NXG INVESTMENT MANAGEMENT

The Next Generation of Investment Management

Inflation Reduction Act

August 2022

Congress recently passed a new bill that would invigorate clean energy investment. Solar and wind are already the cheapest source of new power generation. According to the U.S. Energy Information Administration, 82% of new US power capacity additions will be renewables in 2022-24[1]. This legislation will be an even bigger tailwind to this already economic, revolutionary technology. Here are some of the proposed changes that we see as the most impactful to stocks.

NXG Investment Management is dedicated to providing Next Generation investment strategies to investors seeking long-term growth in companies focused on a clean and sustainable future as well as traditional and transformational infrastructure companies.

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- Renewable tax credits are extended through 2024. The credits start $5/MWh and can go to $26/MWh if labor criteria are met.
  - Impact. **Solar and wind are already the lowest cost of new power generation at ~$40/MWh unsubsidized[2]. These credits could reduce the cost up to another 65%,** widening the gap to natural gas power.
- Solar will have a production tax credit (PTC) as well as an investment tax credit (ITC). Renewable tax credits will be transferrable.
  - Impact. Renewable tax credit will be easier to use, pulling forward cashflows and requiring fewer equity partners.
- The addition of an ITC for battery storage investments through 2024 of 6%, or 30% if labor criteria are met.
  - Impact. Will make **more storage projects viable on a standalone basis** now that they do not have to be paired with renewables projects. Developers were already set to spend $15bn on battery storage before this credit was introduced[3].
- Hydrogen tax credits of $3/kg for "green hydrogen" made with renewables.
  - Impact. Hydrogen created with renewables will now be the cheapest source of hydrogen, below $1/kg[4]. **Green hydrogen will now be the lowest cost feedstock for ~70mn ton hydrogen market for markets like refining, fertilizer, and steel.** Industrial applications will build out scale that could lead to wider adoption.
- Rooftop solar tax credit of 30% through 2032 (and likely to be extended through 2035)
  - Impact. Raise back to its prior level, from 26%. This is an interesting signal since this was reduced but is now being re-raised.
- EV tax credits of $7,500 per vehicle is no longer capped by manufacturer but will only be available to purchasers earning under $75,000 annually ($150,000 filing jointly).
  - Impact. This will broaden the availability of tax credits. Tesla, GM, and Toyota had already gone through the old 200,000-unit cap and Ford and Nissan were close. This extends the credit for the leading EV manufacturers[5].
- Clean energy equipment domestic manufacturing tax credits for solar, wind, and batteries.
  - Impact. Biggest impact is potential $35/KWh credit, a **~35% reduction in costs, for the manufacturing of battery cells**. This will dramatically lower cost of EVs and battery storage.

Policy	$bn
Offsets	
Drug Price Controls (Negotiation, Inflation Caps, etc.)	322
15% Book Income Minimum Tax	313
$80 billion IRS Funding For Enforcement (Net)	124
Tax Carried Interest (Holding Period Under 5 Years)	14
Clean Energy Provisions	
PTC to Accelerate Manufacturing of Solar, Wind, Batteries	30
ITC to Build Clean Tech Manufacturing Facilities	10
$7.5k EV Credit w/ Conditions & No 200k Cap	?
Loans for Clean Vehicle Manufacturing Facilities	20
Grants/Loans for States & Utilities to Transition	30
Advanced Industrial Facilities Deployment	6
Clean Procurement	9
Clean Energy Tech Accelerator	27
Environmental Justice	60
Ag / Forestry / Conservation	28
Other / Unallocated	150
Health Care Provisions	
3 Years of ACA Subsidies	64
Out-of-Pocket Cap & Vaccines	34
OFFSETS	**$773**
SPENDING	**$468**
DEFICIT REDUCTION (-)	**-$305**

Sources: Senate Democrats, Congressional Budget Office, and Piper Sandler.

[1] US Energy Information Administration. "Electric Power Monthly" released 5/24/2022
[2] BNEF. "Levelized Cost of Electricity 1H 2022" 6/30/2022
[3] EIA. "Preliminary Monthly Electric Generator Inventory (based on Form EIA-860M as a supplement to Form EIA-860)" December 2021
[4] Wolfe Research. "Grab Some Popcorn and Watch Sinema; Who Are the Big Winners" 7/31/2022
[5] BNEF. "US Climate Bill Detailed: Few Devils, Many Angels" 7/29/2022

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