



Legislation Supporting Clean Energy Would Impact Key Sectors



Modernizing the electric grid is key for scaling up renewable power.

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One important chapter in President Joe Biden's legacy could be written in the next two months, with the possible passage of bipartisan infrastructure and budget reconciliation legislation. Along with the regulatory powers of his federal agencies, Biden is aiming to use legislation to bring the U.S. electric power industry toward a target of net-zero carbon emissions by 2035. These federal efforts are likely to significantly influence companies in the energy, utilities, and industrials sectors.

The bipartisan Infrastructure Investment and Jobs Act, awaiting House amendments after passage by the Senate in August, allocates USD 73 billion toward three goals:

- Modernizing the nation's aging electricity grid,
- Securing critical energy supply chains, and
- Supporting the development of emerging clean technologies like carbon capture and using renewable energy to produce so-called green hydrogen.

The transition from fossil fuels to clean energy sources has accelerated in recent years, thanks in part to the increasing cost competitiveness of solar and wind power and a concerted push to curtail



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greenhouse gas emissions. In our view, federal policy could further accelerate this trend, compelling investors to cultivate a deep understanding of the potential ramifications to identify the likely beneficiaries from this policy shift.

Electricity Transmission and the Energy Transition

The U.S. electricity grid warrants upgrading on several levels. Older designs prioritized delivery of output from large, centrally located power plants. Such an approach can present security and resiliency risks stemming from system hacks, extreme weather caused by climate change, and other modern challenges. Addressing these fundamental issues will require significant investment to accommodate wind and solar power as well as other clean energy technologies while also meeting the demand-side challenges posed by the push to electrify other fossil fuel-burning processes.



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Much of the utility-scale solar and wind power installations likely will be built in remote areas where these facilities can operate most efficiently, requiring larger transmission lines and new substations to deliver electricity to consumers. At the same time, the intermittent nature of these clean energy sources makes it difficult for systems to match electricity supply and demand at a given time. Solar energy poses a particular challenge because peak daytime production does not correspond with peak demand, which typically occurs during the evening. Managing these imbalances could become even more complex due to the demand spikes associated with electric vehicles. Down the line, increased electrification of space and water heating for residential and commercial buildings could be a source of further complication.

We believe that investments in new transmission capacity, battery-based storage, and smart technologies will prove necessary to balance load and availability more dynamically to limit the risk of service disruptions while increasing adoption of renewable energy and electrification.

Reconciliation Bill Bears Watching...

The follow-on spending package that Democrats aim to pass via budget reconciliation—a process only requiring a simple majority vote in the Senate—

would extend existing production and investment tax credits for clean energy projects, create new ones for emerging technologies, and include other incentives to push the power industry to reduce its greenhouse gas emissions. However, investors should bear in mind that the headline spending amount and duration of these extensions are still in flux.

...But Secular Trends Remain Supportive

We view the clean energy transition as a durable secular trend, enabled by both technological innovation and social imperatives, that should play out over the coming decades. The Biden administration's robust approach to tackling greenhouse gas emissions could provide an additional tailwind, to the extent that it encourages adoption of established clean energy solutions and supports emerging technologies.

Given the extensive innovation and disruption taking place in the power industry and key demand markets, we believe that the bipartisan infrastructure bill—along with other legislative and regulatory efforts—could have important implications for the adoption of clean energy, the broader economy, and dynamics in the utilities, energy, and industrials sectors.

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