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# Why Solar and Wind Power Can Thrive Without Subsidies

Rising electricity demand, in part due to AI needs, along with the increasing cost of alternatives should cushion the impact for green energy

*By Jinjoo Lee* Follow

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Wind turbines and solar panels near Palm Springs, Calif. PHOTO: MARIO TAMA/GETTY IMAGES

The government delivered a shock to the renewable energy industry when it took away subsidies for solar and wind as part of the One Big Beautiful Bill Act. It's a shock the industry can actually absorb—and maybe even benefit from in the long term.

The two main tax credits used by the wind and solar industries have been in place since 1992 and 2005, respectively. These have been kept alive through multiple extensions. But the latest tax-and-spending law cuts these tax credits short. Treasury Department guidance, released more than a week ago, also placed stricter guidelines on qualifying for these subsidies.

Yet this doesn't portend doom and gloom for the industry. And that could mean investors might currently have an attractive entry point to the industry.

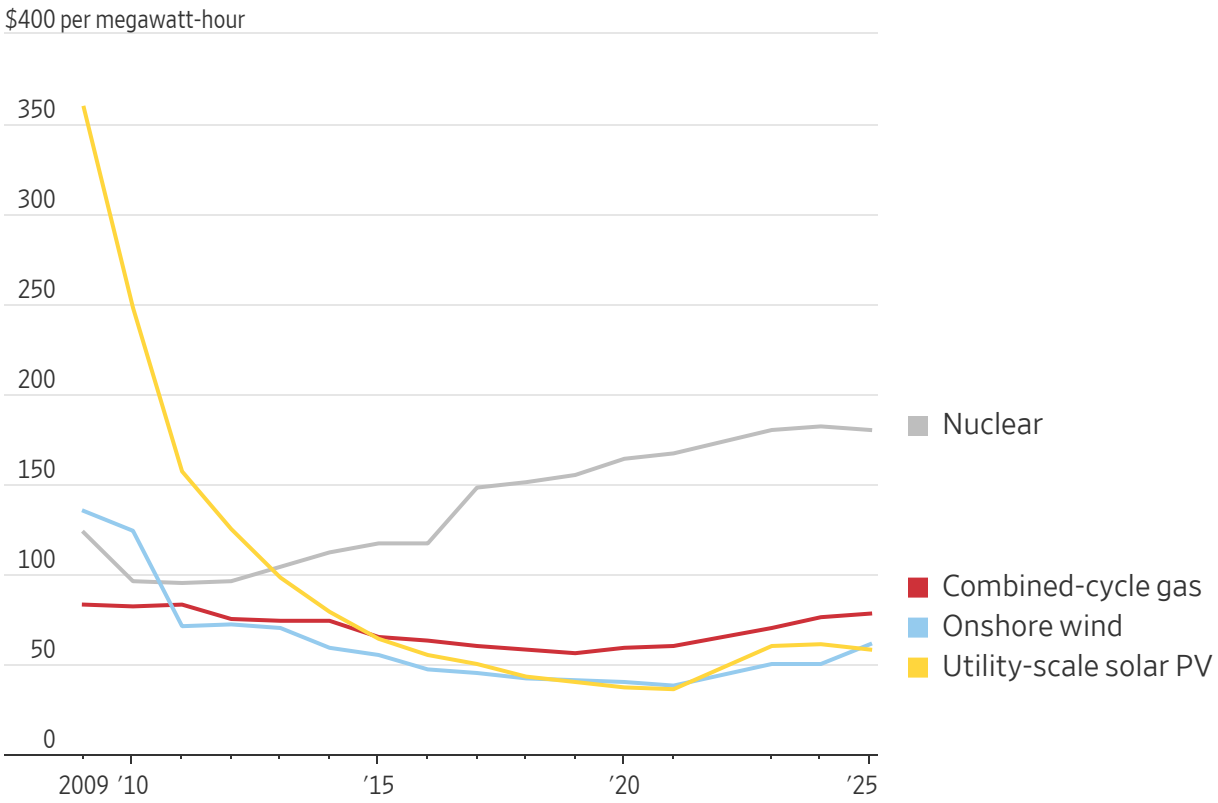
Stocks of renewable developers such as NextEra Energy and AES have underperformed the S&P 500 so far this year, and their valuations, based on their multiple of expected earnings, are cheaper than the trailing 10-year average. That is a stark contrast to nuclear and natural gas-heavy power producers such as Constellation Energy and Vistra, which are trading at steep premiums to their historical average and are up roughly 40% year to date.

Why isn't the sky falling for wind and solar? First, they are no longer the nascent technologies they were when they started receiving subsidies. The two renewable sources have been cheap relative to natural gas-fired power without subsidies for at least a decade.

Utility-scale solar today is 84% cheaper than it was 16 years ago; onshore wind costs have come down 56% over that period, according to Lazard. Even paired with battery storage, solar and wind remains cost competitive compared with natural gas, according to Lazard.

**Cheap Greens**

Unsubsidized cost of energy




Note: Average unsubsidized cost of generation over a facility's lifetime
Source: Lazard

The tax credits were "so generous that there wasn't as much pressure to minimize costs," said Atin Jain, analyst at BloombergNEF. While equipment costs have declined dramatically for both solar and wind, other costs, such as labor and permitting, have been stickier, according to Jain. There may be opportunities for savings here and the phaseout of subsidies may cause companies to act.

Secondly, getting rid of a complicated form of subsidy might simplify renewable investments going forward—perhaps even opening them up to more investors. "No other major solar or wind market relies on any mechanism as complex and generous as the U.S. tax credits," a BloombergNEF report noted.

