



Trip
Insights

The US

October 2026

This is the 25th edition in our series of Trip Insights, where we share our travel experiences and investment insights. This edition covers a trip by Peter Aquilina, senior North American investment analyst, across the US in September 2026. Peter met the management teams of 28 electric, gas and water utilities and midstream energy companies.

The trip coincided with two powerful forces. The first is what management teams describe as a once-in-a-generation investment cycle, driven overwhelmingly by data centre and other large-load demand. The second is an unusually active political calendar ahead of the November 2026 midterms, in which data centre development and energy affordability have become live electoral issues in a number of states. How companies navigate the tension between the two was a defining theme of the trip.

This piece outlines the key themes from the trip, and how they shape our positioning across the sector.

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Trip agenda

Investor meetings included the following companies:

Company	Sector / topic	Location
Alliant Energy (LNT)	Electric utility	Alliant HQ
WEC Energy (WEC)	Electric/gas utility	WEC HQ
DTE Energy (DTE)	Electric utility	Barclays Conference, NYC
Algonquin (AQN)	Diversified utility	Barclays Conference, NYC
IDACORP (IDA)	Electric utility	Barclays Conference, NYC
Keyera Corp (KEY)	Midstream (NGLs, gas)	Barclays Conference, NYC
OG&E Corp (OGE)	Electric utility	Barclays Conference, NYC
Portland General (POR)	Electric utility	Barclays Conference, NYC
Public Service Enterprise Group (PEG)	Electric utility	Barclays Conference, NYC
Williams Co (WMB)	Midstream (gas focused)	Barclays Conference, NYC
Kinder Morgan (KMI)	Midstream (gas focused)	Barclays Conference, NYC
CMS Energy (CMS)	Gas/electric utility	Barclays Conference, NYC
Edison International (EIX)	Electric utility	Barclays Conference, NYC
American Electric Power (AEP)	Electric utility	Barclays Conference, NYC
NextEra Energy (NEE)	Electric utility & independent power producer	Barclays Conference, NYC
NiSource (NI)	Electric/gas utility	Barclays Conference, NYC
NorthWestern Energy (NWE)	Electric utility	Barclays Conference, NYC
Southern Co (SO)	Electric utility	Barclays Conference, NYC
Spire Inc (SR)	Gas utility	Barclays Conference, NYC
Dominion Energy (D)	Electric utility	Barclays Conference, NYC
Evergy (EVRG)	Electric utility	Barclays Conference, NYC
H2O America (HTO)	Water utility	Barclays Conference, NYC
CenterPoint Energy (CNP)	Electric/gas utility	CenterPoint HQ, Houston
Cheniere (LNG)	Midstream (LNG exporter)	Cheniere HQ, Houston
Targa Resources (TRGP)	Midstream (NGL and crude focused)	Targa Resources HQ, Houston
Sempra Energy (SRE)	Electric/gas utility/LNG export	Sempra HQ, San Diego
Pinnacle West Capital (PNW)	Electric utility	PNW HQ, Phoenix
Southwest Gas Holdings (SWX)	Gas utility	SWX HQ, Las Vegas

Politics

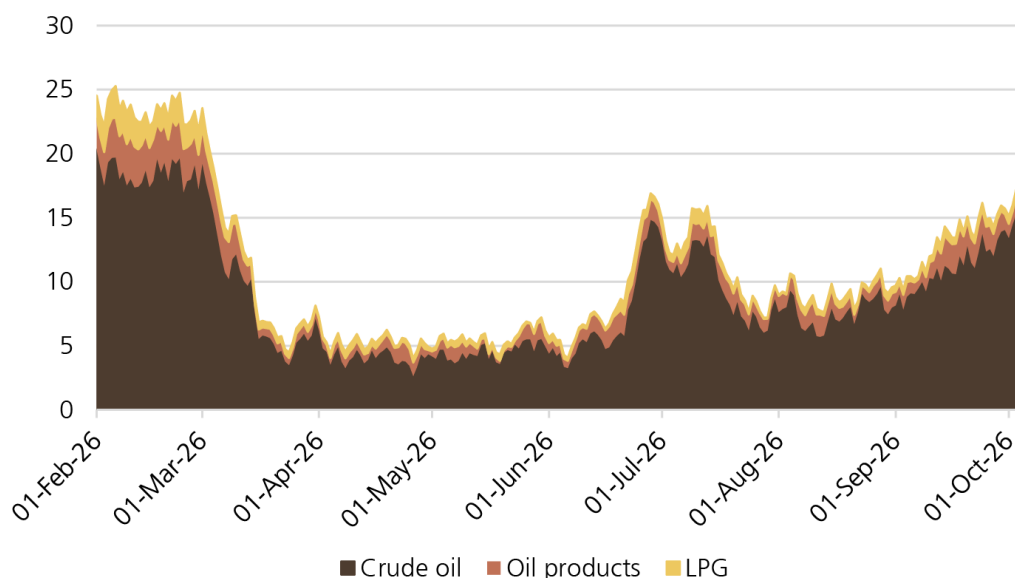
Domestic & global politics will remain a significant catalyst, positive and negative, for the US economy and infrastructure over the next 12 months. State-level politics dominated this trip and are covered within the infrastructure themes below, where they directly shape regulatory outcomes. This section frames the wider national picture.

Iran war

The conflict with Iran began with the joint US-Israel bombing campaign, Operation Epic Fury, on 28 February 2026. It has been the largest external shock to energy markets since Russia invaded Ukraine in February 2022. Global oil, petroleum and LNG prices have been sharply disrupted, while US gas prices and power costs have stayed contained. The war's biggest domestic impact has come through household budgets, adding to the affordability pressure that dominated our meetings.

- From the outset, shipping through the Strait of Hormuz, which normally carries nearly 20% of the world's crude oil and about 20% of its LNG, has been severely restricted.
- QatarEnergy declared force majeure on 4 March, forcing Asian buyers who take more than 80% of Qatar's gas to compete for spot cargoes.
- Hostilities remain intense, with nine tankers attacked in and around Hormuz in the week to 8 October, and oil flows through the strait running about 30% below pre-war levels. This is nonetheless a marked improvement on the period to the end of June (see graph below).
- Brent averaged around US\$65/bbl in January 2026. It peaked at about US\$115/bbl in March and stood at US\$104/bbl on 9 October.

Below is a graph showing volumes (MBbl/d) of crude and products flows exiting the Strait of Hormuz.



Source: UBS Research: Hormuz Tracker (days 217–220)

The path from here matters more than the shock itself: a durable de-escalation that reopens Hormuz would ease oil prices, headline inflation and pressure on long-end yields, while prolonged disruption would keep energy-led inflation elevated and push the Fed to tighten further, the main risk to our view (see Economics) that rate risk is now largely priced in.

