Trip Insights

Canada - US

January 2026

4D infrastructure

A Bennelong boutique

This is the 22nd edition of our *Trip Insights* series, following a research trip undertaken by Seb Clemens, Investment Analyst, across Canada and parts of the United States in December 2025. During the trip, he met with management teams spanning the rail, midstream, independent power producer (IPP) and regulated utility sectors.

The trip provided valuable insight into the evolving political and economic landscape across North America including their impact on the infrastructure sector. Notably, Trump tariffs continue to impact several sectors (particularly the rails) while the upcoming USMCA renegotiation is likely to keep trade policy uncertainty front of mind as we move into 2026. However, the long-term structural themes remain intact - midstream companies are benefiting from the emergence of a new wave of energy infrastructure on Canada's West Coast, while utilities and IPPs continue to navigate once-in-a-generation load growth dynamics.

This piece summarises the key themes from the trip and outlines how they have informed changes to our positioning across regions and sectors.

Contents

Trip agenda

Investor meetings included the following companies:

Sector	Stock	Location
Midstream	AltaGas	Calgary, CA
Midstream	South Bow	Calgary, CA
Midstream	TC Energy	Wells Fargo Conference
Midstream	Pembina Pipeline	Calgary, CA
Midstream	Gibson Energy	Wells Fargo Conference
Midstream	Keyera	Calgary, CA
IPP	TransAlta	Calgary, CA
IPP	Capital Power	Calgary, CA
IPP	Boralex	Montreal, CA
IPP	Northland Power	Toronto, CA
IPP	Brookfield Renewable Partners	Wells Fargo Conference
Rail	CSX	Jacksonville, FL
Rail	Canadian National	Montreal, CA
Rail	Canadian Pacific	Calgary, CA
Utilities	North-West Natural	Wells Fargo Conference
Utilities	Emera	Wells Fargo Conference
Utilities	Eversource Energy	Wells Fargo Conference
Utilities	Algonquin	Wells Fargo Conference
Utilities	Spire	Wells Fargo Conference
Utilities	ONE Gas	Wells Fargo Conference
Utilities	Hydro One	Wells Fargo Conference
Utilities	Canadian Utilities	Calgary, CA

Politics

The Carney effect

Mark Carney won the April 2025 federal election, having succeeded Justin Trudeau the month earlier to ultimately lead the governing Liberals to a resounding win.

During the campaign, Carney positioned himself as best placed to manage relations with President Trump, who had imposed significant tariffs on key Canadian sectors alongside rhetoric framing Canada as a potential '51st state'. Since taking office, Carney has taken several steps aimed at de-escalating tensions with the US administration, including rolling back the proposed digital services tax and removing a range of retaliatory tariffs on American goods. Despite these efforts, an agreement to lift US sectoral tariffs has yet to materialise. Carney has defended his approach, arguing that Canada retains the 'best deal' among US trading partners given the tariff exemptions secured under the United States–Mexico-Canada Agreement (USMCA). With the USMCA scheduled for negotiation in 2026, managing this relationship is likely to represent his most significant policy challenge over the coming year.

While trade tensions dominated headlines earlier in the year, Carney has since pivoted toward a broader domestic economic agenda, with a focus on energy and infrastructure. Relative to his predecessor, he has adopted a materially more pro-energy, pro-export and pro-capital stance. Whereas Trudeau often framed energy policy under a climate first, economics second regime, Carney has reordered priorities and is looking to fast-track major projects in order to position Canada as a global 'energy superpower'.

In September, Carney announced the first tranche of projects earmarked for acceleration, representing approximately CAD 60bn of investment, across nuclear power (including a Small Modular Reactor (SMR) in Ontario), LNG (LNG Canada Phase 2), and critical minerals (a new copper and zinc mine in Saskatchewan)[1]. This was followed in early November by a second CAD 56bn package, featuring additional LNG capacity (Ksi Lisims LNG), a new hydro transmission line, and further critical-minerals developments[2].

Although these early initiatives were largely focused on lower-carbon energy sources, they were soon followed by a Memorandum of Understanding (MOU) with Alberta that included ambitions for an additional oil pipeline. To facilitate the project, the MOU also suspended proposed federal oil and gas emissions caps and, "if necessary" would amend the tanker ban to allow crude exports from Northern BC – clearly signalling Carney's willingness to ease climate policies in order to spur investment.

While these moves have been met with significant environmental and Indigenous opposition, they have been broadly welcomed by the investment community, particularly within the midstream sector, where overall sentiment has been positive (albeit with some scepticism around execution – see midstream section). We view this as a positive shift for the domestic infrastructure names, particularly those capable of supporting an energy growth story and the proposed project initiatives.

