

THE MONTHLY DOSE OF CLIMATE SOLUTIONS

JULY 2022

H. R. 5376

THE BUILD BACK BETTER FRAMEWORK

To provide for reconciliation pursuant to title II of the Reconciliation Act of 2022 (S. Con. Res. 14).

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—COMMITTEE ON AGRICULTURE

Subtitle A—General Provisions

SECTION 10001. DEFINITIONS

In this title:

(1) The term “Secretary” has the meaning given such term in section 1404 of the National Agricultural Experiment Station Extension, and Teaching Act of 1914 (7 U.S.C. 3103).

(2) The term “Secretary” means the Secretary of Agriculture.

Subtitle B—

H. R. 5376

THE INFLATION REDUCTION ACT

Senate of the United States,

August 7 (legislative day, August 6), 2022.

That the bill from the House of Representatives, entitled “An Act to provide for reconciliation pursuant to title II of S. Con. Res. 14.”, do pass with amendments.

AMENDMENT:

Strike and insert the following clause and insert the following:

TITLE I—INFLATION REDUCTION ACT FINANCIAL PROVISIONS

Subtitle A—Definitions

SECTION 10001. AMENDMENT OF 1986 CODE

Except as otherwise expressly provided, in any amendment or repeal expressed in terms of a section or other provision of the Internal Revenue Code of 1986, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

PART 1—CORPORATE TAX REFORM

THROUGH THE FLAMES, A GLIMMER OF HOPE

A summer rally in the equity markets, scorching temperatures in the northern hemisphere and a landmark US climate bill.

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FED AND FIRE

As record temperatures and fires plague the northern hemisphere, the Fed did not pivot its strategy, stock markets and alternative energy equities in particular rallied and Biden calls a climate emergency.

Economists and analysts are not calling the end of the market correction, but global markets breathed with relief in some of the trading sessions in the month.

What for some was a bit of a “midsummer night’s dream”, on Tuesday July 19th 98% of the S&P500 constituents closed up, the highest percentage of companies advancing since December 26th, 2018. Ark Innovation (ARKK), Cathie Wood’s ETF famously representing technology and innovation closed the month up 13.16% (although it is still down 52.29% in the year). FED officials have raised interest rates by 75 bps at the July 26 & 27 policy-setting meeting, in line with expectations. Inflation remains the top priority of central banks, and signs of economic deceleration are not diverting attention from persistent increases in CPI rates. On July 22nd, Russia and Ukraine signed a deal that will allow Ukraine to resume exports of grains through the Black Sea, the agreement will give respite to global food supply (Ukraine is the 7th largest producer of wheat) and could alleviate inflation pressure. The reporting of 2Q22 earnings (more on that below) is an important indicator of whether the US is already in a recession. A slowdown in corporate purchases, layoffs, and decrease in consumer spending may help to curb inflation, push yields lower, and prompt the Fed to pivot towards a more dovish approach.

The iClima Decarbonisation Enablers Index was up 13.95% in the month while down 8.45% YTD, as the iClima Distributed Renewable Index was up 18.50% in July and closed the 7th month period down 17.82%, while the S&P500 was up 9.11% and Nasdaq up 12.35% in the month.

Tesla reported 2Q22 results on July 20th, on what was considered a solid quarter despite the challenges with Covid lockdown in Shanghai.

June was Tesla’s highest ever monthly vehicle production, with the recently inaugurated Berlin factory reaching 1,000 units/week throughput. EV sales in 2Q22 reached \$14.6 billion, a 43% YoY growth, with operating margins at 14.6% contracting from 19.2% in 1Q22. Total EV units sold in 2Q22 added to 258,580 cars and company reiterates a broad 50% long term sales growth. Tesla’s energy

business had a solid quarter with solar deployed reaching 106 MW and storage deployed at 1,133 MWh. Tesla is however an outlier in terms of results, as only oil & gas companies, health care and consumer staples expected to beat earnings forecast. Example of companies reporting bad results abounded, like Snapchat that missed on Q2 revenue, shares dropped 23% after the announcement on July 21st that sales per user were down 4.5% YoY, or Blackrock that reported a \$1 trillion drop in AUM in 2Q22 versus the year before, and a 21% decrease in EPS, and large US retailer Walmart that reduced its earnings forecast citing inflation as a trigger for consumers reducing discretionary purchases. However, the environment seems to be a “bad news is good news” one – reflecting the view that if corporates are facing a slowdown in earnings, hiring, and growth there would be no room for central banks to insist on hawkish measures.

US Senator Manchin makes shocking U-turn on climate bill, mere days after it seemed he had finally crushed the Build Back Better Bill. This comes weeks after the Supreme Court ruled against the Environmental Protection Agency's (EPA) authority to regulate power plant emissions.