Affordability is front and centre

Affordability (the cost of living) was the recurring political theme of this trip and it has also become the defining issue around which both parties are framing their midterm campaigns. The New York City mayoral election in November 2025 was won by Zohran Mamdani, a self-described democratic socialist, in the world's financial capital. His key political strategy was to focus on affordability concerns faced by 'average' New Yorkers. Polling supports this focus on affordability: in the May 2026 CNN/SSRS poll, 76% of Americans named the cost of living as their biggest economic concern, up from 58% in April 2025. Contributors to affordability pressure include:

- Housing is the largest single budget item, and the hardest to fix. US home prices have risen about 45% since 2020, more than twice the typical rate of appreciation. Higher rates are compounding the problem. The 30-year mortgage rate jumped to 7.28% in early October, its highest level in nearly three years, against 6.34% a year earlier¹.
- Health costs rival housing as the top burden for many households. Employee premiums for family health insurance have risen 23% in five years. Average Health insurance premiums are predicted to more than double for 22 million Americans with expiry of ACA subsidies.
- Energy is now the main driver of US inflation. Headline CPI rose 3.4% in the year to August, against core inflation of only 2.4%; the energy index rose 16.3%, compared with 0.2% a year earlier. Petrol is doing most of the damage, with gasoline prices up 27.4% on a year earlier.
- Food inflation has eased considerably with grocery prices up 2.7% in September on an annual basis, against 11.4% in 2022. Overall, however, food prices as of September were more than 18% higher than in January 2022, according to the CBS News price tracker².
- Childcare is another issue. In 2024, the average annual cost of care for one child around the US topped US\$13,000, up 30% from 2020, according to Child Care Aware of America, a nonprofit group².
- Electricity is a meaningful but not dominant part of the squeeze. Household electricity prices rose 3.8% in the year to August, broadly in line with headline inflation and well below petrol, health premiums or mortgage costs.

For utility investors, this matters more than any single federal policy: utility bills are among the few household costs that elected officials can directly influence, and increasingly do, as discussed below.

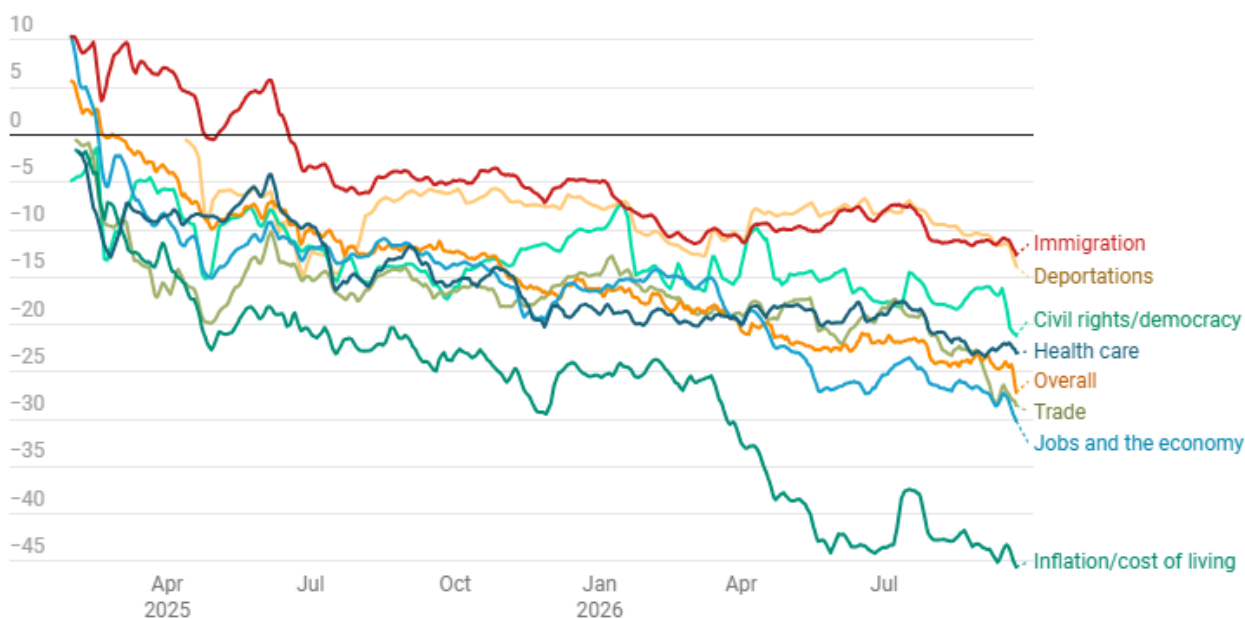
¹ Time Magazine: <https://time.com/collections/davos-2026/7339214/global-affordability-crisis-cost-of-living-inflation-politics/>

² CBS News: <https://www.cbsnews.com/news/affordability-2025-inflation-food-prices-housing-child-care-health-costs/>

Presidential approval at a low

President Trump's second term has been dominated by a number of controversial policy decisions implemented by executive order, bypassing Congress, some of which face legal challenge. His handling of the economy, including affordability, the Iran war and the release of the Epstein files, have left him largely unpopular with US voters according to polls. Polls have his net approval rating (approve minus disapprove) averaging around -27.2 points (as at 23 September 2026)³, and this represents a decline from +5.2 points at 30 January 2025. His net approval rating, overall and on specific issues, is shown below.

Average job approval rating for Donald Trump overall and on issue-specific poll questions. Issue averages are a mix of a 14-day moving average and modeled estimates.*



Averages computed by G. Elliott Morris. Issue approval data from FiftyPlusOne.news.

*Modeled estimates are a blend of the implied issue-specific average given Trump's overall rating on each day, and a polynomial trend line estimating opinion over time.

Source: [Strength In Numbers/gelliottmorris.com](https://www.gelliottmorris.com) • [Embed](#) • [Download image](#) • Created with [Datawrapper](#)

This is a concern for the Republican party's prospects in the upcoming midterms. Many Republican nominees in state level races are trying to separate their candidacy from the President. They are taking opposing views on topics such as the Iran war, handling of the cost-of-living (dark green line in the graph above), and support for AI and data centres. This last topic is important for utility investors, as data centres are a key driver of the load growth underpinning investment and earnings.

We have addressed the consequences of potential midterm outcomes and the implications for our infrastructure universe in a separate, standalone News & Views.

Economics

The economic backdrop is more challenging than a year ago, but the investment case for the US infrastructure sector remains strong. Higher interest rates, energy-led inflation and rising construction costs are real headwinds for a sector whose valuations and funding costs are tied to the long end of the yield curve. These are being offset by the strongest demand growth in decades, led by the AI capex cycle, with load growth supporting earnings momentum even as the return per investment dollar come under pressure. After the de-rating in valuations over the past 3–6 months, we believe much of the interest rate risk is now priced in.

³ Strength in Numbers; <https://www.gelliottmorris.com/p/data>

Interest rates – higher for longer, and a steeper curve

The interest rate environment has shifted from easing to tightening in 2026, and the whole curve has moved higher.

- **The Fed has resumed hiking.** On 16 September the Federal Reserve raised the federal funds rate by 25bp to 3.75–4.00%, its first increase since July 2023, in a unanimous 12–0 vote. The updated dot plot points to a median of 4.1% by the end of 2026, implying at least one further hike, and markets are pricing increases continuing into 2027. Chair Kevin Warsh, who took over in May, said inflation had been too high for too long.
- **Long-end yields are near 20-year highs.** The 10-year Treasury yield entered 2026 at 4.15% and dipped below 4% before the Iran war began. It has since climbed steadily, breaching 5% in mid-September for the first time since 2007, and stood at 5.24% on 9 October. The 30-year yield reached 5.60%, its highest level since 2004. The drivers extend beyond oil: persistent above-target inflation, large fiscal deficits and heavy Treasury issuance are all lifting term premia.



Source: 4D Infrastructure, Federal Reserve, Bloomberg.

- **Utility valuations have de-rated.** Utilities rallied to an all-time high in late February and were among the best-performing sectors in Q1 2026. They have since given back that outperformance, underperforming the S&P 500 by nearly 30% as the 10-year yield moved above 5%.

