

Reconciliation Weekly: Probability of Reconciliation Bill Rises, Lifted by Senate Focus on Process, Bill Details, and White House Involvement

June 21, 2022

In this weekly bulletin, Capstone shares insight and analysis on our latest outlook for passage of an FY22 reconciliation bill, recent political developments, and congressional sentiment, as well as what we are watching for next.

- Capstone believes the probability Democrats will pass an FY22 reconciliation package before October 1st has risen to 75% from 70% after Sen. Joe Manchin (D-WV) and Sen. Majority Leader Chuck Schumer (D-NY) met twice last week, for a fifth and sixth time in Q2 2022 on budget reconciliation, and new [details](#) on potential bill content and voting timeline emerged in the press.
- Sen. Schumer is reportedly working with the Senate parliamentarian to schedule a vote in July or August. Other Democrats are also [discussing](#) a potential bill with the parliamentarian. We believe the increased focus on procedural considerations speaks to the seriousness of the negotiations between Sens. Manchin and Schumer.
- Sen. Schumer also appears to have brought House leadership and the White House into the fold, [meeting](#) with President Biden and Speaker Nancy Pelosi (D-CA) on what the White House described as their “shared agenda of tackling inflation and lowering prices” by “bringing down prescription drug and energy costs” and reducing the deficit. We believe this meeting signals negotiations are entering the late stages given the political repercussions for White House engagement on a stalled or doomed-to-fail package.
- Finally, Sen. Manchin [reportedly](#) opposes the refundability of clean energy tax credits for “consumers” in the climate portion of the bill—something we expect to be resolved through horse-trading on other provisions, particularly given how important direct pay is to companies lobbying for the 45Q carbon capture credit and the nuclear Production Tax Credit (PTC). We do not believe this disagreement is significant enough to jeopardize overall passage and view the tightening focus on particular details in the negotiations as a positive sign.

Renewed Focus on Budget Reconciliation Procedures Among Senate Democrats Suggests a Deal is Nearing

We believe the increased focus on process and timing among Senate leadership and the rank-and-file suggests a deal is likely to be announced in the near term. As Sens. Schumer and Manchin met for the sixth time to hash out a budget reconciliation bill focused on climate, healthcare, and deficit reduction, Senate Democrats met with the Senate parliamentarian to discuss the process for vetting and ultimately voting on a potential bill. Of note, media reports indicate Sen. Schumer asked the parliamentarian about a July or August vote on the bill. Should Sens. Schumer and Manchin announce they’ve reached a deal, we expect it will take ~2 weeks

for the Senate to pass the bill, largely due to necessary procedural steps that are part of passing legislation through budget reconciliation.

White House Re-Engagement on Budget Reconciliation Likely Signals Late Stages of Negotiations

We believe the meeting between Sen. Schumer, Speaker Pelosi, and President Biden on their anti-inflation agenda indicates significant progress has been made between Sens. Manchin and Schumer on a deal. We do not believe this meeting would have happened absent meaningful and/or positive news to report to the White House on the budget reconciliation front. The June 15th meeting came one day before President Biden's [interview](#) with the AP, where he touted the cost-saving benefits associated with his legislative agenda, specifically mentioning deficit reduction as a critical piece of his anti-inflation strategy. Additionally, Larry Summers—someone Sen. Manchin looks to for advice on inflation—[said](#) over the weekend that legislation to cut drug prices, invest in clean energy, and reduce the deficit would help fight inflation. Brian Deese, Director of the National Economic Council, also [noted](#) he was hopeful for a deal in the “coming weeks.” We believe the increased alignment in messaging between the White House and Congress indicates a deal is within reach given the potential fallout from premature involvement as demonstrated by the collapse in negotiations on the Build Back Better bill in late 2021.

