barrels a day, slower demand growth. And this is in part being chipped away by continued EV growth elsewhere in the world, especially China, mostly in China, but also in Europe and in other places.

(17:01):

And that will continue, right? And then also more efficiency gains. The efficiency is always chipping away at the margin, even while need for more energy, including fuel, especially in petrochemicals is growing. But really the story for this year, I would say is that opec, the cartel led largely now by Saudi Arabia, but including the UAE and Kuwait and Iraq and many others, they're unwinding the voluntary cuts. So for the last many years they've voluntarily cut back on their production. They're a cartel. So that's what they do. They organize their production levels across a large number of members and they chose to wind back their production levels. And what this led to, and I think I mentioned this on a previous time joining you on the podcast, is it really, it accommodated the rise of non OPEC growth mostly from the us. So that accommodated the shale boom, especially over the last several years.

(18:09):

And now OPEC is changing its mind. They're saying, no, we don't want smaller production levels at higher prices. We're going to accept lower prices and really ramp up our production levels. And that's what's taking place now. It's what's responsible for driving the price down by 10, 10 to $15 a barrel over the last year. And then we're also seeing on top of that, expected and continued to expect huge supply increases coming out of Brazil and Guana, so not us, but also not opec. And they have much lower costs to cover than, for example, shale producers in the Permian. So if we're expecting oil prices to sit around 60, $65 a barrel for the next year, and if you look out at futures for Brent crude, the global benchmark that's around where they're sitting $65 not just now, but next year and in two years time. And so then especially with steel tariffs and the remaining higher interest rates, it doesn't seem obvious that producers are going to be increasing their capital expenditures to increase production, especially in the US where they're at a cost disadvantage compared to these other markets. And this isn't just me saying this. We have the Dallas Fed saying this in their own research surveying producers in Texas and

the shale basin. It's not an environment to raise oil and gas production very easily unless you're in opec.

Speaker 1 (19:43):

That sort of makes parts of the energy sector a unique participant in the one big beautiful bill act. There are a lot of other sectors deeply affected by this bill such as healthcare and social services and private equity, not to mention what's going to happen to the US debt and the bond markets because of that and all that. And yes, the larger energy industry is certainly going to be changed by this in the US as well, but it's not going to be changed in the same way as the homeowner level. For example, credits for homeowners who install solar panels and heat pumps will be wound down by 2025. Prompting fears that the bill will trigger a wave of contractor bankruptcies in 2023, the treasury reported that it had given out already 8.4 billion US dollars under this tax credit. This is all according to reporting by the financial times, but at the level of some of the, if you will, utility scale energy resources, as Chris just noted, there are market dynamics that have more of an impact on the industry than what can be done even at the federal level of government.

(20:44):

And that sort of has been our message here for a while. Policy is a fickle thing, but we see a continued long-term push toward more renewable and sustainable energy sources. And those companies and investors that are looking to make the most of the energy transition that we're currently engaged in this policy is part of that. But all these other aspects are part of it as well. Those investors, those companies shouldn't just look at the one big beautiful bill act as a sign of where things are likely or ultimately going to end up in the murky and unknown future. And that's it for the week. I'd like to thank Chris for talking to me about the news with a sustainability twist. I would like to thank you so much for listening. If you like what you heard, please don't forget to rate and review us. That really helps push us up on podcast lists and subscribe if you want sustainable now in your inbox every week. Thanks again and talk to you soon.

Speaker 3 (21:55):

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