Inflation and affordability – a K-shaped squeeze

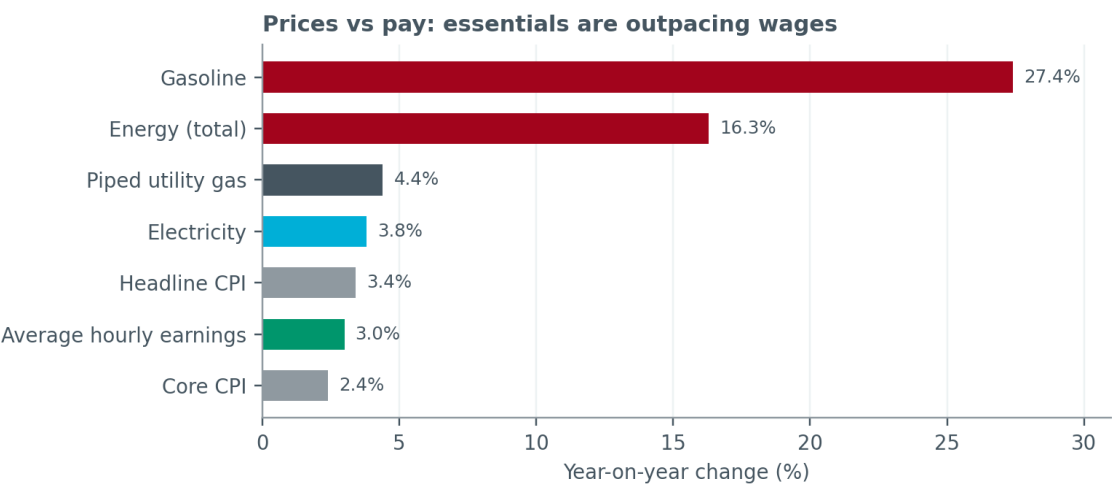
On the headline measures, the US economy looks resilient: consumer spending is holding up, unemployment is 4.2% and core inflation is 2.4%. For most low and middle-income households, however, the experience is very different. Averages are increasingly shaped by higher-income households, and the measures policymakers watch most closely exclude many of the costs that weigh most heavily on everyone else. This gap between the data and lived experience is central to why the cost of living has become the dominant political issue:

- **Aggregate spending is being carried by the top.** Moody's estimates that spending by the top 10% of households grew 62% between Q3 2020 and Q3 2025, far faster than any other income group. Estimates of the top 10%'s share of total spending vary widely by method, from around 23% in the government's Consumer Expenditure Survey to around 46% in Moody's revised estimate, but the direction is consistent. Higher-income households, buoyed by rising asset prices, are propping up the aggregate numbers. New York Fed research found real retail spending growth since January 2023 has been driven by households

earning more than US\$125,000, while real spending by those earning under US\$40,000 fell over part of the period.

- **The inflation households face is not the inflation the Fed targets.** Core inflation excludes food and energy, the costs lower-income households can least avoid. Gasoline prices were up 27.4% in the year to August, and petrol has risen by more than US\$1.50 a gallon on average since the Iran war began, staying above US\$4 since midsummer. Essentials take up a much larger share of lower-income budgets: according to the Bank of America Institute, around 29% of lower-income households were living paycheck to paycheck by late 2025, spending more than 95% of their income on necessities.
- **Real incomes are falling at the bottom.** Average wages rose 3.0% over the year to September, below headline inflation of 3.4%, and the gap is wider for households whose costs are concentrated in energy and essentials. Equifax data from April showed real earned income falling for the lowest-income households (a loss of around US\$630 in annual spending power), while the highest earners gained around US\$4,000. The labour market is also softening, with payrolls up only 29,000 in September.
- **Credit is filling the gap, at a rising cost.** With pandemic savings exhausted, more lower-income households are borrowing to cover everyday costs. At the end of May 2026, Equifax reported credit card delinquencies up 40bp year on year and subprime auto delinquencies at 5.5%, and the Federal Reserve's May Beige Book noted lower-income consumers showing greater financial strain and reliance on credit. Higher interest rates compound this: the households that borrow to pay bills face rising costs, while asset owners benefit from higher returns on savings.
- **Tariffs and supply chains compounding the issue.** Tariffs have lifted core goods prices, but the effect has largely run its course. It was a one-off step up in the price level, not an ongoing driver of inflation. For infrastructure, the pressure is more lasting. Tariffs on steel, aluminium and copper have added to the cost of transformers, switchgears and other grid equipment, on top of supply shortages and a multi-year gas turbine backlog. These increasing costs will, all else equal, exacerbate customer bill increases.

The K-shaped economy explains why affordability has become the key issue of the midterms. Utility bills are one component of the rising cost pressure on low and middle-income households, which is why utilities are so focused on minimising bills for residential and smaller commercial customers. These concerns were clearly front of mind for all the utilities we met with but in particular those in Northeastern states, and in specific regions with heightened political tension such as Indiana and Pennsylvania.

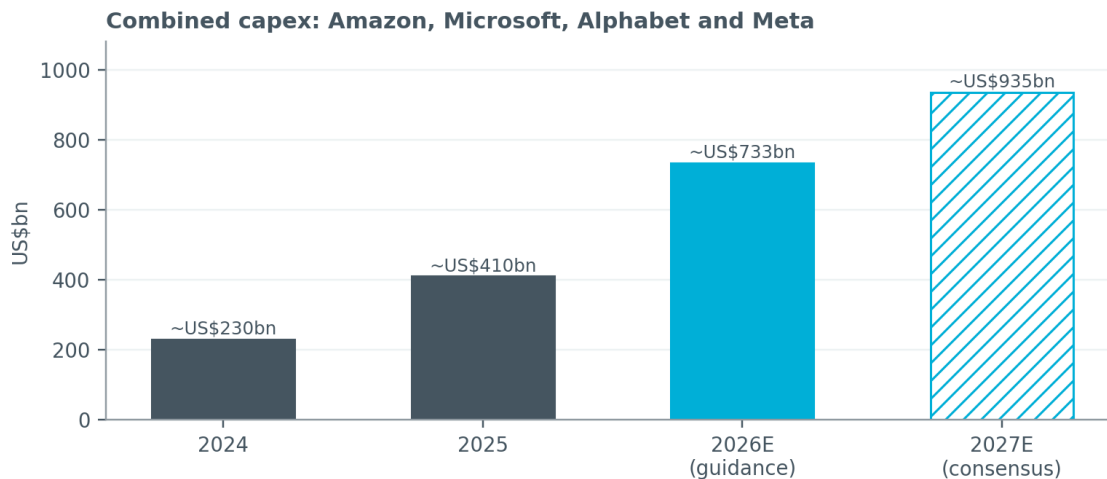


Source: US Bureau of Labor Statistics. CPI components are year on year to August 2026; average hourly earnings are year on year to September 2026.

The durability of the AI capex cycle

The AI capex cycle is the single largest driver of load growth for the electric utility and gas focused midstream companies we met. Its durability, and how it is financed, therefore matters directly to utility investment plans:

- **Hyperscaler spending continues to accelerate.** Amazon, Microsoft, Alphabet and Meta are guiding to combined 2026 capex of around US\$720–745 billion, up from about US\$410 billion in 2025 and roughly US\$230 billion in 2024. They spent US\$301 billion in the first half alone. Guidance has been revised upwards repeatedly through the year, and consensus estimates for 2027 sit at around US\$935 billion, with several banks forecasting more than US\$1 trillion.



Source: Company guidance and results, Financial Times, FactSet consensus as reported. 2026E is the midpoint of guidance; 2027E is consensus.