Economics

USCMA – a key flashpoint in 2026

Like most nations, the most significant economic thematic for Canada in 2025 was the introduction of tariffs under the Trump administration. The US is Canada's largest trading partner, accounting for 76% of Canada's exports[3] and 19% of Canada's GDP[4]. This leaves Canada particularly exposed to sectoral tariffs across key metals (steel, copper, and aluminium), vehicles and parts, lumber and a blanket 35% on everything else exported from Canada to the US. However, the impact has been materially softened by exemptions for goods

[1] Energy Mix, September 2025, 'Carney Unveils $60B Fast-Track Projects as Critics Warn of Threats to Democracy, Environment', link
[2] Energy Mix, November 2025, 'Carney Announces New LNG, Mining, and Hydro Projects in $56B Package', link
[3] Statistics Canada, February 2025, 'Canadian international merchandise trade, December 2024', link
[4] Scotiabank Research, February 2025, 'Canada-US Trade: Getting Up To Speed', link

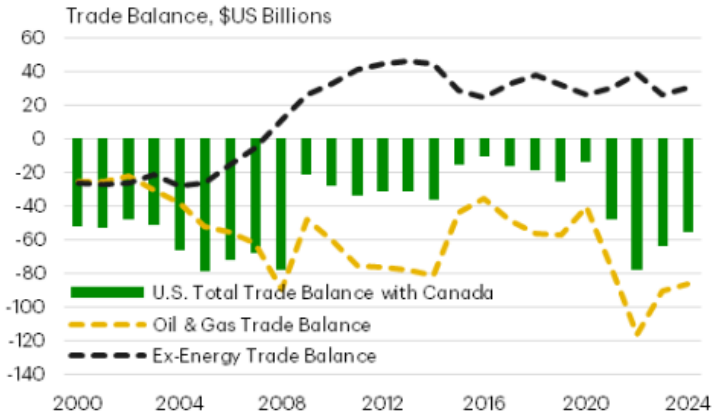
qualifying for duty-free treatment under the USMCA. These exemptions are broad-based, covering close to 85% of Canada-US trade[5]. As a result, the effective tariff rate on US imports from Canada sits at approximately 6% (as of August 2025[6]), up from near zero at the start of the year but among the lowest across US trading partners.

With USMCA exemptions muting the initial tariff shock, the economic fallout for Canada has been more contained than initially feared, with more modest impacts on growth and inflation. That said, risks remain with the scheduled renegotiation in July 2026 likely to sustain trade policy uncertainty, at least through the first half of the year.

Under its six-year 'sunset' clause, the USMCA is due for review on 1 July 2026. At that point, the three countries must agree on any changes and decide whether to ratify the agreement. Ratification would extend the treaty by a further 16 years to 2042. Absent ratification, the parties would enter a period of annual reviews for up to ten years or until a new 16-year agreement is reached. In this context, any country would retain the right to withdraw from the agreement. President Trump's recently commented that, "we could have it or not, it wouldn't matter to me[7]", underscoring the risk of a non-extension outcome, which would be highly disruptive to North American trade.

Encouragingly, most management teams we spoke to during our trip expect the USMCA to be extended and remain largely intact, reflecting its strategic importance to *all three* countries, not just Canada and Mexico. The stakes for the US are substantial, with country to country trade totalling US$909.1bn with Canada[8] and US$935.1bn with Mexico[9], making them the United States' two largest trading partners. From Canada's perspective, excluding energy, the US actually runs a trade surplus with Canada, implying that more is at risk for the US in absolute terms and affording Canada some degree of leverage. That said, given President Trump's unpredictable approach to trade policy, outcomes remain uncertain. What was historically viewed as a largely procedural review has now become a key potential flashpoint in 2026. From an equity market perspective, a breakdown of the USMCA would have broadly negative implications for Canadian corporates, with North American railroads among the most directly exposed.

The US runs a consistent surplus with Canada if not for energy trade



Source: TD Economics, Census Bureau.

[5] Associated Press, August 2025, 'Crucial exemption allows majority of Canadian and Mexican goods to be shipped to US without tariffs' link
[6] Fulcrum, August 2025, 'Just the Facts: Canada-US Tariff Update- What's Changed Since March 2025?' Link
[7] PoliticoPro, January 2026, 'Trump shrugs at USMCA as high-stakes review looms', Link
[8] Office of Unites States Trade Representative, 2024, 'Canada', Link
[9] Office of Unites States Trade Representative, 2024, 'Mexico', Link

Canadian Midstream

Confidence in WCSB production growth, despite soft oil prices

All Canadian midstreams have a varying portion of their assets positioned in and around the West Canadian Sedimentary Basin (WCSB), which is a large, well explored basin that accounts for 95% of Canada's oil production and all of its marketable gas. Looking through to the end of the decade, WCSB production is expected to grow strongly across all key commodities. This growth is largely due to large infrastructure projects coming on line, which are pulling more volumes from the basin:

- **Gas/ NGLs:** 2025 marked Canada's official entry into the global LNG export market as the massive ~C$50b 'LNG Canada' came into service. Referring to the chart below, a number of other LNG projects are expected to come on line which should see capacity grow into the next decade, requiring more gas production in the WCSB. AltaGas is also expanding LPG export capacity which should also increase demand for Natural Gas Liquids (NGLs) like propane and butane.
- **Oil:** The Trans Mountain pipeline expansion, which nearly tripled volumes heading to the West Coast of Canada for export, is still filling up.

Select Western Canada LNG export projects

	Company	Export Capacity	FID Date	Capex	In-Service Date
1	LNG CANADA Phase I	~1.8 Bcf/d	2018	C$48.3bn	2025
2	Woodfibre LNG	~0.3 Bcf/d	2022	US$8.8bn	2026+
3	CEDAR LNG	~0.4 Bcf/d	2024	US$4.0bn	2027+
4	FORTIS (Tilbury)	~0.3 Bcf/d	n/a	C$3.3bn	2028+
5	KSI LISIMS LNG	~1.6 Bcf/d	n/a	C$9.9bn	2030+
6	LNG CANADA Phase II	~1.8 Bcf/d	n/a	TBD	2030+

Source: Rockpoint Gas Storage investor presentation 2025.

