Client note: Default Drumbeat Grows Louder

The room where it happens
On Monday this week, Treasury Secretary Janet Yellen released a letter to Congress explaining the debt limit could be breached as soon as June 1, sending the country into default with its creditors. The next major event in the standoff will come on Tuesday next week (May 9), when President Biden welcomes the "Big Four" Congressional leaders – Speaker McCarthy, House Minority Leader Jeffries, Senate Majority Leader Schumer, and Minority Leader McConnell – to the White House to discuss a path forward.

At the moment, the White House and Democrats continue to insist they will not negotiate on the country's ability to pay its bills, reiterating demands for a "clean" increase to the debt limit (or a suspension of the debt limit until a future date, which has been done before). However, the fact that the White House is hosting Congressional leaders signals there has to be openness to the Republican position – in essence, that a debt-limit hike must be paired with some sort of spending reductions. There's potentially a good amount of room to compromise there if we can take at face value that whatever deal Speaker McCarthy cuts can be sold with enough Members of his caucus to both pass the House and not result in a conservative mutiny that costs him his job.

Because of tight Congressional and White House calendars in the month of May (the President, the House,and the Senate are all scheduled to be out of town for at least a week), there's been rumors around a short-term extension of the debt limit to align it with the end of the fiscal year (Sept. 30) and create more space for larger negotiations. A short-term punt isn't something either side is excited about, but rather a best-worst option to avoid default (for now).

Aligning the debt limit with the end of the fiscal year also would allow for a more earnest negotiation over funding the government and a possible deal around multi-year spending caps (which must be done annually to write appropriations bills). A deal on those spending caps (not an easy feat) could be the path forward to avoid default.

It's still entirely possible that a deal on a long-term solution can be reached before June 1, but the odds don't appear likely at the moment. The last option to avoid default would be unilateral action taken by the Administration (e.g., platinum coin, invoking the 14th Amendment, "premium bonds," etc.), which may or may not be on firm legal grounds and therefore liable to court challenges that will drive market uncertainty.

Fed decides on another rate hike

As widely anticipated, the Federal Reserve again raised interest rates by a quarter percentage point on Wednesday. With consumer prices cooling and the Fed already projecting a possible 1% increase in the unemployment rate this year, the end of its rate hike campaign may be in sight. However, Powell kept the door open as much as possible, trying to give the Fed some wiggle room to continue raising rates if they decide it's required to fight inflation.

If the Fed decides not to further increase borrowing costs this year, we'll be watching to see how the labor market reacts and how long rates remain at their current height. The last time rates were this high was in the lead up to the 2007-2008 financial crisis – the Fed rate stayed at 5-5.25% for over a year before crashing down after the housing bubble burst.

Also watching closely is the U.S. banking sector, which has experienced some instability as a result of the risky management practices of Silicon Valley Bank and other financial institutions under pressure. Following dramatic withdrawals, First Republic Bank was closed by federal authorities over the weekend and sold to JP Morgan on Monday. Though President Biden and many in Congress (including some Republicans) defended the deal, it has some progressives upset that too-big-to-fail banks are ever increasing in size (remember JP Morgan buying Bear Sterns in 2008).

Chairman Powell also issued grave warnings about the prospect of the U.S. defaulting on its debt, a deadline that could come as soon as June 1. He made clear that it is Congress's job to work out a deal, and that "no one should assume the Fed can protect the economy from the potential short- and long-term effects of a failure to pay our bills on time."

The Friday jobs report came in strong, with an added 253,000 jobs (though there were downward revisions totalling 149,000 from the previous two months). This steady jobs growth – averaging 222,000 over the last three months is a welcome sign that the economy is not near a recession, but also seemingly tells us that the Fed will not seek to cut interest rates anytime soon, as it thinks slowing job growth is its method to keep inflation down.

Solar tariff waiver CRA votes

Wednesday evening, the Senate took up the solar tariff CRA we wrote about last week. While President Biden opposed the bill, nine Democratic Senators still voted with Republicans to reverse Biden's tariff waiver on solar panels imported from China and other Southeast Asian countries and to impose retroactive tariffs on the U.S. solar industry. Of note, many of the Democratic senators voting to reverse Biden's waiver are in manufacturing-heavy midwestern states and red states seeking reelection. The members are clearly concerned about accusations of being soft on China. The bill now proceeds to the President and he has promised to veto. The few Democrats in the House and Senate that sided with Republicans on this bill don't make a sufficient majority to overturn the veto, so this won't become law.

A second CRA passed the Senate this week, which would undo the Biden Administration's rule protecting the lesser prairie-chicken under the Endangered Species Act. The President plans to also veto this one, pending House passage. Sen. Manchin joined Republicans in supporting the measure (protections for the lesser prairie-chicken have impacted oil and gas and agriculture), while Sen. Carper argued that overturning the rule could set the species on a path to extinction.

A renewed push from Democrats on combating China

Majority Leader Schumer has directed Senate committee chairs to work with ranking members on a China Competition bill to boost U.S. competitiveness in a number of key areas. Focal points include limiting technology transfer and financing going to the Chinese government, leaving us wondering if the oil and gas industry's reliance on Chinese government involvement in the U.S. LNG space will finally be scrutinized. The bill would also focus on reaffirming alliances with friendly countries, and securing domestic economic investment in areas like biotech and biomanufacturing.

Pioneer permitting preview - *Stay Tuned*

Early next week, we will be releasing a landscape report on the current state of permitting reform, a topic that touches everything from renewable electricity to transmission buildout, infrastructure projects, environmental justice communities, and conservation efforts. In it, we will discuss the different proposals in each chamber of Congress and efforts the Biden Administration is taking to improve the process. Both Republicans and Democrats are interested in making changes to environmental reviews, albeit with different motives in mind.

DOE funding opportunity announcements (FOAs)

Although there weren't any relevant FOAs issued in the energy space this week, there are a few approaching deadlines to keep in mind:

- Concept papers for the $450 million FOA for Clean Energy Projects on Current and Former Mine Land are due on May 11
- RFI responses for Domestic Manufacturing and Conversion Grants for EVs are due on May 9
- Concept papers for the Domestic Near Net Shape (NNS) Manufacturing FOA are due on May 11

For more detail on open opportunities for engagement with DOE, please see this memo.

Pioneer and Clients in the news

Climate Power and the League of Conservation Voters recently began an ad campaign against recent GOP attacks on key energy provisions. The 7-figure campaign will criticize House Republicans for risking economic catastrophe in order to repeal clean energy tax incentives in the IRA. It will also highlight the Republican members who are willing to eliminate clean energy jobs in their districts through their votes on the House debt limit bill.

Breakthrough Energy made headlines for providing a grant to Utility Xcel Energy for using iron-air battery energy storage technology.

SEIA President and CEO Abigail Ross Hopper testified at a hearing about the House GOP's debt limit bill before the Senate Budget committee on Thursday. Hopper has also made news recently in defense of President Biden's solar tariff waiver.

www.pioneerpublicaffairs.com