- **Overbuild risk is rising.** On 8 October, reports that OpenAI's annualised revenue was around US\$50 billion, roughly US\$20 billion below analyst estimates, triggered a sharp sell-off in AI-linked stocks, with Oracle falling nearly 6%. The discrepancy largely reflected accounting differences, but it highlighted how much of the buildout rests on a small number of counterparties. Meta has floated selling excess data centre capacity to third parties.
- **Financing is shifting towards debt and structured capital.** Capex of this scale now exceeds operating cash flow at some hyperscalers, and a growing share is being funded through bond issuance, private credit, leases and off-balance-sheet joint ventures, such as Meta's 2025 financing of its Hyperion data centre with Blue Owl. More leverage in the system makes the cycle more sensitive to rising rates and to any disappointment in AI revenue.

We are of the belief that the investment super cycle facilitated by hyperscalers and data centre developers still has a way to go based on their market communications, contractual commitments to developments, and continued earnings growth. That is not to say that AI / data centre industry is immune from individual company credit risk. The contractual protections discussed below in 'Protecting customers longer term' helps mitigate risk to utilities and their customers.

In the unlikely "doomsday" scenario of a sector-wide AI downturn, the exceptional growth currently experienced and forecast by utilities that is facilitated by data centre developments, will need to be moderated. This would reduce earnings expectations and probably valuations of utility companies.

Infrastructure – a summary

While much is happening across the US infrastructure landscape, this trip highlighted and reinforced some strong themes, including:

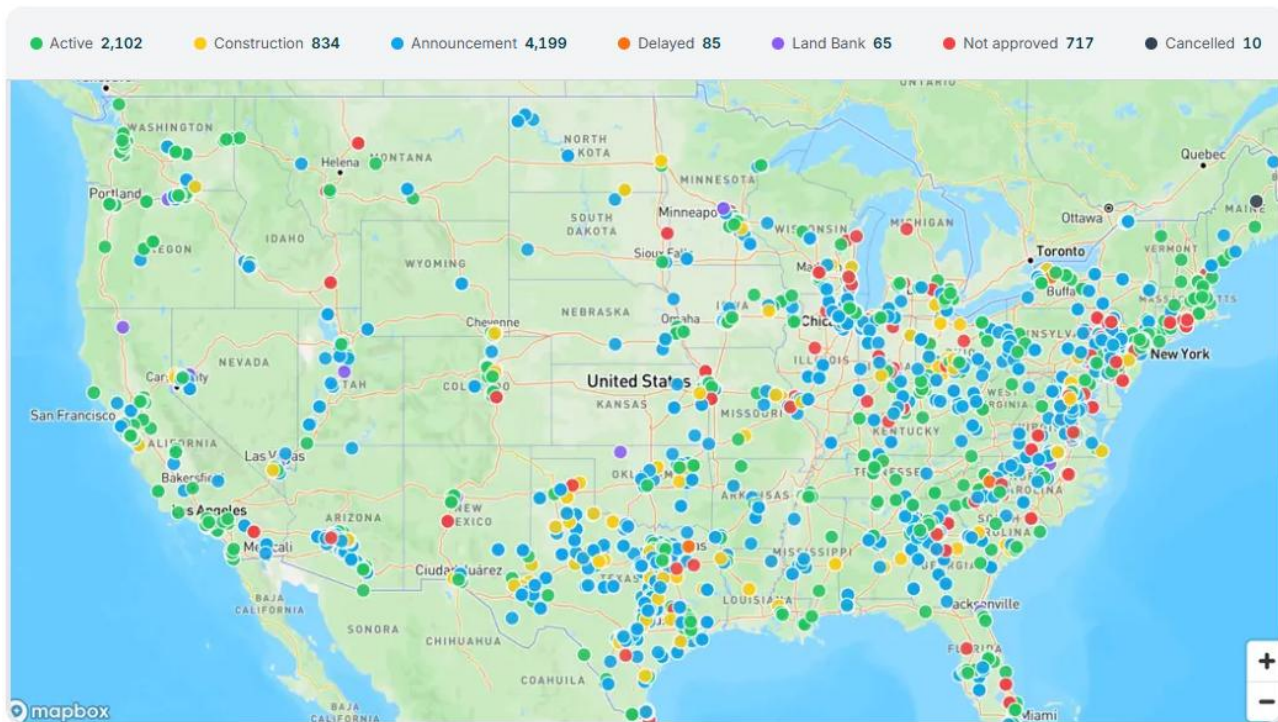
- **Load growth is close to universal.** Large-load and data centre demand is now driving significant investment and rate base growth at almost every utility we met. Investment pipelines are large in absolute terms and relative to existing systems. Signed contracts already underpin double-digit rate base growth, with further strong upside flagged but not yet incorporated in company plans. The growth outlook surprised to the upside, although we recognise that not all of the headline pipeline will convert.
- **The politics of load.** Data centres and energy affordability have become live electoral issues ahead of the midterms. Companies are responding by leading with local benefits, shifting bill increases onto large-load customers and tightening contract protections. Importantly, management teams broadly expect the political temperature to ease after November. Mitigation efforts are promising, but public objection remains high and this will persist as development ramps up.
- **Customer protection is the licence to grow.** Dedicated large-load tariffs, long-dated take-or-pay contracts, termination payments and credit support are becoming the norm, designed to ensure ordinary customers never fund stranded investment. The strength of these protections is a key differentiator.
- **Financing the cycle.** The scale of investment is opening a widening gap between rate base growth and EPS growth, as a result of equity financing needs. Companies are using a range of tools to close it. These include lower payout ratios (which could disappoint yield investors), hybrids, asset recycling, new partnership capital and structural fixes to regulatory lag. We were encouraged by the range of funding options but see this as an ongoing challenge and a growing risk to earnings.
- **Regulation is broadly constructive, with pockets of risk.** Most rate cases are tracking towards reasonable outcomes, but Indiana's affordability review, Texas's Batch-zero review and California's stalled wildfire legislation show how quickly politics can intervene.
- **Gas infrastructure is a clear beneficiary.** Power generation and LNG export demand are driving strong, largely contracted midstream growth. The Iran conflict adds a near-term tailwind that companies are careful not to treat as structural, while capital returns are rising as growth capex matures. The sector is in a sweet spot in the current environment.
- **M&A and restructuring.** Scale is the rationale for a wave of utility M&A, led by the proposed NextEra–Dominion merger, while others (Algonquin) are simplifying. In water, consolidation continues, and listed pure-plays enjoy scarcity value.

The dispersion in outlooks is widening. Companies with strong contract protections, constructive regulatory settings and credible financing pathways (AEP, Alliant Energy, DTE Energy, Southern Co, CenterPoint Energy) appear better placed than those facing a wider structural gap between rate base and EPS growth, weaker cash flow or a less settled political backdrop (Algonquin, Portland General Electric, Nisource). We touch on each theme below.

Load growth – a once-in-a-generation investment cycle

Load growth is now close to universal

Most management teams pointed to large industrial load, including data centres, as a driver of investment and rate base growth over the rest of the decade and beyond. The scale, timing and contractual maturity of that demand vary by company and by state, but the underlying message was consistent: load growth expectations are materially exceeding what was contemplated only a year or two ago. The map below shows the spread of data centre projects and where they are clustering.



Source: Aterio

Pipelines are now large relative to existing systems. Several companies described large-load pipelines that are substantial in absolute terms as well as relative to their current networks:

- Pinnacle West Capital has a further 20 GW of uncommitted interconnection applications, against 2025 peak system demand of only 8.6 GW.
- Southern Co's large-load pipeline grew by 6 GW to 17 GW in the most recent quarter, with 3 GW in the "finalising" stage (expected to sign within three to six months) and a further 5 GW roughly 12 months away.
- Dominion Energy has 12 GW under Electric Service Agreements (ESAs) and a further 9.4 GW under Construction Letters of Authorization (CLOAs), together covering the roughly 21 GW of data centre demand in its 2024 Integrated Resource Plan to 2040.
- CenterPoint Energy's 14 GW Batch-zero pipeline (see below) compares with current peak demand of around 22 GW in its Houston service area.
- NextEra Energy raised its base-case Florida large-load pipeline from 6 GW to 8 GW out to 2032, alongside two large gas generation projects (10 GW in total) linked to the US Department of Commerce and the Japanese government, targeting delivery in late 2027 or early 2028.