While we favour midstreams that limit their volume and commodity exposure through contracting (i.e. higher percentage of long-term take-or-pay contracts), all Canadian midstreams indirectly benefit from higher production volumes as it incentivises their customers (which include the producers) to expand their asset footprint leading to more growth projects. To this end, all Canadian midstreams, particularly the smaller players with assets more focused in the WCSB (Pembina, Keyera, Gibson) are bullish about their ability to finalise new projects to support their growth objectives.

This outlook for production growth may be at odds with a falling oil price in 2025 (and likely sustained pressure from OPEC supply into 2026), however management teams were quick to highlight the basin's favourable economics, particularly the oil sands producers. According to S&P Global, the half-cycle break-even prices for these producers (the cost to sustain output from existing assets and cover only operating expenses) range from roughly US$18 to US$45 per barrel[10] meaning they will continue to produce in the sub US$60 environment we are in today. This low-cost profile makes Canadian producers extremely resilient to lower commodity prices, resulting in steady production for Canadian midstreams.

[10] ATB, July 2025, 'Built to withstand the storm' link

Could we see another major oil pipeline built in Canada?

Of all the projects announced by Prime Minister Carney, the proposal for a new oil pipeline to the West Coast, outlined in the MOU with Alberta, was by far the most topical and, from a midstream perspective, the most consequential. This project is particularly notable given Canada's chequered history with large greenfield oil pipelines. Many Canadians remain scarred by the Trans Mountain expansion, which only entered service in 2024 after facing significant environmental and Indigenous opposition and severe cost overruns. The project's initial CAD5.4bn budget ultimately ballooned to more than CAD34bn[11], with public funds covering the majority of the cost, raising ongoing concerns around taxpayer exposure and repayment. As a result, Trans Mountain was widely viewed as the last major oil pipeline likely to be sanctioned in Canada.

Under the recent MOU, the new proposed pipeline would have capacity of "at least one million barrels per day,"[12] representing a material ~16% increase relative to the nearly six million barrels per day of oil pipeline capacity in the region today. Incremental egress of this scale would be positive for the entire Canadian midstream complex, with particular benefits for liquids-focused names:

- Oil pipeline operators Enbridge and South Bow could emerge as (likely partial) owners of the pipeline;
- NGL players Pembina and Keyera would benefit from increased demand for condensate used as diluent for the heavy oil that would flow though pipelines; and
- Gibson would see higher utilisation across its terminal network in the basin.

That said, all midstream management teams emphasised that the project remains at a very early stage. The announcement has already attracted strong opposition from First Nations groups in British Columbia[13], which the pipeline would need to traverse, and the lack of detail was met with considerable scepticism during the trip. One management team noted that a CAD30bn pipeline without direct subsidies would likely require tolls of ~CAD20/bbl, roughly double current uncommitted tolls to the Pacific or the US Gulf Coast, rendering the project commercially unviable in its current form.

Overall, while midstreams viewed the MOU as a positive signalling event, there remains substantial work to do and many unresolved details before the project can be credibly underwritten. Importantly, any investment from private players must be protected from cost over-runs.

What about Venezuela?

One notable post-trip development that could add urgency is the potential ramp-up of Venezuelan oil production following Trump's capture of President Maduro. Venezuela and Canada both produce heavy oil and, prior to the re-imposition of US sanctions in 2017, competed directly for US Gulf Coast refinery demand. These refineries are uniquely configured to process heavy oil, rather than the light oil predominantly produced in the US. A meaningful recovery in Venezuelan production could therefore displace a portion of the ~500k bpd of Canadian oil currently flowing to the Gulf Coast.

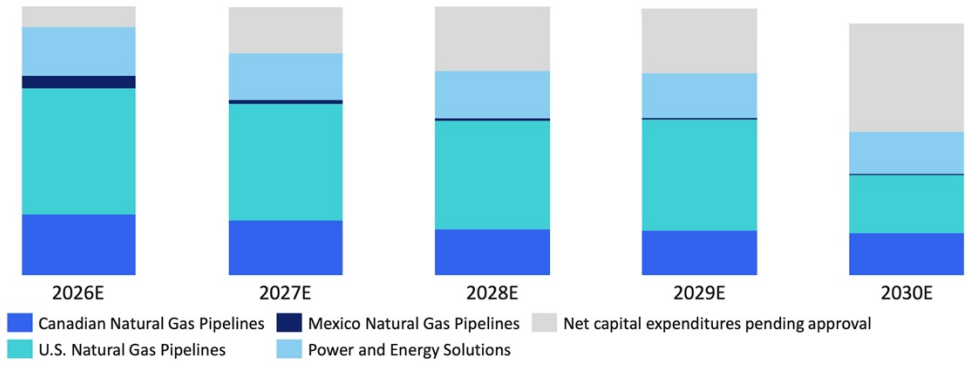
That said, the situation in Venezuela remains fluid, and it is unclear whether major producers will be willing to commit the substantial capital required to rehabilitate a severely degraded oil system amid ongoing political instability. Nevertheless, any material progress on this front would only strengthen the case for an additional westbound oil pipeline. A one mbpd pipeline would more than offset this risk while also reducing Canada's reliance on the US market.

