Seriously AND Literally: Trump 2.0 and Energy Transition Finance

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The Karbone research team has held 25 calls and meetings with energy transition stakeholders and Trump transition team members since Tuesday November 5, seeking to better understand the context for trading, financing and price discovery for power, capacity and environmental attributes under the incoming administration.

Perhaps the most incisive framework for understanding the first Trump presidency was Peter Thiel's: "take Trump seriously, not literally." The messaging and direction of the first Trump administration was set by the President's agenda, but many of the enforcing and coordinating agencies and regulatory bodies were run by legacy figures from previous Republican administrations, and the Republican majority in the 115th Congress played a constraining role on White House ambitions.

In the early days of the transition to the second Trump presidency, the signals are clear that energy market participants may need to take the incoming administration's campaign promises "literally," as well as seriously.

One of Washington's longest-held convictions is that "personnel is policy." The speedy release of appointee names to key positions and the Trump transition team's explicit instructions to Congressional offices that they expect rapid confirmation - or the opportunity to make recess appointments - are indications that the Trump transition team, co-led by Cantor Fitzgerald CEO Howard Lutnick, expects to change the active coordination of the energy economy at the federal level.

This would be an evolution from a more classic deregulatory agenda that focuses on minimizing enforcement, which characterized the activities of the first Trump presidency. The choice of US Treasury Secretary and Commerce Secretary are still outstanding as of this writing, and those nominations will have an outsized impact on the outlook for energy transition in the US.

While all predictions about the exact shape of the incoming administration's governing approach will be wrong and overwhelmed by events, enough information is available to develop early conviction on some relevant energy transition investment and trading themes.

Notably, all of these vectors of change imply the potential for higher US inflation, higher interest rates to counter that inflation, and a complicated outlook for the US dollar, each of which would also affect the energy trading and investment context.

Risk to IRA guidance is higher than consensus

The Wall Street consensus that only EV tax credits would be cut now appears overbought. Hard liner appointments to US Treasury and IRS positions are likely to result in changes to guidance even if the core legislation remains unchanged. IRA insiders have been vocal about the risk of change; many beneficiaries have emerged with a new tone of criticism of the IRA's complexity and difficulty receiving guidance even under the last Administration.

Offshore wind in the US is on life support

The Department of Interior must support offshore wind for large US projects to move ahead. Governor Doug Burgum's nomination as Secretary of the Interior in addition to holding the relatively toothless position of White House "energy tsar" makes that support highly unlikely.

EPA enforcement and funding is in the GOP cross hairs

The combination of a "good soldier" nomination for Lee Zeldin as EPA administrator and the return of hardliner anti-EPA representatives to the House of Representatives mean EPA enforcement and the ongoing defense of its multitude of challenged regulations is likely to be cut. Fossil fuel-friendly changes to regulations are likely, and EPA staff are likely to be called on as experts in challenging state-level environmental regulations.

Fossil gas prices will be volatile to the downside

Burgum's nomination to Interior will mean widespread opening of public lands to drilling and changes to federal regulations that make drilling less expensive. While shale oil drillers have found that Wall Street no longer finances loss-making production, the natural gas sector has shown no such discipline, and already-abundant natural gas will likely become even cheaper. Pressure on renewable power returns benchmarked in power market methodologies to baseload gas will likely result. Look for a return of CCGT funding and likely extension of operating life to legacy fossil power generation.

Tariff management will become a big(ger) business

The entire US energy sector is deeply exposed to global trade. Imposition of sweeping globally applicable tariffs of 10%, and 60%+ tariffs on Chinese imports, would have chaotic consequences for both the inputs and outputs of economic models on which energy businesses are financed and run. While the US cleantech sector is especially exposed to Chinese-linked goods at the pre-operation stage, the US fossil fuel sector is highly exposed to Chinese marginal demand once the fuel is on the market. Lobbying for exemptions and the search for loopholes will become a core activity in US energy businesses. Although IRA incentives at risk will not help anyone in the sector, domestic manufacturers with larger balance sheets are most likely the best suited to maneuver the new trade playing field.

Construction costs will rise

Widely quoted numbers from the University of Michigan imply that one of every five US construction workers is an immigrant in the US illegally. Both White House and agency nominations in early days provide little indication that the second Trump administration will soften its commitment to a much higher pace of deportations, with outsize impacts on construction costs for all energy infrastructure. Insofar as residential construction is more likely than specialized commercial construction to employ casual labor, resi solar and associated businesses can expect a significant change in their cost structure.