EV car charger with connected solar panels at the Alliant headquarters

Signed contracts are translating into double-digit rate base growth, with upside not yet in plans. Contracted demand already underpins current plans, with further agreements expected to be incremental:

- American Electric Power (AEP) flagged a number of business segments in which load growth was supporting investment, including transmission, distribution, and generation. The c.11% rate base growth over 2025-2030 is anticipated to support EPS CAGR of +9% off the 2027 EPS base. The company spoke to upside opportunities which should push rate base growth higher at the next market update.
- Alliant Energy said its 3 GW of contracted capacity supports a 12% rate base compound annual growth rate (CAGR), with upside from an approved 1 GW gas generation facility and a further 2–4 GW of load in final negotiation. These are not yet in 4D's or market analysts' forecasts.
- IDACORP expects rate base CAGR of more than 16% to 2030, driven by expansion at existing industrial customers Micron and Chobani as well as new data centre demand. The market is currently anticipating an EPS CAGR of 9.0% - this wide gap could be due to heavy dilution and weaker cashflow generation than peers, but potentially market analysts' lack of confidence in the company's ability to grow earnings.
- WEC Energy's plan includes around 3.9 GW of incremental large load (1.3 GW at Port Washington and 2.6 GW from Microsoft in the I-94 corridor), supporting rate base growth guidance of 11.3% to 2030. Each additional GW beyond that represents more than US\$2 billion of investment.

Not all of the pipeline will convert. Importantly, companies appeared disciplined about how much of the headline pipeline will proceed, or how quickly it can be served:

- IDACORP said the constraint on growth is capacity, not demand. This is an industry wide challenge, and companies are securing supply chain capacity through supplier relationships and contracts with EPC contractors that have their own supply chains.
- Southern Co does not intend to build generation gigawatt-for-gigawatt against contracted capacity, relying instead on a 26% reserve margin to absorb a faster-than-expected ramp.
- Pinnacle West noted that customers signing under its new terms, including Microsoft, are doing so somewhat begrudgingly, having previously been on more favourable legacy tariffs.

4D does not include investment in its forecasts until it is contracted or has reached final investment decision (FID). The downside from pipeline projects that do not proceed is therefore limited, while we retain the upside if uncontracted projects progress.

Texas Batch-zero – when politics meets the interconnection queue

Texas provided the clearest example on this trip of a regulatory process becoming entangled with an election. The Batch-zero process is the first cluster interconnection study for large loads (75 MW and above) in the market run by the Electric Reliability Council of Texas (ERCOT). It is running against the backdrop of governor, lieutenant governor and Senate races that polls suggest are tighter than usual, with Democrats competitive in a traditionally Republican state.

On 3 September 2026, ERCOT issued conditional classifications: 362 projects (~192 GW) were placed into Batch-zero and 373 projects (~302 GW) were excluded. That compares with ERCOT's all-time peak demand of 91 GW, set in July 2026.

The size of the pipeline appears to have surprised stakeholders. Governor Abbott ordered ERCOT and the Public Utility Commission of Texas (PUCT) to review it. Management teams suggested the review, and the likely delay to finalising the interconnection schedule, was at least partly about the governor being seen to hold data centre developers accountable ahead of the election. They described "a level of choreography" between the governor's office and developers, several of whom have publicly announced tighter project commitments or cancelled marginal projects altogether.

- CenterPoint Energy targets 14 GW of Texas interconnection requests to 2031: 10 GW of Base Load capacity and 4 GW of Studied Load requiring further review, of which management expects only a portion to proceed.
- Sempra's Texan subsidiary Oncor has 27 GW of Base Load capacity. Some is already interconnected and ramping towards previously disclosed load levels, 9 GW has ERCOT approval but no firm in-service date, and a further 10 GW has yet to be approved. The smaller Studied Load category was described as more at risk.

The PUCT has reportedly indicated it will try to accommodate all Base Load Batch-zero submissions, given the high threshold for that classification, although it may offer reduced capacity that proponents can accept or reject.

While Batch-zero presents both risk and opportunity, we do not value the upside from interconnections until it is near certain.

The politics of load – social licence and affordability

Data centres become a live electoral issue

A recurring theme was that data centre development has itself become a contested issue in state elections. Few candidates are campaigning to block growth outright, but the degree of oversight, and how communities share in the benefits, are points of conflict. Some politicians are genuinely focused on affordability, energy security, water supply and land rights; others, management suggested, are more interested in being seen to be concerned.

In the Midwest, management teams said the gubernatorial nominees from both parties in states including Wisconsin and Michigan were largely supportive of data centre development. However, politicians are acutely aware that public sentiment is deteriorating: a recent Marquette University Law School poll found 76% of Wisconsin voters believe the costs of data centres outweigh the benefits, up from 55% in October 2025.

Georgia showed that the politics are not neatly partisan. Southern Co noted that some sitting Georgia Public Service Commission (GPSC) commissioners have argued data centres should build their own generation and

have criticised the GPSC for approving investment on their behalf. Yet politicians on the same side had reportedly praised the recent OpenAI large-load contract as among the most customer-beneficial they had seen. Importantly, management were confident that the protections and customer benefits in its large-load contracts will be upheld whatever the political make-up of the GPSC after the election.

In Arizona, Pinnacle West Capital discussed the two Arizona Corporation Commission (ACC) seats up for election. In the Republican primary, incumbent Kevin Thompson secured renomination, while Ralph Heap, a more populist candidate with strong support from President Trump, defeated incumbent Nick Myers. Heap favours market-driven retail energy choice, a platform management considers unlikely to gain traction. The Democratic nominees, Clara Pratte and Jonathon Hill, are focused on affordability and, where possible, a greater role for renewables.

The chart below summarises the major elections across the US and each candidate's expected position on data centres.

State	Currently Held	Incumbent/Open seat	Dem candidate on DCs/Utilities	Rep candidate on DCs/Utilities	Odds for Generic D or R
AZ - Gov	Democrat	Incumbent	Sought DC incentives repeal; but reached deal with R-held legislature on 3yr moratorium on DC tax incentives	R candidate (Biggs) wants to end subsidies for DCs	88% D
AZ - ACC	2 Rs	Incumbents	Lowering costs, expand renewables	Thompson: added protections in DC ESAs, model for future Heap: opposes clean energy mandates	N/A
GA - Gov	Republican	Open	Temp DC moratorium	Supportive; invested in a DC	56% D
GA - PSC	1 D, 1 R	Incumbent D, Open R	Comm Hubbard anti-DC Edwards affordability focused	Fitz rematch of last yr Tolbert engineering focused	N/A
IA - Gov	Republican	Open	No subsidies for DCs	Called for DC moratorium	77% D
KS - Gov	Democrat	Open	Holscher advocates for a DC moratorium and more guardrails	Masterson supports DC, has ratepayer protection pledge	68% R
MI - Gov	Democrat	Open	Benson backed off a rate freeze proposal	Favors local control of DC, Green New Deal repeal	92% D
OH - Gov	Republican	Open	Supports conditional DC moratorium	Supports DC, made DC pledge with 3 requirements	55% D
OK - Gov	Republican	Open	Not meaningful – victory improbable	Mazzei supports DCs if they satisfy his four conditions	93% R
OK - OCC	Republican	Open	Opposes DCs, concerned over nukes near DCs	Sponsored DC/Protection law w/ tariffs, 10yr min	N/A
OR - Gov	Democrat	Incumbent	Kotek in Sep issued 1yr pause on approvals for any requests to develop DCs on state land or buildings; said she supports a statewide DC moratorium	Drazan said Kotek should go further and temporarily ban all data center development	87% D
WI - Gov	Democrat	Open	Crowley balanced on DCs	Blamed D's carbon-free by 2050 for affordability; Focused on baseload	84% D

Source: Wolfe Research, 22 September 2026

How companies and communities are responding

Management teams described a consistent range of tactics for managing the public and political reaction:

- **Leading with the local benefit case.** Meta's data centre in Beaver Dam, Wisconsin, is expected to deliver around US\$20 million a year in property taxes to a city of just under 20,000 people, equivalent to 80% of the city's 2025 budget. A Google development in Indiana is expected to pay property taxes worth three

times the local municipal budget. Companies believe that as projects are completed and these benefits become visible, public opinion will turn in their favour.