[11] Narwhal, September 2024, 'Trans Mountain paid McKinsey over $32M to save money as pipeline costs exploded', link
[12] Prime Minister of Canada, November 2025, 'Canada-Alberta Memorandum of Understanding', link
[13] CBC News, December 2025, 'Alberta Treaty 8 chiefs demand pause on pipeline agreement, threaten legal action' Link

Scope for improved regulatory returns in Canada

For years, North American midstream giants TC Energy and Enbridge have been prioritising capital investment in the US over Canada due to better returns. Using Enbridge's target returns as an illustration, Canadian gas projects typically attract build multiples of ~10 - 11x, compared with ~6 – 8x for comparable US gas projects. This gap is driven partly by stronger US demand, but also by regulatory differences: in the US, incremental pipeline laterals can be contracted on a take-or-pay basis outside the regulated framework, whereas in Canada all investment is captured within rate base which is lower risk but offers lower returns. This capital-allocation bias is evident in both companies' latest capital plans, which show a clear weighting toward US assets (see below for TC Energy as an example).

TC Energy capital backlog shows a clear bias towards US natural gas pipelines (in turquoise) vs Canadian natural gas pipelines (in royal blue)



Source: TC Energy investor presentation 2025.

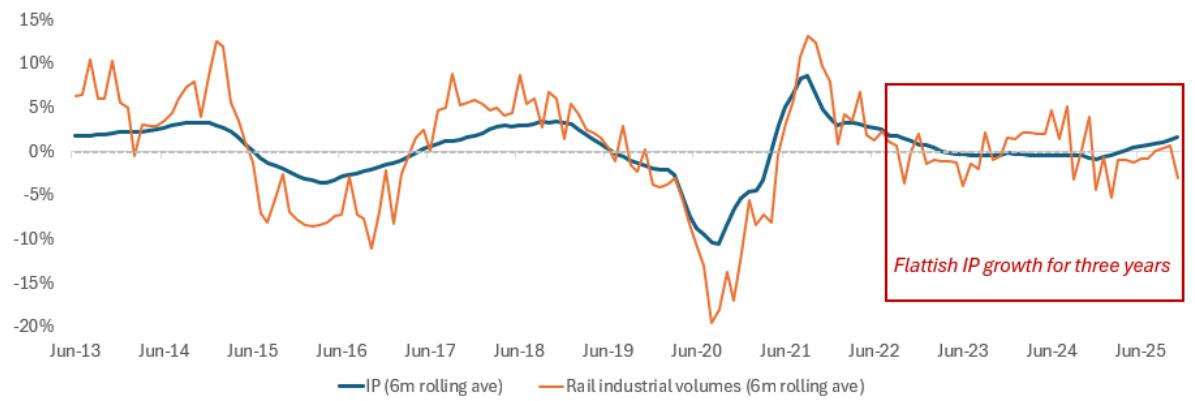
Interestingly, feedback from the trip suggests Canadian shippers are becoming increasingly concerned about the risk of under-investment, noting that neither TC Energy nor Enbridge has a formal obligation to allocate to their Canadian systems. Against this backdrop, TC Energy expressed cautious optimism that future settlements could offer improved economics to attract incremental capital. We note TC Energy's Canadian Mainline is currently under negotiation with an expected outcome in 2026. While the Mainline is a relatively small asset (~6% of TC Energy EBITDA), a constructive outcome could set an important precedent for the rest of TC Energy's Canadian assets which represents a far more material ~24% of EBITDA.

Rails

No one calling a freight inflection yet

Earnings growth across the North American rail sector has been underwhelming in recent years, with sector-wide EBIT growth broadly flat/negative over the last three years (excluding Canadian Pacific). A key driver has been weak industrial volumes, which represent a meaningful 35–44% of total rail revenues. As illustrated below, these volumes are closely correlated with US industrial production, which has remained sluggish for the past three years.

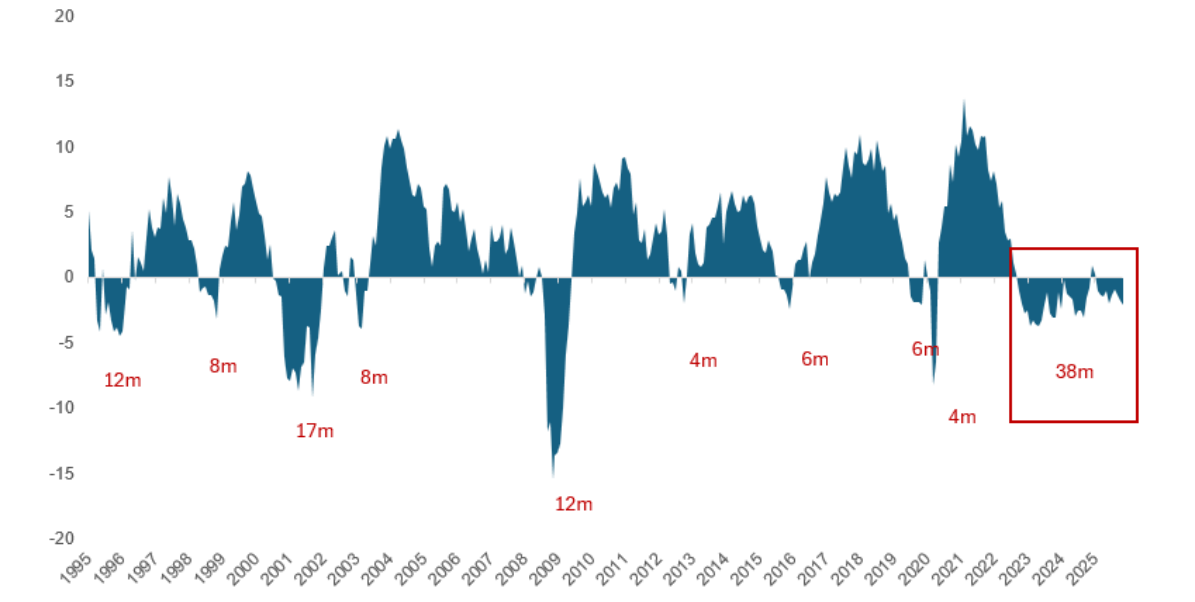
North American rail industrial volumes and US industrial production



Source: Association of American Railroads (AAR), Federal Reserve Industrial Production.