Costs related to monetizing the incentives—hiring an "army of lawyers and project finance specialists"—would disappear with the end of tax credits, the report said.

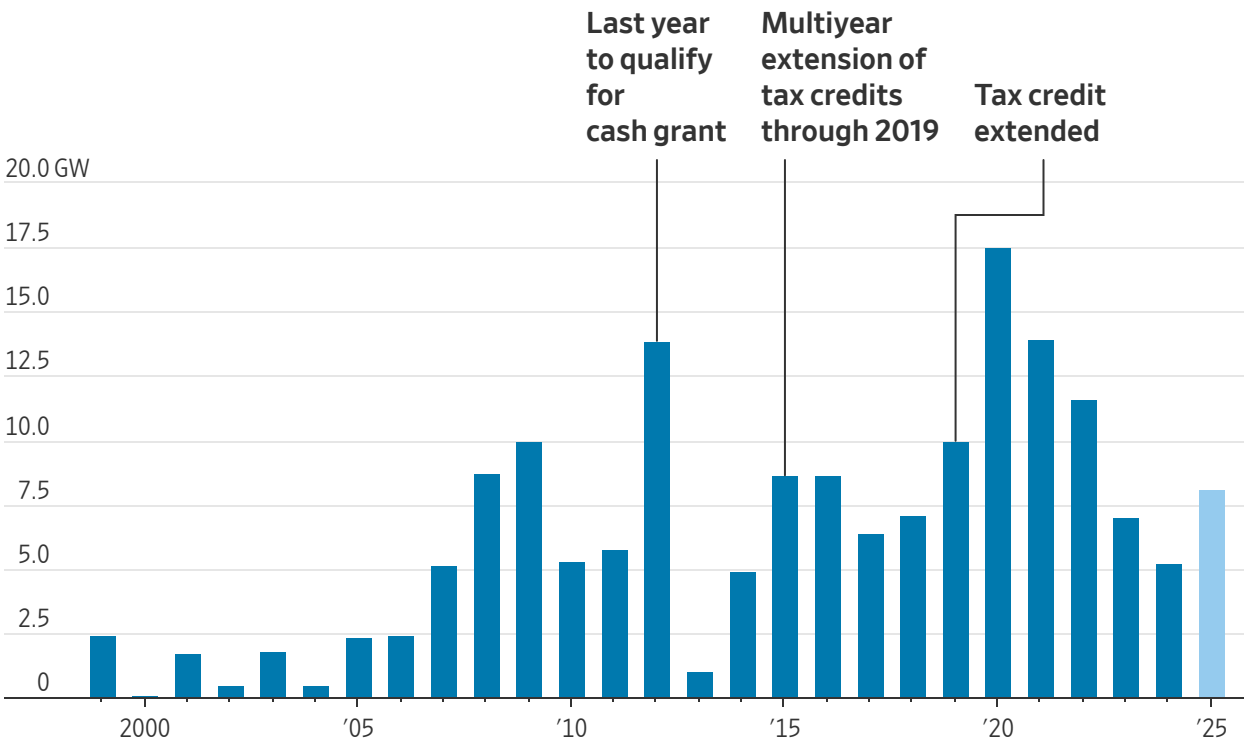
The reliance on tax credits has led to a limited pool of institutions that can use or even understand them. That has given these investors the ability to add conditions on financing wind and solar that make the economics less appealing for the rest of the investors financing those assets.

Not having to rely on these types of investors would make financing a lot simpler, said Ray Spitzley, vice chairman at Morgan Stanley and co-head of the bank's energy transition banking.

Most important, the removal of subsidies would bring more stability to an industry that has seen boom-and-bust cycles at the whims of Congress. Wind installations, for example, surged in 2012—the last year those projects were eligible for cash grants instead of tax credits—and then dropped off dramatically the following year.

**Turbulent Cycle**

U.S. wind installation by year




Note: Figure for 2025 is an estimate.
Source: Wood Mackenzie (wind installation), NC Clean Energy Technology Center (tax credit extension timeline)

Installations peaked again in 2020, when developers rushed to finish projects before the pending phaseout of tax credits in 2021. "The uncertainty related to that tax [credit] aspect just creates so much more headache than it's worth for these investments," according to an industry banker.

In the short term, of course, there will be some pain. Initially, there will be a glut of solar and wind developers rushing to find power purchasers before the deadline to qualify for subsidies, possibly creating a buyer's market.

Not all will make it. BloombergNEF estimated that there would be 23% fewer new wind, solar and energy storage installations through 2030 than if the tax-and-spending bill hadn't passed.

Longer-term, it looks like a seller's market. Power demand is rising for the first time in a while. Artificial intelligence is one driver. So, too, is the broad shift from fossil fuels to electricity for things such as space and water heating and cars.

Meanwhile, competing energy sources also face obstacles. Nuclear power takes a prohibitively long time to build. And the cost of building a new gas-fired power plant

is almost double what it was five years ago, according to Chris Seiple, vice chairman at Wood Mackenzie.

Skilled labor to build out natural gas-fired power has also been scarce. If the U.S. adds more capacity to export natural gas, as the Trump administration wants, that could put upward pressure on the price of the commodity going forward.

Speed is another benefit. Solar and battery storage can take 12 to 18 months to build; wind projects take about two years, according to Seiple. A combined-cycle natural gas power plant takes three to four years, he added.

There could be more turbulence ahead if the current administration places roadblocks on permitting for wind and solar. Ultimately, though, electricity is a scarce commodity, and getting scarcer.

Subsidies can become addictive. Now might actually be a good time to kick the habit.

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