



### **Client Note: Congress Punts To Do List for Thanksgiving Break**

Late Wednesday, Congress avoided a government shutdown by kicking their problems into early next year, under a two-tiered funding plan devised by House Speaker Mike Johnson. There are now two future government shutdown deadlines in early 2024:

- January 19 – when funding will expire for agencies within the Military Construction-Veterans Affairs, Agriculture, Transportation-Housing and Urban Development, and Energy-Water appropriations bills; and,
- February 2 – when funding for everything else expires, including the Defense, Labor and Health and Human Services, and Financial Services (which funds the IRS) bills.

Because the plan included neither funding cuts nor policy poison pills, Democrats supported it despite the split deadlines setting up more than one chance for a future shutdown. Importantly, the inclusion of the Defense bill in the second funding package preserves Democrats' leverage in a shutdown fight; without it, House Republicans may have been content to see the rest of the government shut down so long as the troops were funded.

However, it appears that the twin deadlines of January 19th and February 2nd will be when the debate on a full-year funding solution finally comes to an end. Here's some of the key conflicting interests at play:

- Speaker Johnson has [said he will no longer pass](#) an additional short-term continuing resolution (CR) "absent real progress on responsible full-year funding and substantial policy reforms." This seemingly makes the first January 19th deadline a real shutdown threat unless Congress can pull together a year-long funding agreement.
- But there's no functional agreement on top-line spending levels, which prohibits progress on a full-year funding solution. The White House and Democrats remain committed to the agreed upon numbers in the Fiscal Responsibility Act (FRA), signed into law in early June. House Republicans have since walked away from those numbers. Speaker Johnson, for his part, can say he was not a party to those negotiations and the man who was – former Speaker Kevin McCarthy – was sacked in large part because of that deal.
- Of the first four bills slated to expire on January 19, only MilCon-VA has been agreed to by each chamber. But even if the House and Senate wanted to start a conference process, without top-line numbers they would be trying to build a pie one slice at a time, not knowing how much dough is left over for everything else once the first slate of bills is baked. It's not a workable plan.

- Defense hawks, led by Senate Republicans, have refused the possibility of a year-long CR, insisting that military funding significantly increase over last year's levels. It has long been the Democratic position that defense spending increases must be paired with increases for non-defense spending priorities, which House Republicans believe are already too high.
- The FRA included a provision that if any of the 12 bills is funded by a CR after January 1, all government funding faces a 1-percent across-the-board cut (a sequester) to current-year levels, which would be implemented on April 30. Notably, the FRA levels for non-defense are already lower than a 1-percent year-over-year reduction, meaning that if the sequester took effect, that spending would be an increase relative to the FRA. This math results in a decrease to [Defense funding of \\$9 billion](#).

Alongside all of this, the same actors trying to find a pathway to avoid a shutdown will also be negotiating the White House's emergency supplemental request for Israel, Ukraine, Taiwan and the southern border of the U.S.. Both Leaders Schumer and Jeffries are insistent that Congress act on a supplemental appropriations bill before it leaves for the Christmas break. Time is also needed for the annual defense policy bill and the Federal Aviation Administration reauthorization, among other things.

### **Inflation Continues to Ease as Hopes Remain for Soft Landing**

Wall Street [rallied](#) this week as the October consumer price index report came in below expectations at 3.2 percent from a year ago and remained flat compared to the month prior. Excluding food and energy prices, core consumer price index (CPI) also read below expectations (and at the lowest level in two years). The central bank last raised rates six months ago and while Federal Reserve Chair Jerome Powell has continued to present a hawkish posture, threatening to raise rates again if needed, after this report the unanimous opinion is the Fed is done hiking. Now, the question is when rate cuts will begin. The Fed's next three rate decision meetings are scheduled for December 13, January 26, and March 16.

While Chair Powell has always had to keep an eye on the national political narrative, his decisions will face even greater scrutiny as the 2024 Presidential campaign goes into full swing, with the Iowa caucuses and New Hampshire primary in mid-January. Powell will also face Congress when he testifies in February for the Fed's semi-annual monetary policy report; undoubtedly, Members will pressure Powell to tell them what the pathway is on future rates.

### **New DOE and IRS Clean Energy Rules & Guidance**

This week, DOE issued a [proposed rulemaking](#) that would make it easier to move energy storage installation, transmission upgrades, and solar projects across the finish line. The new rule proposes that projects that fall in these categories and are on, or next to, previously disturbed land get a categorical exclusion under NEPA, dramatically shortening the environmental review process. Comments are due by the end of December.

Also this morning, the IRS [released new guidance](#) for offshore wind and energy storage projects making use of the renewable energy investment tax credit (Section 48). Comments are due January 17.

### **Renewed U.S.-China Dialogue and Potential Implications for the UN's Climate Change Conference**

This week, on the margins of the Asia-Pacific Economic Cooperation (APEC) summit in San Francisco, President Biden restarted conversations with President Xi Jinping of the People's Republic of China on a range of controversial issues, namely Taiwan, military communications, and fentanyl; climate was only briefly mentioned. Although no splashy new agreements were reached, it seems the bottom line of this renewed dialogue is that it's better than nothing. Both Biden and Xi had some [jabs](#) for one another following the meetings, and it remains to be seen whether much will actually change.

While climate wasn't a major focus of the discussions between the two heads of state, channels of communication opening up this close to COP28 (just two weeks until the start), could be a sign of potential progress to come—especially after the two countries [committed](#) last week to increasing renewable energy usage and reducing methane emissions. Critics point out, however, that this latest agreement has no teeth. Namely, it doesn't indicate China will curb its use of fossil fuel generation, and China still hasn't joined the 150 other countries that have signed the U.S.-led Global Methane Pledge launched at COP26.

Actual progress at COP28 is uncertain, particularly on the topic of curbing fossil fuel usage. The designation of Sultan Al Jaber (UAE Minister of Industry and Advanced Technology and CEO of the Abu Dhabi National Oil Company) as COP28 President has left the environmental community with low expectations of achieving progress on reducing emissions from the oil and gas industry. This, paired with conversations between the U.S. and China just beginning again, and China's general reticence to join onto multilateral agreements, means the progress we've seen the past two weeks might already fulfill China's limited quota.

### **[Funding Opportunities](#)**

This week, DOE [announced](#) \$3.5 billion from the IIJA to boost domestic production of advanced batteries and battery materials by prioritizing next-generation technologies and battery chemistries, in addition to lithium-based technologies. Other focus areas include precursor production and manufacturing for specialized, non-light duty markets. Concept papers are due January 9.

The Department also [noticed its intent](#) to issue funding for RD&D projects that advance clean hydrogen technologies. The expected funding will support advancing fueling infrastructure for heavy-duty vehicles and other heavy-duty transportation applications, addressing siting and permitting challenges, as well as improving community engagement and outreach.

Additionally, DOE [began](#) accepting concept papers (due January 18) for a \$9.5 million funding opportunity supporting hydropower's ability to support an electric grid.

Lastly, deadlines to give feedback on the Department's [Draft Transmission System Interconnection Roadmap](#) and [Grid Integration for Solar Energy Systems RFI](#) are November 22 and 30, respectively.

### **Where in the World is Pioneer?**

[Pierson Stoecklein](#) is speaking on a panel at the [20th Annual Texas Energy Summit](#) in Austin about what the Inflation Reduction Act means for the state.

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