The Institute for Supply Management (ISM) publishes a monthly survey of manufacturing purchasing managers and is widely viewed as a leading indicator for US manufacturing activity and a proxy for industrial production. Readings above 50 indicate expansion, while readings below 50 signal contraction. Excluding a brief, short-lived expansion before April 2025 Liberation Day, the ISM has remained in contraction for 38 consecutive months, marking the longest recession in the past three decades.

US ISM manufacturing PMI (above or under 50)



Source: Institute of Supply Management.

Feedback from the meetings with the North American rail operators broadly corroborated this weak backdrop, with few management teams willing to call an inflection yet. While some expressed optimism around a potential recovery in 2H26, they emphasised that a meaningful upturn would likely require a sustained decline in the 10-year Treasury yield to stimulate capital investment and, critically, housing starts, which drive volumes across multiple rail segments.

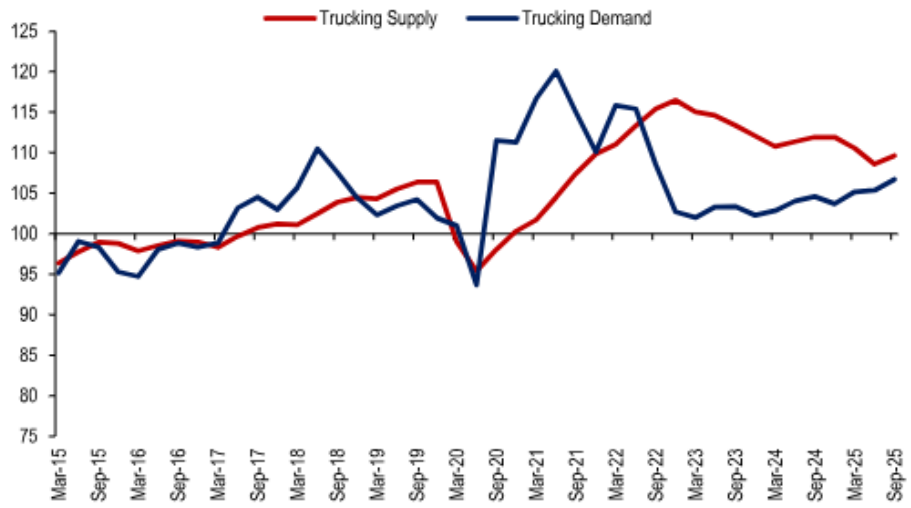
Consistent with this view, at 4D we are not yet underwriting an industrial inflection. Instead, we remain positioned in high-quality rail operators trading at more attractive valuations, such as Canadian National, where we see a margin of safety and limited downside risk.

Trucking capacity could finally be exiting

While the majority of rail-shipped commodities face limited competition and therefore enjoy strong pricing power, certain categories (including intermodal, forest products, and parts of the automotive supply chain) do compete directly with trucks. Depending on the railroad, these trucking-exposed segments can account for roughly 30-40% of revenues. In these markets, rails typically price at a discount to trucks, making rail pricing sensitive to movements in trucking rates.

Trucking rates have remained stubbornly low for several years, reflecting not only weak freight demand (note the aforementioned freight recession impacts all transports not just rails) but also persistent excess capacity. Many trucking operators emerged from the 2021-22 freight boom well capitalised, allowing them to withstand the current downturn longer than expected and delaying the normal supply rationalisation required for rates to stabilise.

Trucking supply growth from 2021-22 boom has outweighed demand over the last three years, falling only slowly



Source: Wells Fargo.

This dynamic may be poised to change under the Trump administration, which is pursuing structural reforms that could lead to a meaningful reduction in trucking capacity.

Through the Federal Motor Carrier Safety Administration (FMCSA), the administration has intensified scrutiny of 'immigrant' drivers via tighter regulation. While the policy direction was signalled earlier in the year through April regulations targeting limited English proficiency[14], actions escalated in November with new rules significantly restricting eligibility to obtain or renew non-domiciled commercial driver's licences (CDLs), limiting access primarily to certain employment-based visa holders[15]. The FMCSA has already issued directives to several states, including California and New York, warning of potential federal funding consequences unless non-compliant licences are revoked within specified timeframes.

The FMCSA estimates that the majority of the ~200,000 drivers currently holding non-domiciled CDLs will be rendered ineligible under the new framework[16]. This equates to roughly 5% of industry capacity (with some brokers estimating closer to 10%), which the agency expects to exit the market over the next two years as licences come up for renewal.

[14] The White House, April 2025, 'Enforcing Commonsense Rules of the Road For America's Truck Drivers' Link
[15] FMCSA, September 2025, 'Trump's Transportation Secretary Sean P. Duffy Takes Emergency Action to Protect America's Roads, Restrict Non-Domiciled CDLs', Link
[16] Freight Waves, September 2025, 'FMCSA issues emergency rule restricting non-domiciled CDLs' Link

Although these measures have triggered legal challenges in several affected states, the rail operators were broadly constructive on the policy, viewing the potential tightening in trucking capacity as a catalyst for a recovery in truck rates and, by extension, improved pricing conditions for rail over the medium term.