- **Rebutting specific concerns.** On water, utilities are educating communities that a single car wash uses a comparable volume of water to one of Microsoft's major development sites, and that network-wide water use is forecast to fall 25% by 2030 as water-intensive coal plants retire. They are also working to reframe the jobs narrative away from the perception that AI is primarily about cutting jobs.
- **Greater transparency.** Non-disclosure agreements (NDAs) signed by public officials in data centre site negotiations have drawn criticism, including over a QTS development near Madison. Major hyperscalers, including Microsoft, have said they will no longer use NDAs with public officials, and Alliant said it does not intend to use them either.

Tensions persist locally regardless. Both Alliant and WEC Energy noted that a number of Wisconsin mayors have imposed informal pauses on data centre development until after the midterms. This is a political threat exacerbated by the upcoming midterms, but we expect data centre companies will have to proactively mitigate ongoing public driven delays and objections.

Affordability is the dominant electoral lever

Beyond data centre build, affordability was the recurring political theme of the trip.

- **Indiana.** Governor Braun has openly criticised the Indiana Utility Regulatory Commission (IURC) over affordability and replaced commissioners. The new commission is undertaking an affordability-focused regulatory review whose outcome is yet to be announced. Allowed ROEs and investment tracker mechanisms are at risk.
- **New Jersey.** Public Service Enterprise Group linked the state's affordability focus to elevated wholesale power prices in the PJM market, which covers all or part of 13 states and Washington, DC. Management expects the political temperature to ease after the midterms and as PJM's dual-track process to bring on new supply (the Reliability Backstop Procurement alongside direct contracting with data centres) is implemented, with proposals expected to be reviewed and executed in the first half of 2027.

Large loads can also be part of the solution. Management teams are allocating bill increases in rate cases disproportionately to large-load customers, minimising the impact on typical households. In Arizona, Pinnacle West's proposed rate case seeks a 14% increase in overall customer revenue, but data centre customers would bear a bill increase of around 45%, supporting rates for residential and small commercial customers.

Affordability is not just a utility issue (as discussed earlier), but as utility investors it is one we watch closely. Large, regulator-mandated compression in utility returns would have ramifications for future investment pipelines and earnings. We favour states where this is less of a headwind such as Texas, Colorado, and Wisconsin (lower relative utility bills, better socio-economics, alternative growth drivers) and companies that have low regulatory event risk having either agreed their rate cases, or do not need to request one in the near-term such as Southern Co, Alliant, Sempra, and CenterPoint Energy.

The midterms as the inflection point

A thread running through nearly every theme above is timing. A number of companies pointed to the November 2026 midterm elections as the inflection point at which today's heightened political rhetoric — whether on data centres, affordability, or specific regulatory reviews such as Batch-zero — is expected to ease, at least to some degree. Whether that proves accurate is uncertain, but it came up in most meetings.

Protecting customers longer term — how utilities are managing the risk

Beyond near-term affordability concerns, utilities are working hard to ensure residential and commercial customers are not left funding investment made for large-load customers that fail to materialise. The main mechanisms are dedicated large-load tariffs, long-dated take-or-pay contracts, parent company guarantees, and collateral or letters of credit.

Several companies described termination payments linked to the book value of the underlying assets, with contract terms matched to asset lives. WEC Energy's regulator-approved Very Large Customer (VLC) tariff runs for the depreciable life of the asset (roughly 20 years), includes a termination payment based on asset book value, and carries significant credit requirements. Management said Microsoft had cited the VLC tariff as its preferred model for delivering data centres. More broadly, companies argued that customer benefits flow from the contracts themselves, without operational risk being passed to ordinary customers.

IDACORP stood out in terms of customer protection. Its termination payments are based on the net present value of the full take-or-pay contract, rather than the book value of the generation assets required, as is more common elsewhere. That is a stronger standard of protection than most peers offer.

Beyond termination payments, management teams outlined what would happen if a data centre was unable to take load under its contract:

1. The utility would seek a significant termination payment from the data centre counterparty, based on book value, the net present value of contractual payments or a negotiated amount.
2. It would seek to repurpose the site for another large-load customer. A ready-to-go site could be highly sought after if demand remains strong.
3. If no alternative customer could be found, the incremental generation capacity could offset future investment to replace ageing plant, with the termination payment offsetting bill increases and supporting affordability.

We think these tools represent strong protections for customers on an individual basis. Our key concern is the earnings outlook for utilities in a 'doomsday' scenario in which the AI and data centre sector as a whole experiences significant credit stress.

Financing an unprecedented investment cycle

For most companies, the scale of the investment opportunity has opened a widening gap between rate base growth and earnings-per-share (EPS) growth, driven by equity dilution and regulatory lag. Management teams described a range of tools available as alternative funding mechanisms to help insulate earnings:

- **Dividend policy.** Several companies are allowing payout ratios to drift lower as EPS growth outpaces dividend growth. Alliant Energy expects its payout ratio, currently around 60%, to decline gradually, with dividend growth guided to the lower end of 5–7% against EPS growth of +7%. WEC Energy by contrast is resisting further payout reductions given the weight of income-focused investors on its register. It is managing equity needs of US\$5.3–5.7 billion through creative financing structures and cashflows through development periods from data centre customers.

- **Alternative funding and asset recycling.** Companies are reducing reliance on common equity through hybrid instruments, government funding and asset sales. A select few have access to low-cost Department of Energy (DOE) loans. CenterPoint Energy said it would consider further non-core divestments, having already agreed to sell its Ohio gas utility, to fund additional capex without further dilution.
- **Structural fixes to regulatory lag.** Some see regulatory or corporate structure changes as the more durable solution. Pinnacle West Capital's pending move to a Formula Rate Plan (FRP) should materially reduce regulatory lag and support a significant increase in its three-year capital plan at the Q4 2026 results. Portland General Electric is seeking approval for a holding company structure to narrow its own gap (11–12% rate base CAGR against 5–7% EPS CAGR). Commission staff have filed a stipulation in support, although the Citizens' Utility Board has formally objected. Algonquin plans to redomicile from Canada to the US, with a new headquarters in Chicago, to reduce withholding tax and its Base Erosion and Anti-Abuse Tax (BEAT) exposure from 2028.
- **New partnership capital.** Midstream companies are signing financing deals with insurers and income investors. These carry an annual cost of around 6–7% but are treated as equity by rating agencies, and give the company the option to buy back the assets after the initial term, so they behave more like a bond than a minority equity sale. Williams' recent joint venture with Blackstone implies a 6.35% return on equity for Blackstone, which is funding 49% of the equity for its first five contracted power generation projects (US\$9.6 billion of total capital), with the structure running to 2036.