The US Inflation Reduction Bill is a monumental piece of legislation that has emerged overnight from the flames of the Build Back Better Act. It is hugely heartening and a great relief after the long process of ill-fated negotiation surrounding the former bill. The bill is the most significant single piece of US climate legislation we have ever seen, and it sets the country on course to cut its emissions by 40% by 2030. It must be noted, however, that this 40% is taken from a low baseline of 2005, and the broader bill has many limitations, not least what Bill McKibben has termed 'presents for the fossil fuel industry'. Nonetheless, commentators agree that it has enormous symbolic importance and should set the tone for things to come. The bill, representing the greatest single investment into climate change made in US history, will hugely benefit the companies in our universe. Of particular note are direct consumer incentives to electrify homes and \$40 billion in tax credits to accelerate domestic clean energy production, both of which will benefit the companies in our renewable segments, particularly DGEN.

Similarly, the bill contains \$4,000 in consumer tax credit for buying used EVs and \$7,500 for new ones. Similar tax credits will support home energy efficiency improvements, a huge win for climate change, energy security and affordability, and the companies across our indices supporting the technology. Encouragingly the bill includes \$20 billion for the support of climate-smart agricultural practices, which should help up-and-coming companies like AppHarvest. It is worth noting that fossil fuel price rises are causing demand destruction and the acceleration of the adoption of low carbon technologies independent of the bill. More troubling news emerged from the Supreme Court this month, with a ruling against the authority of the EPA to regulate GHG emissions from power plants. This is extra concerning as it could pave the way for restrictions on the actions of bodies like the SEC to act independently on climate change as we are starting to see them doing,

Numbers are out for offshore wind additions in 2021, and the International Energy Agency (IEA) releases a new report on solar supply chain, both cases pointing out to the role of China in the energy transition.

The Global Wind Energy Council (GWEC) announced the best year ever for offshore wind, as in 2021 ca. 21 GW on new offshore wind being added to global capacity which

brought the total global offshore wind capacity to 56 GW. BloombergNEF analysis shows offshore wind as on track to reach 504 GW by 2035, a near 10x increase. Of the new additions last year, 17 GW (~80%) were developed in China, while the previous largest developer, the UK added 2.3 GW of new offshore wind capacity. The US has not yet added any material capacity to the grid, but eleven states have over 35 GW of offshore wind under development, with two projects currently under construction in Long Island and New York. The Biden administration aim to support the installation of 30 GW of offshore wind by 2030 and as the federal government leases seabed it is a development that the President has room to support. On the solar side, the IEA published in July a detailed special report on the state of the solar PV supply chain. While acknowledging that China had an instrumental role in bringing down the supply curve, with material increases in production capacity, the report calls for the need of diversification of the supply sources citing China’s current market share of solar manufacturing at 80%, from polysilicon, to ingots, wafers, cells and the full solar panels. However, half of that supply is met by demand from China itself. China is decarbonizing Asia and the planet, and it would be detrimental to Net Zero targets if China were to slow down its investments in the green technologies and solutions.



INTRODUCING THE NEW NAMES IN THE TWO ICLIMA INDICES

The two iClima indices were rebalanced on the first Wednesday in August. A total of 14 new names were added to the decarbonization index, bringing the number of constituents to 174 while the distributed renewable energy index is now with 55 companies after three new additions. A few names were removed, companies that were not pure players in the space and where the data compiled by iClima does not indicate that their revenue growth in the decarbonizing or distributed energy solutions were in the double-digit rates, a rule set out in our methodology. The new additions to both indices is summarized below.



AppHarvest Inc. (APPH, up 10.03% in July, down 1.29% YTD) Jonathan Webb founded the AgTech B Corp certified company, which went public in February 2021, when \$475 million of capital was raised in a PIPE. The company epitomizes Controlled Environment Agriculture, as it develops and operates indoor farms to grow non-GMO produce free of chemical pesticide residues. Its products include tomatoes, other fruits and vegetables, such as berries, peppers, cucumbers, and salad greens. The company was incorporated in 2018 and is based in Morehead, Kentucky where Webb is originally from. Their flagship indoor farm uses 90% less water than the open field equivalent (water that is reused in a closed loop system), is strategically located less than 1 day drive to 70% of the US population, and can yield 30x more produce than traditional agriculture (a 60 acre high tech farm yields what would require 1,800 acres of open field production).



Yadea Group Holdings Ltd (YADFG, up 10.03% in July, up 11.18% YTD) A Chinese company that develops, manufactures, distributes, and sells electric two-wheeled vehicles and related accessories in the China. The company offers electric scooters, electric bicycles, and batteries and chargers, as well as other electric two-wheeled vehicles parts, products being sold to 88 countries. Yadea Group Holdings Ltd. was founded in 2001 and is based in Causeway Bay, Hong Kong.



ReNew Energy Global PLC (RNW, up 4.95% in July, down 12.72% YTD) The India based renewable energy developer went public at Nasdaq via a SPAC deal completed in August 2021. The company operates through Wind Power and Solar Power segments. It also provides energy management services for public utilities, commercial, and industrial customers. In January, ReNew announced a JV with Fluence (also in iClima's index) to focus on energy storage investment opportunities in India. As of March 31, 2021, its portfolio consisted of 9.86 GW of wind and solar energy projects, firm power projects, and distributed solar energy projects, of which 5.60 GW projects were commissioned and 4.26 GW were committed. ReNew Energy Global plc was founded in 2011 and is based in Gurugram, India.