Transcontinental merger set to continue dominating headlines in 2026

The proposed transcontinental merger between Union Pacific (UNP) and Norfolk Southern (NSC) has dominated rail-industry headlines throughout 2025. At the time of our visit, most industry participants were in a wait-and-see mode, as UNP had yet to file its formal merger documentation. As a result, there was limited incremental insight to report.

Since then, UNP submitted a nearly 7,000-page merger application to the Surface Transportation Board (STB), triggering early signs of political positioning. BNSF Railway, Canadian Pacific Kansas City, Canadian National Railway, and CSX have all filed comments arguing that the application should be rejected as incomplete[17]. UNP has responded by disputing many of these claims, characterising them as "baseless" tactical attempts to delay and prolong the review process[18].

In mid-January, the STB ruled in favour of the opposing railroads and rejected the merger application on completeness grounds. While the regulator emphasised that this decision should not be interpreted as an indication of its ultimate view on the merits of the merger, it does introduce delays (potentially by weeks or even months) and represents an awkward start to what is likely to be a lengthy and contentious process involving extensive hearings, submissions and stakeholder commentary. As a result, a final decision now appears more likely in mid-2027 rather than early 2027.

Independent Power Producers

Mixed feedback on the recontracting and repowering opportunity

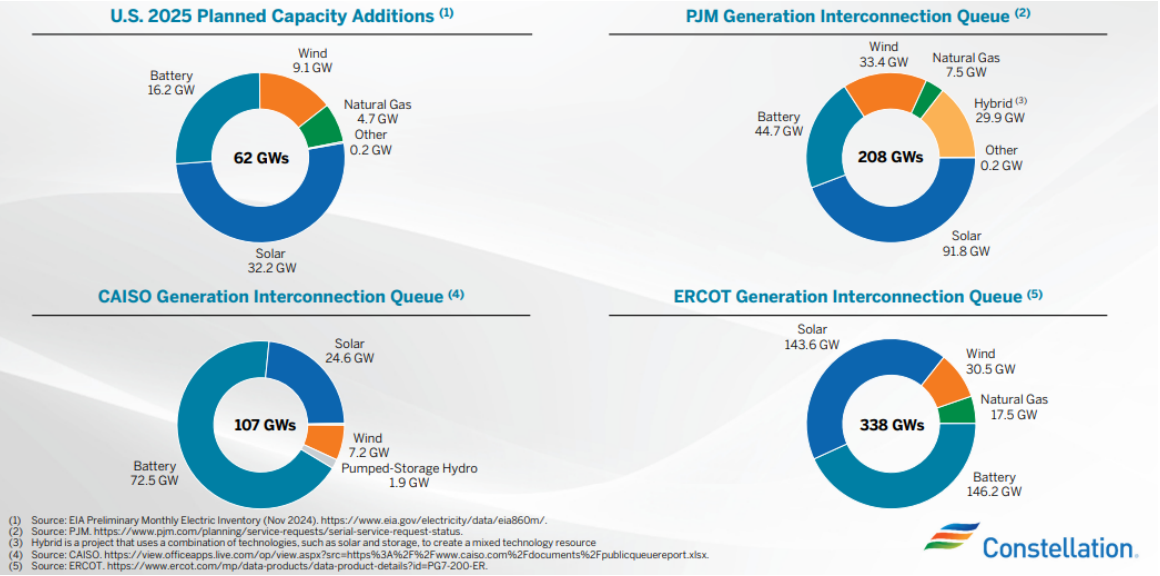
With power demand increasingly outpacing supply across many global markets, independent power producers (IPPs) we met with are focused on ways to extract more value from their existing asset bases. Two of the fastest and most capital-light levers are (1) recontracting and (2) repowering, although management feedback was mixed across renewable and conventional generators.

Recontracting opportunities have proven highly regional as well as technology driven. As one industry participant noted, "if you're not baseload or tied to data-centre demand, recontracting at higher prices is far from guaranteed." In this context, large renewable IPP Brookfield Renewable stands out, with around 5 TWh of hydro capacity located in US markets with strong data centre demand coming up for recontracting. Alongside nuclear, hydro occupies a rare position as both renewable and baseload generation, enabling meaningful price uplift from corporate off takers with sustainability objectives, particularly hyperscalers such as Alphabet who have recently announced commitments[19]. Brookfield is also increasingly willing to move away from traditional utility counterparties, reflecting both the credit quality of these corporate customers and the long-dated nature of the contracts (20 years). By contrast, renewable developers with predominantly intermittent portfolios (wind and solar), such as Boralex and Northland Power, are seeing more uneven outcomes. Northland Power for example is likely to see lower contracted power prices for some of its offshore wind assets in Europe as they move away from government schemes to corporate off takers.

[17] TrainsPro, December 2025, 'Competing railroads say UP-NS merger application omits key information' Link
[18] FreightWaves, January 2026, 'Union Pacific, Norfolk Southern defend completeness of merger application' Link
[19] Utility Dive, July 2025, 'Google to buy up to 3 GW of hydro power from Brookfield' Link

For IPPs with conventional generation like TransAlta and Capital Power, their assets have come back into favour after years of policy-driven pressure away from fossil fuels and toward renewables, reflecting their baseload characteristics. As per the chart below, interconnection queues for new generation across North America remain heavily congested with intermittent renewable projects. Meanwhile, increasing gas generation costs and long lead times for new gas turbines mean meaningful incremental gas supply is unlikely before the 2030s. This scarcity of baseload energy has driven strong recontracting outcomes for existing gas generation, characterised by both higher prices and longer tenors. Capital Power, for example, recently recontracted a 1.2 GW Michigan gas facility for a 10-year period from 2030 to 2040, double the previous five-year term, at pricing approximately 85% above current levels[20].

