CAUTIONING OPTIMISM: THE FUTURE OF RENEWABLE ENERGY UNDER A TRUMP ADMINISTRATION

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On November 8, 2016, Donald J. Trump was elected the forty-fifth President of the United States. Shortly thereafter, corporations within the renewable energy sector experienced a substantial market reaction. The stock price of the nation's largest solar panel manufacturer, First Solar, plunged 6.5 percent, and investors in Vestas Wind Systems, a global leader in wind energy, realized a loss of approximately ten percent. SunPower, the Silicon Valley based front-runner in solar innovation, watched as the value of its shares plummeted nearly eighteen percent. In the days that followed the presidential election, industry-wide stock prices partially recovered; however, the shares of many renewable energy corporations continue to trade beneath pre-election figures.

Even though a number of analysts insisted that the markets overreacted to the unexpected election results, the President-Elect's campaign rhetoric clearly jolted investor confidence in the future of the renewable energy sector under a Trump Administration. Over the course of his campaign, Trump revealed stances on domestic energy and the environment that are diametrically opposed to that of the Obama Administration. The President-Elect vowed to back out of the Paris Agreement, an unprecedented international accord intended to reduce global greenhouse gas emissions. In addition, Trump pledged to minimize the role of the Environmental Protection Agency, eliminate federal government expenditures related to renewable energy, and eradicate the Obama Administration's Clean Power Plan, a set of national regulations designed to limit carbon dioxide emissions.

Despite Trump's campaign proposals, which predominantly favor the fossil fuel industry, investors should remain optimistic about the viability of the renewable energy sector. While Trump may abandon the Obama Administration's commitment to investments in renewable energy infrastructure, corporations dedicated to wind and solar will continue to benefit from government incentives that, as one journalist noted, are "deeply entrenched in law and politics."

The two main federal tax incentives conferred upon renewable energy corporations are the Production Tax Credit ("PTC") and the Investment Tax Credit ("ITC"). The PTC, enacted under President George H.W. Bush, rewards corporations with a credit of 2.3 cents per kilowatt-hour of electricity produced by a new wind, biomass, or hydroelectric power installation. Whereas the ITC, passed under President George W. Bush, grants corporations a thirty percent...
credit against tax liability based on the total project cost of a new solar or geothermal heat installation. [xii] The survival of the renewable energy industry is not entirely dependent on the availability of these tax credits; however, a correlation does exist between the credits and investments in new renewable energy installations. [xiii]

In 2015, President Obama and the Republican Congress acted to extend the expiration of the federal renewable energy tax credits. [xiv] Pursuant to the Consolidated Appropriations Act of 2016, the PTC is now set to expire in 2019, [xv] near the end of Trump’s third year in office, and the ITC will not phase out until 2023, well after Trump finishes a full term. [xvi] Of course, President-Elect Trump and the Republican controlled Congress could take legislative action to eliminate the tax credits in an effort to stimulate energy corporations that utilize traditional fossil fuel sources; however, such action is highly improbable.

Although Trump’s rhetoric may suggest otherwise, investments in renewable energy are championed by citizens of diverse political perspectives. A recent Gallup poll found that seventy-three percent of Americans want the federal government to prioritize alternative energy, rather than traditional fossil fuels, and for the first time that majority included fifty-one percent of self-identified Republicans. [xvii] Furthermore, the Trump Administration will encounter substantial bipartisan support for the renewable energy tax credits at all levels of government, as many traditional “dark-red” states have diversified their energy portfolios to include wind and solar. [xviii] For example, the American Wind Energy Association estimates that over eighty percent of all wind farms are located in Republican hold congressional districts. [xix] In addition, wind energy now accounts for more than ten percent of the electricity generated in Texas, a Republican stronghold, which also has the fastest growing utility-scale solar market in the nation. [xx] Due to the economic reliance on federal incentives for renewable infrastructure, Congressmen from states with diverse energy portfolios have already vowed to protect the tax credits, as Sen. Charles Grassley (R-Iowa) proclaimed, “If [Trump] wants to do away with it, he’ll have to get a bill through Congress, and I’ll kill it over my dead body.” [xxi]

In fact, the future of renewable energy in the United State is arguably more endangered by Trump’s proposed reduction of the corporate tax rate, rather than any direct effort to eliminate the federal renewable energy tax credit. [xxii] The renewable energy sector relies on a unique capital finance structure known as tax-equity financing, which allows corporations to monetize unused federal tax credits. [xxiii] In a basic tax-equity capital structure, a renewable energy corporation with negligible tax liability agrees to transfer tax credits to a financial institution in exchange for liquid capital to fund an infrastructure project. [xxiv] The symbiotic relationship partners a corporation that possesses a future stream of tax credits with a financial institution that requires the credits to offset its federal income tax liability. [xxv] Renewable energy corporations are expected to need $56.2 billion to finance infrastructure expansions within the next four years, and a substantial cut of the corporate tax rate may dramatically affect the ability of these corporations to obtain the requisite capital. [xxvi]

The world’s largest financial institutions are expected to disburse $14.4 billion in tax-equity financing to wind and solar projects this year. [xxvii] However, Trump’s proposal to cut the corporate tax rate from thirty-five percent to fifteen percent may render tax-equity capital structures less advantageous for financial institutions. [xxviii] In the end, the corporate tax rate is correlated to the demand for tax
As the corporate tax rate is reduced, financial institutions have less demand for tax credits to offset federal income tax liability, and therefore, are less likely to engage in tax-equity capital structures. Ultimately, a substantial alteration of the corporate tax rate may curtail the explosive growth within the renewable energy sector. Nevertheless, renewable energy corporations will endure, and without a doubt, renewable forms of energy will persist as competitive, cost-effective alternatives to traditional fossil fuels.


[ii] Id.

[iii] Id.

[iv] Id.

[v] Id.


[ix] Mufson, supra note i.


[xi] Id. at 94-95.

[xii] Id. at 97-98.


[xix] Mufson, supra note i.


[xi] Mufson, supra note i.


[xiii] Roberts, supra note x.


[xv] Id.

[xvi] Id.

[xvii] Id.

[xviii] Id.

[xix] Id.

[xx] Roberts, supra note x.


[xxii] Id.

[xxiii] Id.

[xxiv] Id.

[xxv] Id.

[xxvi] Id.

[xxvii] Id.

[xxviii] Id.

[xxix] Id.

[xxx] Id.

[xxxi] Berger, supra note xx.

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