(UBS)

US House bill puts policy pressure on renewables

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After a focus on executive actions, the Trump administration is now looking toward legislation. The "One Big Beautiful Bill" (OBBB) passed the US House of Representatives on 22 May and is under review by the Senate. The market had expected changes to the IRA, but the House-approved OBBB took a more aggressive approach to limiting renewable energy tax credits, which was more negative than anticipated for US-based developers.

The House-approved OBBB heightens scrutiny on foreign sourcing for entities seeking tax credits. Updates to the Foreign Entity of Concern (FEOC) provision in the bill most notably deny credits to any projects whose construction involves material assistance from a FEOC, or a prohibited foreign entity. This typically applies to suppliers from "covered nations" such as China, Russia, Iran, and North Korea.

In this case, material assistance refers to any component, sub-component, or critical mineral, as well as intellectual property. Extending beyond the component level appears to be unusual and could increase pressure on developers. For some aspects of solar production, the only place currently to source certain critical minerals is from China. This rule also pertains to suppliers that may have incorporated materials from a prohibited foreign entity. The new bill also accelerates the timeline for compliance. Earlier versions noted FEOC would come into effect one year after the bill had passed; however, the current version notes it will come into effect by the end of 2025.

Companies are attempting to reduce the impact of these provisions by safe-harboring or stockpiling resources for future use. This strategy is more likely to be available to larger companies with strong balance sheets and more cash than highly leveraged or smaller developers.

The House bill accelerates phase-outs of clean energy credits and creates tighter deadlines for eligibility while also eliminating residential solar and EV credits at the end of 2025. To be eligible for renewable or clean energy credits (45Y and 48E), projects must begin construction within 60 days of enactment and be operational by 31 December 2028. It is unclear how feasible it may be for some companies to adjust their timelines to comply, but again, it likely favors large companies with significant backlog, equipment inventory and transmission interconnection rights. We anticipate the elimination of EV and residential solar panel credits in 2026 will likely limit expansion of these products.

The Senate is expected to amend some of the more onerous provisions, particularly regarding renewable energy development deadlines and FEOC effective dates. Though we expect policy pressure on renewable to continue, rising demand will likely drive the development of renewable energy more than tax credits.

Investor takeaways:

- Current provisions in the bill may increase the price of US solar development, which may be a slight negative to equity investments in solar in the very near term. As this was anticipated, CIO expects some contracts to already include flexibility on pricing.
- CIO anticipates increased pressure on renewable energy from a policy standpoint, but believe market forces will continue to incorporate renewable energy given the rising electricity demand we expect over the next five to 10 years from AI datacenters, reshoring manufacturing activity, and broader electrification.
- AI demand will likely drive the continued adoption of solar as hyperscalers and other end-use customers are likely to assume increased costs.

Original report: **Power shortages, UN Ocean Conference, and US bill impact on renewables** , 9 June 2025.