Regulation – broadly constructive, with pockets of risk

Rate case developments

Despite the political backdrop, management teams described regulatory outcomes in most jurisdictions as broadly constructive, with reasonable staff recommendations and rate cases tracking towards settlement:

- Wisconsin commission staff recommended a 9.65% return on equity (ROE) in WEC Energy's rate case, against a current allowed 9.8%, which management sees as an effective floor for settlement.
- DTE Energy described the staff recommendation of a revenue increase of US\$617 million against an ask of US\$1,060 million (implied ROE of 9.75% vs 9.9% currently) as relatively constructive, alongside a proposed rate stay-out to at least 2028.
- Evergy described staff testimony in its Missouri rate case as reasonable, with renewable tax credits offsetting much of the revenue request, and it expects to settle in line with its current allowed ROE.
- Spire's Alabama rate reset came in at an ROE of around 9.4%, about 25bp below the current headline ROE but a smaller cut than feared, given intervenor testimony had recommended as low as 8.3%.

ROE compression in a rising interest rate environment is not a positive headline: the spread between allowed returns and the risk-free rate is being squeezed well below the level utilities earned in the decade of very low interest rates. However, companies are more focused on the detail in regulatory decisions. They want to ensure the approval of investment growth in the current environment, which is supporting absolute earnings growth and importantly, some companies are earning at or above their allowed returns:

- Southern Co is earning above its headline ROE in both Georgia and Alabama under current rate stay-outs, meaning it is not filing for bill increases in the medium term but is achieving strong returns through load growth and cost discipline. Management is working towards a Georgia rate case proposing no increase in rates through 2031, which should be well received by the regulator.
- In California, Sempra's latest General Rate Case (GRC) filings imply revenue increases starting at 8% and 10% for its two utilities, well above the 5% allowed in the previous rate case. Management remains confident of a reasonable outcome despite some less favourable recent decisions (the prior GRC, the

Track 2 wildfire memorandum account and the cost of capital adjustment). Sensitivity to rate increases is lower in San Diego due to lower customer usage in its mild-climate region and a higher socio-economic population.

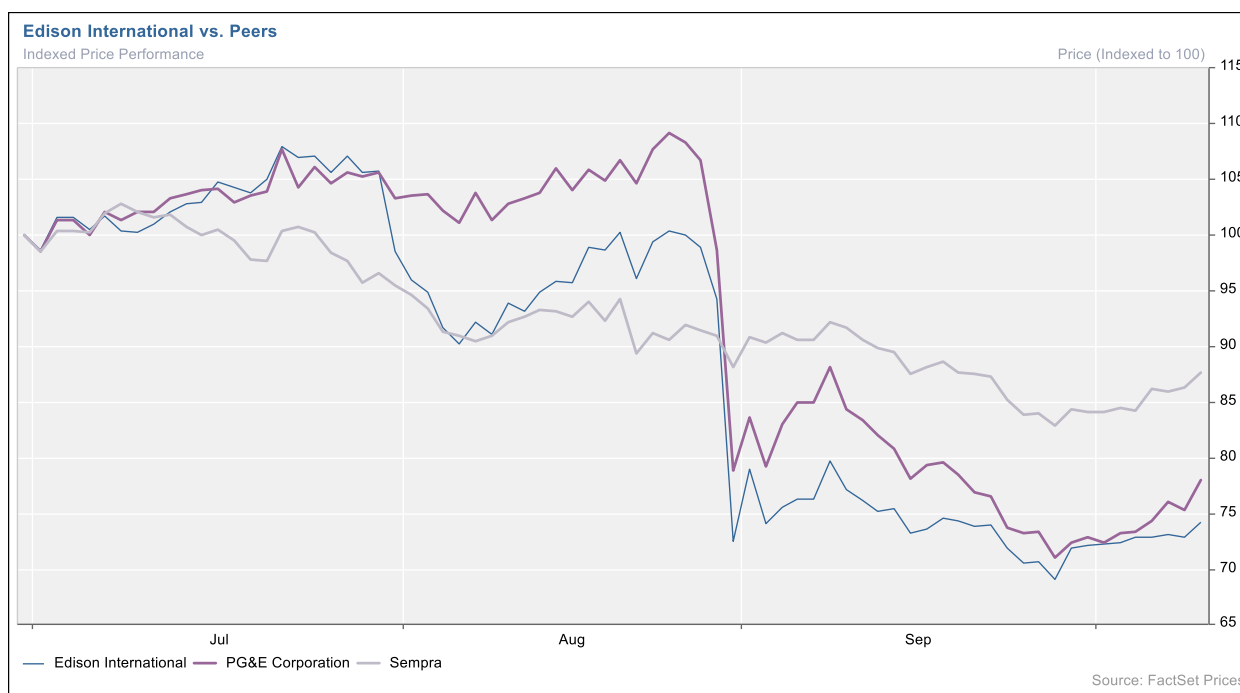
However, not all outcomes have been positive – the exceptions include a possible penalty to NiSource’s allowed ROE following its operational performance during a storm period, on top of a state-based affordability review, and calls from some regulators for better evidence of the benefits of investments made under rider mechanisms.

With state regulatory outcomes driving such divergence in earnings and value, stock selection is critical.

California wildfire legislation stalls

Wildfire liability remained the biggest challenge for California’s utilities in 2026. Edison International confirmed its equipment had been found to have ignited the Eaton Fire in Los Angeles, with estimated liabilities of around US\$4–5 billion based on the caps set under earlier 2019 legislation (AB 1054).

Hopes that California would pass legislation this year to shift wildfire liability away from utilities were not realised, with Governor Newsom and the state Senate unable to agree terms. Limits on insurers’ subrogation claims against utilities became the central issue. Insurance lobbyists argued these would push costs onto customers through higher premiums, the Senate rejected that element, and negotiations broke down. Edison International and PG&E shares fell around 23% and 20% respectively on the news that legislation was unlikely this session. 4D was not exposed, having chosen to wait for a definitive resolution of the wildfire overhang after nearly a decade of fire-related volatility. The share price performance of Californian utilities in the lead-up to legislative announcements is depicted below.



Source FactSet

Governor Newsom has since directed the California Public Utilities Commission to investigate the impact on customer bills of legislative inaction, positioning higher utility bills as a counterweight to the insurers’ premium argument. Edison International hopes this could open a path to a special legislative session, and has also engaged with Xavier Becerra, whom management described as a potential future governor, on the case for reform in the future.

Sempra Energy has Californian exposure, but its risk is more contained:

- Around half of that exposure is its gas utility, which is not exposed to wildfire liability.

- Its San Diego electric utility has 65% of its wires underground, substantially reducing ignition risk, and operates in a lower-risk region.

Sempra's own preferred legislative outcome is to retain the existing 20% liability cap, add a funding mechanism beyond the existing Wildfire Fund and pursue securitisation of exposures. Interestingly, it did not include limits on subrogation.

A similar wildfire debate is under way further north, with Portland General Electric noting that wildfire liability legislation is under consideration in both Oregon and Washington. We expect more states to consider their own legislation as the incidence of wildfires increases.