Disagreement Over Refundability for Clean Energy Tax Credits Likely to Be Resolved with Direct Pay Provisions Largely Left Intact

News reports said Sen. Manchin is drawing a line on the refundability of clean energy tax credits, indicating “he will not support a bill that sends direct payments to companies that produce clean energy for consumer use.” We do not believe this is a hard line in the sand, but instead, a negotiation tactic to squeeze concessions on new provisions to make tax credits more fossil-fuel friendly. For example, we believe Manchin is likely pushing to reduce the 75% capture rate requirement for 45Q eligibility, allow projects to claim both the hydrogen PTC and the 45Q, and reduce the delta in PTC value between blue and green hydrogen.

Ultimately, we do not expect the direct pay provisions to be removed for all tax credits, particularly for those with strong backing from Sen. Manchin like the nuclear PTC, 45Q, and hydrogen PTC given the lack of mature tax equity markets for these new credits. We believe it's more likely that the inflationary domestic content requirements plus direct pay eligibility for renewable energy projects are weakened or removed given clear opposition from Sen. Manchin on these issues. We believe a potential middle-ground would be lowering the percentage of the credit allowed to be claimed as direct pay (e.g., 85%) or removing certain credits from eligibility for direct pay (e.g., the residential energy credit) depending on real or perceived adverse impacts on inflation for some credits and types of projects versus others.

Deal Announcement Possible by June 24th, but Delay Beyond Early July Is Problematic Given Limited Session Schedule After August 5th

We expect the Senate will be consumed with bipartisan gun legislation until the July 4th break. We would not be surprised if these negotiations extend into July, given the complexity and

sensitivity of the underlying policy issues for both parties. If the gun legislation debate extends into July, it will add another item demanding Senate floor time in July. Other items we expect the Senate will consider in July beyond nominations are a reauthorization of the Food and Drug Administration and possibly a bipartisan China competition bill.

While the Senate debates priorities in June besides reconciliation, we are watching for follow-up Schumer-Manchin meetings. We continue to watch to see if the pace, timing, or length of such meetings accelerates. As we've previously noted, any reports of late-night negotiations, multiple meetings per week, or weekend talks would be a positive sign. In this vein, we view the two meetings last week as a good omen. Additionally, we are watching for comments from Sen. Bernie Sanders (I-VT) and other progressives. A shift from the negative tone of recent comments, or an end to negative comments at-large, also would signal that a Schumer-Manchin deal—especially one that progressives can support—may be near.

Capstone Odds on Energy & Healthcare Provisions in Budget Reconciliation

Provision	Probability of Inclusion (6/21/22)	Impacted Companies
Energy		
10-year nuclear PTC (\$15/MWh cap)	100%	Constellation Energy (CEG), Energy Harbor (ENGH), Vistra Energy (VST), Talen (private)
10-year renewable PTC (\$25/MWh)	100%	NextEra Energy (NEE), TPI Composites (TPIC)
10-year renewable ITC (30%)	100%	SunPower Corp. (SPWR), Sunrun Inc. (RUN), First Solar Inc. (FSLR), NextEra
ITC for storage	100%	Tesla (TSLA), NextEra
ITC for biogas	100%	Archaea Energy (LFG)
ITC for transmission	100%	Emcor Group Inc. (EME) Dycom Industries Inc. (DY), MasTec Inc. (MTZ), Fluor Corp. (FLR)
Sustainable Aviation Fuel (SAF) Credit	100%	Neste Oyj (NESTE.HE), Darling Ingredients Inc. (DAR), Bunge Ltd. (BG), Clean Energy Fuels (CLNE)
Biodiesel Tax Credit (BTC) Extension	100%	Darling Ingredients Inc. (DAR), Bunge Ltd. (BG), Clean Energy Fuels (CLNE), Valero (VLO), Phillips 66 (PSX)
Solar component manufacturing PTC (module, tracker)	100%	First Solar (FSLR), Array Technologies (ARRY)
Wind component manufacturing PTC	100%	General Electric (GE), TPI Composites (TPIC)
6-year extension and enhancement of 45Q	<u>Value Increase:</u> 100% <u>Capture Rate</u> <u>Reduction:</u> 70%	Denbury Inc. (DEN), Occidental Petroleum Corp. (OXY), Green Plains Inc. (GPPE), Alto Ingredients Inc. (ALTO)
10-year clean hydrogen PTC	<u>\$3/kg for green H2:</u> 100% <u>Increased value for blue H2:</u> 65% <u>Ends exclusivity w/ 45Q:</u> 60%	Plug Power Inc. (PLUG), FuelCell Energy Inc. (FCEL), Bloom Energy Corp. (BE), Ballard Power Systems Inc. (BLDP), Air Products & Chemicals Inc. (APD)

