Solar Energy â?? Trumpâ??s War on Wind and Solar Continues

It is well known that President Trump strongly dislikes wind energy. While he has historically been less critical of the solar industry, we believed after last monthâ??s signing of the One Big Beautiful Bill Act (OBBBA) that that solar stocks would finally be investable again. It turns out, not yet. The Trump administration continues to create speed bumps and possible roadblocks for the industry.

Just days after signing the OBBBA, Trump issued an Executive Order (EO) instructing the Treasury to review guidance regarding â??safe harbouringâ?? for wind and solar energy projects. Of the three actions required by Treasury by August 18, one is the issuance of new guidelines clarifying what constitutes the â??beginning of constructionâ?? for projects seeking tax credits after those credits expire. Notably, only wind and solar projects are subject to these new rules; other forms of energy generation remain unaffected.

Under the current, admittedly lenient standards established in 2013 during the Obama administration, construction is deemed to have started when a project passes either a physical work test or has incurred at least 5% of its total costs. Once qualified, developers have four years to complete the project. For large-scale solar initiatives costing hundreds of millions, passing the physical work test can be as simple as acquiring and storing transformers worth a few hundred thousand dollars. A straightforward hurdle for well-capitalized companies with strong project management. Developers like **Nextera (NEE)** and **AES**, both long holdings in the fund, prudently â??safe harbouredâ?? four yearsâ?? worth of projects at the end of last year.

There is strong precedent in the US against retroactive tax law changes, so projects that qualify before the new guidelines are announced on August 18 *should* remain eligible for credits as long as completion occurs within four years. If correct, the practical effect may simply be to restrict safe harbouring for projects launched from 18th of August and early July next year when the tax credits expire, potentially dampening activity in 2029 and 2030.

Nonetheless, precedent may not deter the Trump administration from â??unprecedentedâ?? actions. Some observers fear the new rules could be made retroactive to the EOâ??s early July announcement or even further back to the start of the year. Either way, uncertainty prevails, which seems to be the administrationâ??s chosen tactic for impeding progress in wind and solar.

Alongside the EO tightening safe harbour rules, Treasury is also instructed to rapidly implement the new Foreign Entity of Concern (FEOC) restrictions included in the OBBBA. Originally designed to limit Chinese-linked companies from accessing US tax credits, FEOC has been broadened to limit and gradually exclude Chinese components from the US solar supply chain. As the law is new, bureaucratic interpretation leaves room for regulatory â??creativity,â?? and many believe that, with enough bad intent, the new framework could drastically limit equipment supply and block numerous solar projects. **First Solar (FSLR)**, the fundâ??s largest holding and the only major domestic producer relying on non-Chinese technology, would be the main and maybe only beneficiary. The biggest losers will likely be Chinese solar firms and countless smaller developers whose projects rely on Chinese components.

Further, the administration is also going after the Chinese by launching a â??Section 232â?? investigation into imports of polysilicon, a key input for all solar modules except those from **FSLR**. Section 232 is meant for cases where imports are seen as a threat to national security, which is ironic, considering the governmentâ??s efforts to halt the solar industryâ??s growth. Should the investigation confirm such a threat, and few doubt the outcome, the President will have broad authority to impose tariffs, quotas or other trade restrictions. A decision is expected by year-end, most likely giving

President Trump another stick to wield against the industry.

If that was not enough, Trump has also ordered that all solar and wind developments on federal land require personal approval from the Interior Secretary, who will only endorse projects meeting strict â??capacity densityâ?? (energy generation per acre) criteria. Solar projects are by definition land-intensive, and many will likely be disqualified automatically by this standard. While just under 5% of planned solar projects are on federal land, many developments on private or state land need federal permission for transmission lines or water crossings. Compounding these challenges, informational websites detailing applications and permit status have been deleted or rendered nonfunctional. We could go on with further examples of how the Trump administration tries to hamper the solar and wind industry, but the intent should already be unmistakably clear.

Why such aggressive obstruction? After all, Trump campaigned on reducing energy costs and claims the nation is locked in a power-hungry AI race against China. Power prices are set to increase with the rising power demand, why then undermine the development of alternative energy sources?

Speculation abounds. Many suggest it is partly retributive, a response to what Trump perceives as the Biden administrationâ??s unfair targeting of fossil fuels and excessive support for renewables. Disregarding COâ?? emissions, which Trump has instructed his administration to ignore, this view has some merit. The substantial subsidies for renewables in the Inflation Reduction Act (IRA) are only defensible if climate change objectives are prioritized.

More perplexing is the risk of running short on power just as demand from AI data centres surges. As noted in our March 2024 report â??Roadblocks on the AI Highwayâ?• and November 2024 â??The Urgency to Secure Powerâ?•, access to energy is a key constraint in AI infrastructure deployment. The administration believes that natural gas and nuclear power will be the solutions, but the order backlog for gas turbines is record long and large turbines now come with a 4â??5-year delivery time. The cost has also more than doubled over the last year. Moreover, for nuclear power, scaling nuclear will take a decade or more and come with prohibitive costs and a track record of decades of cost overruns.

Even leaving costs aside, the US faces a power supply gap over the next 3-4 years that solar and wind could help bridge. Rather than embracing these sources, Trump prefers to extend, or even reopen, coal plants. The climate impact aside, we question the economics of such extensions if substantial investments are required. It is conceivable that the political winds will shift after the next election, and a future Democrat-led administration would likely retaliate against polluting energy producers. This risk should also worry investors in gas-powered plants with start dates well into the next presidential term.

Overall, uncertainty in the solar sector remains high. Even if the new â??safe harbouringâ?? rules are not retroactively applied and FEOC enforcement is not overly punitive, government hostility is likely to keep the industry under a cloud by intentionally restricting its growth to avoid paying out tax incentives.

At present, our fund is net short in the â??Solarâ?? theme. We favour utility-scale solar over residential, as the former remains competitive even without tax credits whereas the latter would struggle. As noted in previous monthly reports, utility-scale solar is already cost-competitive with gas power without incentives. Moreover, power purchase agreement (PPAs) prices are trending higher in response to rising demand. According to UBS, the six largest hyperscalers account for nearly 20% of projected US electricity demand growth and given their substantial profit margins and urgent need for power, we are confident in their willingness to accept higher power prices. In effect, the current investment tax credits (ITC/PTC), which keep solar PPAs artificially low, are as much a subsidy for the hyperscalers as for the developers. Considering the hyperscalers financial strength and profitability, reduced tax incentives make sense.

Date Created
2025/08/26