Gas infrastructure – power and LNG demand driving growth

Data centre power demand and liquefied natural gas (LNG) export growth are the core drivers of the midstream growth outlook:

- Williams guides to adjusted EBITDA growth of more than 11% over the medium to long term (3–5 years), driven by its core Transco pipeline and its Power Innovation division, which provides behind-the-meter gas-fired power to data centre developments. Management flagged that it is working on several potential sources of upside.
- Cheniere is confident of growing combined capacity at Sabine Pass and Corpus Christi to 72–74 Mtpa by the early 2030s through a further ~14 Mtpa of largely brownfield expansion, and reiterated that it is not seeking to compete on price. Greenfield growth beyond that is less certain as competition for LNG export intensifies. Our forecasts exclude greenfield projects given the uncertainty.

Gas generation demand is particularly strong in the Southeast, and midstream companies are extending interconnections off existing trunk pipelines into Alabama, Georgia and Tennessee, funding both the laterals and additional trunk capacity. Kinder Morgan said its existing network in the region is well placed to capture this demand, which could support billions of dollars of investment. After the trip, we ran sensitivities in our model: while not yet included in our base case, the potential for US\$5 billion of incremental investment offers around 100bp of IRR upside, supporting our conviction in the company.



Replica LNG tanker at the Cheniere headquarters

Long-dated contracts and counterparty discipline

Companies are securing unusually long commitments with high-quality counterparties. Targa Resources described its agreement with Exxon covering three initial gas processing plants in the Delaware Basin under a 20-year price commitment, with a further five plants considered highly likely. Management called it the largest gathering and processing deal in Targa's history, with a longer tenor than industry precedent. It is linked to Exxon's plans to move to 50% automated drilling in the Permian by 2028, supporting production growth from 1.8 to 2.5 million barrels of oil equivalent per day by 2030, an 8.6% CAGR. Because gas-to-oil ratios (GOR) are rising, gas volumes, which Targa gathers and processes, grow faster than oil volumes, as the chart below shows.

Figure 5 - Permian Growth and GORs



Source: EIA Short Term Energy Outlook; TD Cowen

The Iran conflict is a tailwind, but not seen as structural

Disruption in the Strait of Hormuz is supporting near-term demand:

- Cheniere linked strong recent contracting, and short-term support for uncontracted volumes, to the conflict, with global LNG prices around US\$20/MMBtu at the time of the meeting and very low European gas storage heading into winter. Management does not expect Qatar to be out of the market permanently, but sees it playing a smaller role in future global supply.
- Cheniere was careful to describe near-term operational and marketing "optimisation" gains, including finishing trains ahead of schedule and higher marketing margins, as upside that should not be capitalised into long-term valuations.
- Targa linked strong liquefied petroleum gas (LPG) demand, as Asian buyers redirect purchases to the US Gulf Coast, to reduced Qatari supply.

We see this as a strong 2026 earnings boost but do not extrapolate it into 2027 and beyond at this stage.

Capital returns are rising as growth capex matures

- Cheniere reported second-quarter earnings well ahead of consensus, raised full-year guidance by around US\$700 million at both ends of the range and confirmed a US\$10 billion buyback authorisation. It flagged capital allocation beyond the early 2030s, once the brownfield pipeline is exhausted, as an open question that could include a higher dividend.

- Targa expects high single-digit annual volume growth at least to 2028, and probably beyond 2030, with significant free cash flow from 2028 once larger projects building out its integrated value chain are complete. It intends to keep growing the dividend while maintaining debt/EBITDA of 3–4x and remaining selective on M&A.

Earnings growth for crude-exposed midstream names depends on basin exposure, with the Permian among the most attractive globally, and on vertical integration, which widens the moat and supports margins. This favours certain companies, making stock selection key.

M&A and corporate restructuring

M&A is being pursued as a route to scale, but regulatory approval, and the customer benefits needed to secure it, are the key hurdles.

- **NextEra–Dominion.** The proposed merger, which would create the largest US utility with a combined market capitalisation of more than US\$200 billion, remains the dominant focus for both companies. Decisions from Virginia and South Carolina are expected around January 2027, with North Carolina to follow. Since our meetings, the companies have increased the customer benefits on offer, extending a US\$10 a month customer credit from two years to four and adding commitments on supply-chain purchasing, job training and education in Virginia. This was funded by a larger shareholder contribution and by reallocating some benefits from large industrial customers, including data centres, to residential and small commercial customers. Management believes this improves the chance of approval. Dominion noted a US\$4.8 billion break fee payable to it if the deal fails on regulatory grounds, which would cover its equity needs for an extended period. Our investment thesis for both names is not based on a successful merger approval.
- **NorthWestern Energy–Black Hills.** The proposed merger is expected to be resolved around October–November 2026, after a commissioner of the Montana Public Service Commission was removed and replaced. Management described the replacement, Bushman, as constructive, with a solid utility background.
- **Portland General Electric** cited scale and diversification as the rationale for its proposed acquisition of PacifiCorp’s Washington State assets, although Washington’s Attorney General has pushed back. We are less supportive of this deal given the limited wildfire diversification that Washington State provides.
- **Algonquin** is moving the other way. Having divested its Chilean assets, it is reviewing its broader portfolio to reduce diversification, concluding that its spread across water, gas and electric assets in many small jurisdictions limits its scale and influence in any one market. We think this rationalisation is a positive step forward for Algonquin.
- **Keyera.** The key issue is securing approval for its acquisition of Plains All American’s Canadian NGL assets. The Competition Bureau has challenged the deal on the basis that it reduces the number of integrated natural gas liquids (NGL) processing providers at Fort Saskatchewan (roughly 87% of Alberta’s fractionation activity) from three to two. Management is confident in its position and prepared to take the matter to the Competition Tribunal, with hearings due to begin in August 2027, although remedies including divestitures have not been ruled out. Our base case is that the deal proceeds.

Water utilities – M&A-led growth and scarcity value

Water continues to carry somewhat lower regulatory risk than electric and gas utilities, with consolidation the key growth theme. Our meeting with H2O America provided strong insight into its strategic transformation:

- **M&A as a growth lever.** H2O America described its agreed acquisition of Quadvest in Texas, expected to close in October, as “transformational”, lifting Texas from around 3% to approximately 27% of the business

and providing a substantial new source of customer growth. It was well placed to win: the timing of its own rate case filings suited the deal, it had already raised equity for a separate, unsuccessful transaction, and a favourable Fair Market Value (FMV) assessment by an independent appraiser, together with established local relationships, gave it an edge over other bidders.

- **Rate case execution is the key near-term risk.** The Texas rate case combines existing and Quadvest customers and reflects investment in water supply and pipe replacement across the combined base, as well as the higher rate base from the FMV uplift. Management acknowledged the process “could be messy”, noting it has not filed a Texas rate case in ten years and that the FMV uplift is partly responsible for the higher ask.
- **Scarcity value for pure-play water.** With American Water and Essential Utilities tied up in their merger, H2O America may be benefiting from a lack of alternative pure-play water options for investors seeking diversification away from electric utilities’ data centre exposure.

The deal is a strong one but we believe the strategic improvement has been fully valued by the market at these levels, and there is underappreciated risk in the associated Quadvest rate filing in Texas.

Conclusions

This trip reinforced our conviction in the generational US energy infrastructure opportunity created by load growth and the tech companies driving AI, but also reminded us of the risks and regional headwinds companies face as they balance significant investment needs against customer affordability. The investment cycle driven by data centres, electrification and reshoring is real, largely contracted and, for most companies, still growing. It is also increasingly a political as well as economic story. Affordability, social licence and the midterms will shape regulatory outcomes over the next 12 to 18 months, and the dispersion between companies is widening as a result.

We remain focused on companies with stable earnings, strong customer protections, credible financing pathways for the investment cycle, and management teams managing the political and regulatory backdrop as carefully as the growth opportunity itself. Gas infrastructure remains a clear beneficiary, while we continue to see California wildfire liability as a distinct, company-specific risk.

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