Battery Manufacturing Tax Credit	85%	Tesla (TSLA), Panasonic Holdings Corp (6752 on the Tokyo Exchange), LG Chem Ltd. (051910 on the South Korea Exchange), Samsung SDI Co. Ltd. (006400 on the South Korea Exchange)
EV Tax Credit	<u>Value Increase:</u> 65% <u>OEM Cap Removal:</u> 70% <u>Union Labor Provision:</u> 20%	ChargePoint Holdings Inc. (CHPT), EVgo Inc. (EVGO), Tesla (TSLA), Rivian (RIVN), Ford Motor Co. (F), General Motors (GM)
Critical Mineral Tax Credits	55%	MP Material (MP), Lithium Americas (LAC)
Healthcare		
Drug Pricing Reform	<u>Part D redesign:</u> 90% <u>Inflation rebates:</u> 90% <u>Direct Medicare negotiation:</u> 90%	Bristol Myers Squibb (BMY), Abbvie (ABBV), Regeneron Pharmaceuticals Inc. (REGN), Amgen Inc. (AMGN), Mallinckrodt (MNK), Merck & Co. Inc. (MRK)
Extension of Enhanced ACA Subsidies	75%	Tenet Healthcare Corp. (THC), HCA Healthcare (HCA), Community Health Systems Inc. (CYH), Oscar Health Inc. (OSCR), Bright Health Group Inc. (BHG)
Additional COVID-19 Program Funding	40%	Pfizer Inc. (PFE), Moderna Inc. (MRNA), Eli Lilly & Co. (LLY), GlaxoSmithKline Plc (GSK), Vir Biotechnology Inc. (VIR), Walgreens Boots Alliance Inc. (WBA), CVS Health Corp. (CVS), Abbott Laboratories (ABT), Quest Diagnostics Inc. (DGX)
Medicaid Gap Fix	35%	Tenet Healthcare Corp. (THC), HCA Healthcare (HCA)
Additional HCBS Funding	10%	Amedisys Inc. (AMED), Encompass Health Corp. (EHC), LHC Group Inc. (LHCG)
Medicare Benefit Expansion	5%	Humana Inc. (HUM), Anthem Inc. (ANTM), UnitedHealth Group Inc. (UNH), Oscar Health Inc. (OSCR)
Medicare Advantage Cuts	5%	Humana Inc. (HUM), Anthem Inc. (ANTM), UnitedHealth Group Inc. (UNH), Oscar Health Inc. (OSCR)

Look Ahead Calendar:

Senate breaks for recess

- June 24
- Senate returns from recess on July 11

House breaks for recess

- June 24
- House returns from recess on July 12

In Case You Missed It: A roundup of Capstone's recent notes on budget reconciliation:

Healthcare Weekly: Updated FY22 Recon Bill Outlook Signals Drug Pricing Reforms Increasingly Likely; ACA Subsidies, Medicaid Gap Fix Less Certain, June 18, 2022

Reconciliation Weekly: Likelihood of FY22 Reconciliation Bill Positive as Momentum for Schumer-Manchin Negotiations Continues, June 13, 2022

Energy & Industrials Weekly: Renewed Momentum on Budget Reconciliation Brightens Outlook for \$330B+ in Clean Energy Tax Credits, June 11, 2022

Reconciliation Weekly: Likelihood of FY22 Reconciliation Bill Increases as Manchin, Democrats Seek Alignment on Climate, Taxes, and Healthcare, June 6, 2022