New supply is primarily intermittent renewables, increasing the value of baseload generation



Source: Constellation Energy investor presentation, January 2025.

Repowering, the upgrade or modernisation of existing assets nearing retirement, represents another important lever in the current market. Repowering can materially improve efficiency and output, extend asset life, and crucially avoid many of the bottlenecks associated with greenfield development, including permitting, land access, interconnection, and community acceptance. In North America, however, the repowering opportunity for many IPPs remains limited, as much of the generation fleet is not yet sufficiently aged. This contrasts with Europe, where older wind and solar fleets provide a larger repowering runway.

Among renewable operators, Brookfield has completed a number of repowerings, including one of the largest wind repowering projects globally in 2024, increasing generation by ~25% and extending the asset's useful life by approximately ten years[21], though these remain immaterial relative to its broader development pipeline. Boralex called out a number of wind repowering opportunities in France, similarly modest compared to its ~8 GW development pipeline.

[20] Capital Power, September 2025, 'Capital Power executes new contract for Midland Cogeneration Venture with Consumers Energy', Link
[21] Brookfield Renewable Partners, November 2024, 'Q3 2024 Letter to Unitholders', Link

On the conventional side, repowering opportunities are highly site-specific, requiring favourable locations, clear demand, and strong contracting prospects. For both TransAlta and Capital Power, the opportunity has centred on upgrading legacy sites and technologies. In particular, coal-to-gas conversions have proven especially attractive. TransAlta recently announced a 700 MW coal-to-gas conversion at a 5.5x build multiple, fully contracted for 16 years with Puget Sound Energy, with no exposure to fuel price risk[22].

Battery storage costs continue to come down, but Trump tariffs hinder US developments

One area of excitement across renewable IPPs was the continued sharp decline in Battery Energy Storage System (BESS) costs across several key markets. This feedback aligns with BloombergNEF's Energy Storage Systems Cost Survey 2025, which estimates global average turnkey battery storage prices (those that are completed, pre-integrated and ready to operate) at US$117/kWh as of December 2025, nearly one-third lower than 2024 levels[23]. Prices are now at their lowest point since BloombergNEF began tracking the market in 2017, following an even steeper ~40% decline between 2023 and 2024.

This reflects a clear long-term trend driven by technological improvements, manufacturing scale, and lower raw-material costs (notably lithium). That said, the decline has been uneven across regions. After years of intense competition, Chinese suppliers have firmly established themselves as the global low-cost producers, with average turnkey system prices around US$73/kWh, compared with roughly US$177/kWh in Europe and US$219/kWh in the United States.

In the US, BESS economics are further impacted by supply-chain frictions stemming from Trump tariffs, which have become a material factor in shaping project costs. Given the historical reliance on Chinese battery cells and components for utility-scale storage, import tariffs directly inflate system prices. In June 2025, Wood Mackenzie estimated that tariffs could increase utility-scale BESS costs by 12% to more than 50%, depending on the scenario[24]. While these measures are intended to support domestic manufacturing, US capacity is currently estimated to meet only around 6% of battery demand[25], leaving the market heavily dependent on imports for the foreseeable future.

Overall, while US BESS costs have come down, tariffs have constrained both the pace and depth of those cost reductions relative to a tariff-free scenario. This has prompted some renewable developers we met to prioritise battery investments in other jurisdictions. As an example, Boralex recently commissioned its first standalone BESS project in its home market, the 80 MW / 320 MWh Sanjgon Battery Energy Storage project in Lakeshore, Ontario.

We continue to closely monitor the movement in BESS prices where falling costs have improved the economics of dispatchable solar (solar paired with battery storage), a large opportunity not just for renewable players in Canada but globally.

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[22] Yahoo Finance, December 2025, 'TransAlta Signs Long-Term Agreement for 700 MW at Centralia Facility Enabling Coal to Natural Gas Conversion' Link
[23] Energy Storage, December 2025, 'Battery storage system prices continue to fall sharply, BNEF and Ember reports find', Link
[24] Wood Mackenzie, June 2025, 'Tariffs to increase costs and slow down development for US power industry', Link
[25] Wood Mackenzie, June 2025, 'Tariffs to increase costs and slow down development for US power industry', Link

Utilities

Gas utilities flying 'under the radar' versus their electric utility counterparts

There are few Canadian utilities without significant US exposure, meaning many of the themes explored on this trip overlapped with those from our October 2025 US trip. One issue that remains front of mind is affordability, particularly the relative positioning and messaging of gas utilities versus their electric counterparts.

Electric load growth driven by industrial onshoring, electrification, and data-centre development has accelerated across select US markets. While this has been positive for electric utilities – supporting higher investment, faster rate-base growth, and stronger earnings – affordability concerns have become more pronounced in 2025. Legislators and regulators are increasingly focused on how sustained rate-base expansion ultimately flows through to customer bills.