Gogoro Inc (GGR, down 21.70% in July, down 39.37% YTD) The Taiwanese electric scooter and developer of the battery swapping system went public last April, when it raised \$335 million. Its two-wheeled electric vehicle are sold in China, India and Indonesia, where the scooters provides cloud connectivity and electric powertrain that utilizes swappable battery infrastructure allowing gathering, analysing, and sharing riding data through a mobile application on the rider's smartphone. Gogoro has a strategic partnership with Foxconn Electronics Inc. The company was founded in 2011 and is based in Taoyuan City.



Wallbox NV (WBC, up 4.39% in July, down 43.27% YTD) It is Dutch technology company that also designs, manufactures, and distributes charging solutions. Wallbox was founded in 2015 by former Tesla employees. It offers EV charging hardware products for home or multi-family residence, as well as AC smart charger for fleets and businesses. It has developed a DC bi-directional charger for home-use that allows to charge and discharge electric vehicles (so called V2G), therefore enabling to use car battery to power home or sell energy back to the grid. The company also provides EV charging software solutions, and energy management solution that is designed to seamlessly integrates the electric grid with solar, on-site batteries, and other renewable energy sources.



Lucid Group Inc (LCID, up 6.35% in July, down 52.04% YTD) The high end EV developer and manufacturer is now in commercialization mode, which is a requirement to be eligible for the iClima universe. The company has reiterated guidance of 12,000 to 14,000 cars being delivered by 2022 year end. Lucid was founded in 2007 and is headquartered in Newark, California.



Ecopro BM Co Ltd (247540.KS, up 5.20% in July, down 3.49% YTD) The South Korean parent company Ecopro Co Ltd went through a corporate restructuring and listed its subsidiary Ecopro BM, that develops and sells cathode materials used in batteries. Its products are used in EVs, electric energy storage systems, and in smart grids. The company was incorporated in 2016 and is based in Cheongju.



Tritium DCFC Limited (DCFC, up 8.37% in July, down 33.8% YTD) Is a global player in the direct current chargers for EVs in the United States, North America, Europe, the Middle East, and the Asia Pacific. Tritium's charging station hardware portfolio includes various standalone chargers, such as 50, 75, 175, and 350-kilowatt chargers. The company is based in Murarrie, Australia. Tritium was also added to the iClima distributed renewable energy index.



Array Technologies Inc. (ARRY, up 53.04% in July, up 7.39% YTD) was founded in 1989 and is headquartered in Albuquerque, New Mexico. It is a renewable equipment manufacturer, supplying solar tracking systems and related products in the US and globally. Its products include a single-axis solar tracking system and SmarTrack, a machine learning software that is used to identify the optimal position for a solar array in real time to increase energy production. In July, JPMorgan increased its price target for Array to \$28.



Local Bounti Corporation (LOCL, up 21.70% in July, down 40.00% YTD) It is another CEA addition to the index, an AgTech that grows fresh greens and herbs in the US. It produces lettuce, herbs, and loose-leaf lettuce. The company sells its products to food retailers and food service distributors. It completed the acquisition of Pete's, a CA based lettuce producer for \$122.5 million last April. Local Bounti Corporation was founded in 2018 and is headquartered in Hamilton, Montana.



Solid Power Inc (SLDP, up 17.84% in July, down 27.46% YTD) The developer and manufacturer of solid-state battery cells and solid electrolyte materials for the battery-powered electric vehicle market in the US went public last December when it was valued at \$1.2 billion. It has shareholders in the industry, such as BMW Group, Ford Motor Company and Volta Energy Technologies. The company was founded in 2011 and is headquartered in Louisville, Colorado.



LG Energy Solution, Ltd (373220.KS, up 13.75% in July, down 16.44% YTD) After spinning off from parent petrochemical company LG Chem, LG Energy went public in January this year. It develops and manufactures automotive batteries, which include pouch-type battery cells, modules/packs, and battery management system products for use in energy and power solutions, as well as light electric vehicles and energy storage systems that are used in power grids. IT batteries for various applications in IT devices, such as smartphones and laptops are not considered by iClima as green revenue. It operates in South Korea, China, and the United States.



Corporación Acciona Energías Renovables S.A. (ANE, up 16.20% in July, up 31.18% YTD) Spanish construction Acciona announced in June 2021 its intention to float is subsidiary Acciona Energia that develops, owns, and operates renewable energy projects in Spain and other 15 countries. Assets include onshore wind, solar photovoltaic, hydraulic, biomass, and solar thermal projects with a total installed capacity of 11 GW and plans to grow to 20 GW by 2025.



Rivian Automotive Inc (RIVN, up 33.26% in July, down 66.92% YTD) The company designs, develops, manufactures, and sells last mile electric trucks and is famous for having Ford and Amazon as shareholders. It went public in November 2021, at a valuation close to \$100 billion. Rivian also offers five-passenger pickup trucks and sports utility vehicles. It is now in commercialization and cumulative EVs sold by end of 2Q22 reached 6,954 units. Rivian Automotive, Inc. was founded in 2009 and is based in San Jose, California.