



(UBS)

Is the US slowly transforming to a less energy-intensive future?

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The United States is the second largest energy-consuming country in the world, representing about 15% of global energy demand and about 13% of global carbon emissions.

The United States is a net exporter of coal, natural gas, and crude oil and refined petroleum products. Renewables and natural gas have been the most rapidly growing sources of energy, and we expect this trend to continue along with lower coal demand and, potentially, rising nuclear supplies.

The US is the world's second largest carbon-emitting country, behind China, so it stands to make important contributions to the global focus on carbon emissions. US carbon emissions have declined about 1.9% annually over the past five years, while total energy demand has only declined 0.4% annually over the same period. Increasing renewable energy development, increasing use of natural gas relative to other fossil fuels, and a focus on energy efficiency across the economy have driven much of the reduction in carbon emissions.

The US remains a signatory to the Paris Climate Accord and endorsed a focus on increasing nuclear energy investments at the recent COP28. The Inflation Reduction Act of 2022 (IRA) and the Infrastructure Investment and Jobs Act of 2021 (IIJA)—the two most significant US laws in the past five years in terms of energy—plan for a significant expansion in investments in renewables and other transition technologies like carbon capture, nuclear, hydrogen, and batteries. We expect some additional natural gas-fired electricity-generating capacity to be added to further phase out coal-fired capacity and maintain electricity reliability, in addition to meeting rising demand growth.

Though a lot of the focus on new legislation (IRA and IIJA) has been led by Democrats in Congress and the White House, we are not convinced a wholesale change in the laws is likely regardless of the outcome of the November 2024 election in the US. Though a new president could make some significant changes via executive order, we believe tax incentives are

unlikely to change immediately. Tax policy is a key issue to keep in mind. Income tax reductions that were adopted in 2018 are scheduled to expire in 2025, so if a new president wants to keep these income tax cuts or expand them, some legislative changes are possible. Though there is some possibility that future US presidents could slow the energy transition, we believe many US commercial and industrial energy users are committed to pursuing economic opportunities to increase renewable energy supplies and reduce the carbon intensity of commercial activities.

Key challenges we continue to see in the US are siting and permitting challenges for renewables and other energy infrastructure. Legislation to streamline permitting and siting energy infrastructure is possible in 2025, but by no means likely. Without easier permitting processes at the state and federal level, we believe the energy transition in the US could be slowed by regulatory processes.

We also continue to see electricity transmission bottlenecks that will require investment to allow more efficient transfer of renewable energy and other new energy sources to areas of demand. The US Federal Energy Regulatory Commission (FERC) is working to reduce regulatory friction for transmission expansion, but we expect transmission constraints will remain a problem for growing energy demand and some energy supply alternatives.

The US has an abundant source of fossil fuels, including one of the world's largest potential supplies of natural gas. We expect growing natural gas exports will help other regions of the world serve energy demand growth and potentially avoid burning coal. With less than half the carbon emissions of burning coal, natural gas is an attractive lower-carbon fuel in the multi-decade energy evolution.

For much more, see the [Longer Term Investments report: Energy transition\(s\)](#), published 21 August, 2024.

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