Affordability can be assessed through several lenses:

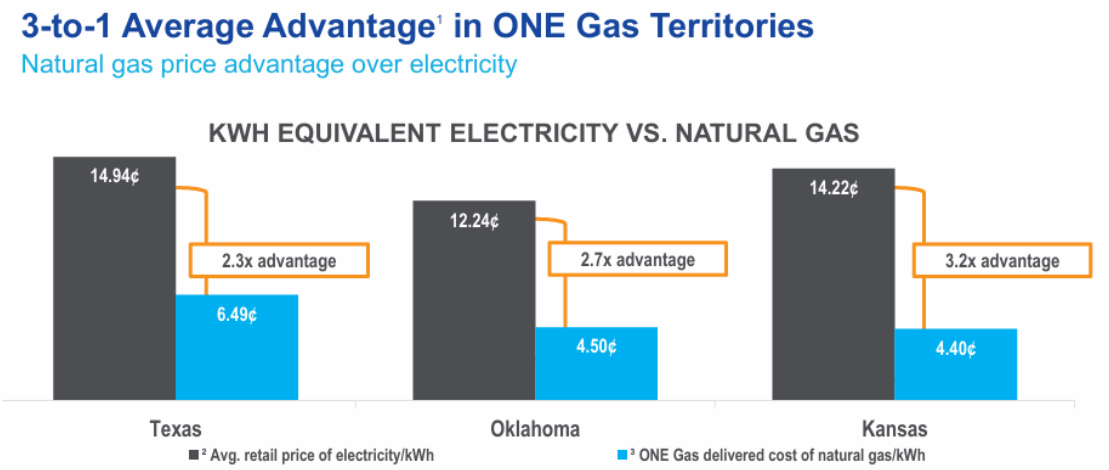
1. **Real price growth below inflation**, based on the premise that limiting price increases preserves affordability.
2. **Relative cost per kWh**, often emphasised in high-load regions to demonstrate lower unit energy costs versus peers.
3. **Relative average bill size**, typically compared nationally and regionally.
4. **Average bill as a percentage of household income**, which allows for cross-regional comparison and is a more comprehensive measure as it incorporates socio-economic factors.
5. **Utility bills relative to other household expenses**, highlighting lower sensitivity for customers.

As electric utilities face increasing scrutiny over large rate increases, the pure-play gas utilities we met were quick to emphasise their comparatively lower customer bills (point 5). This messaging was consistent across nearly all companies (AltaGas, Spire, ONE Gas, Northwest Natural), with many noting that gas bills are typically two to three times cheaper than electric bills on a per unit of energy basis (see example from One Gas presentation below). They view this dynamic as having insulated them from regulatory pressure, allowing them to 'fly under the radar'.

While companies naturally present themselves in the most favourable light (particularly when engaging with investors) and we do not rely solely on such messaging, the argument has merit at face value. With electric utilities likely to remain under regulatory pressure in the current environment, gas utilities may occupy a more defensive position.

At 4D, we prefer utilities that actively manage affordability rather than rely solely on relative positioning. The key lever within a utility's control is operating and maintenance (O&M) expenditure, which is ultimately passed through to customers. Management teams such as ONE Gas have demonstrated a strong track record of O&M discipline, supporting constructive relationships with regulators. The combination of lower relative customer bills and strong cost control may allow ONE Gas to maintain a more defensive profile, and we have therefore prioritised a review of the stock post the trip.

ONE Gas highlighting the natural gas cost advantage versus electricity



Source: One Gas investor presentation, December 2025.

Portfolio positions

Despite the ever-evolving political and economic headwinds across the globe, this trip sees us reaffirm our positioning in Canada (and across the US for the rails). We have factored in the relative opportunity and risk and believe the value proposition of the quality infrastructure names continue to be attractive:

In summary:

- Canadian Midstream: The trip reinforced our positive view on Canadian midstream companies leveraged to growing WCSB production, particularly those exposed to lighter hydrocarbons such as natural gas and NGLs. These assets are well positioned to benefit from increasing demand-pull infrastructure on Canada's West Coast. Within this space, we continue to see value in Pembina Pipeline, a high-quality Canadian NGL midstream with a largely monopolistic position in key WCSB gas basins, supported by predominantly take-or-pay contracts and strong growth visibility through to the end of the decade.
- Rails: We remain invested in high-quality rail operators trading at more attractive valuations, such as Canadian National, which we believe is unlikely to be materially impacted by a transcontinental merger and offers a margin of safety in the current weak macro environment with limited downside risk.
- Independent Power Producers: The trip highlighted a growing divergence in opportunities across IPPs, with outcomes varying materially between renewable and conventional generators. Repowering and recontacting opportunities, in particular, were highly technology and region-specific. Encouragingly, battery costs continue to decline, improving the economics for dispatchable solar. However, opportunities vary meaningfully by developer, with US projects appearing less attractive than ex-US projects due to Trump tariffs.
- Utilities: As regulators and legislators grapple with significant projected rate-base growth at electric utilities, affordability remains a key concern for investors. The trip highlighted how some companies, particularly gas utilities, are positioning themselves favourably by emphasising lower customer bills, which they believe affords them greater regulatory flexibility. We continue to prefer utilities with strong operational track records and disciplined O&M control, but have increased focus on select pure-play gas utilities to assess whether their perceived defensive characteristics prove durable.

As always, we maintain a diversified portfolio of high quality infrastructure names globally and believe parts of Canada and the US currently offer an attractive mix of quality and value while other areas are less attractive than has historically been the case.

For more insights from 4D Infrastructure, visit 4dinfra.com

Get in touch


4Dinfra.com


client.experience@bennelongfunds.com


1800 895 388 (AU) or 0800 442 304 (NZ)