

Summer 2026

ENERGY INDUSTRY UPDATE

TAKIN' CARE OF BUSINESS

Volume 26 - Issue 1

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ScottMadden Knows Energy



EXECUTIVE SUMMARY TAKIN' CARE OF BUSINESS

The theme of this issue of the ScottMadden Energy Industry Update is “Takin’ Care of Business.”

Energy demand continues to grow at a level and pace that one executive terms as generational. Policy momentum, growth in data center and advanced manufacturing, and expanding end-use electrification are all contributing to this trend. At the same time, significant investment in critical energy infrastructure is needed to support grid reliability and flexibility.

The utility industry is “taking care of business” as it works to bridge this critical “speed-to-power” challenge. To meet this growing demand while ensuring reliability, companies are managing massive capital spending, supply chain constraints, and rate impacts. A major part of this supply response includes renewed momentum behind nuclear power, including conventional plant restarts, capacity expansion, small modular reactors, and microreactors.

For modern utilities, balancing rising energy needs, supply chain constraints, and affordability underscores that keeping the lights on means **takin’ care of business**. At right, we preview the topics in this edition of the Energy Industry Update.

HIGHLIGHTS FROM THIS ENERGY INDUSTRY UPDATE

Utility Themes

While identifying long-term trends can be challenging amid market shifts, the current environment highlights several common themes. Across almost every subsector, companies are focused on rising capital spending, maintaining affordability, upgrading aging grid infrastructure, and serving rapidly growing loads.

Large Loads and the Speed-to-Power Challenge

The rapid growth of data centers and other large loads continues to dominate industry headlines. A recurring phrase is “speed-to-power”—the ability to deliver electricity at the scale and pace that these new energy demands require.

It remains unclear how quickly—and at what cost—this gap between soaring energy demand and available supply will be resolved.

AI: An Update

For the AI industry, power availability, efficiency, and reliability are now core development priorities, shaping site selection, design, time to market, and self-build considerations.

Growing token use and higher-density AI racks are expected to intensify power needs, requiring stronger governance and improved efficiency. Expanding large computational loads is also prompting the study of reliability risks from load drops.

Recent Developments in Nuclear Power

For several years, the energy industry has viewed development of advanced nuclear technologies as a prime opportunity to meet the growing demand for dispatchable, emissions-free baseload energy. This momentum has been enhanced by ambitious government programs.

A wide range of opportunities are emerging, all in the hope of expanding commercial nuclear capacity.

Electricity Affordability in Focus

Some recent commentary on energy affordability has drawn broad conclusions that are national in scope and specific in cause. While customer concerns are real, a review of recent studies shows that affordability pressure is becoming more infrastructure-driven, more regionally differentiated, and more dependent on regulatory choices.

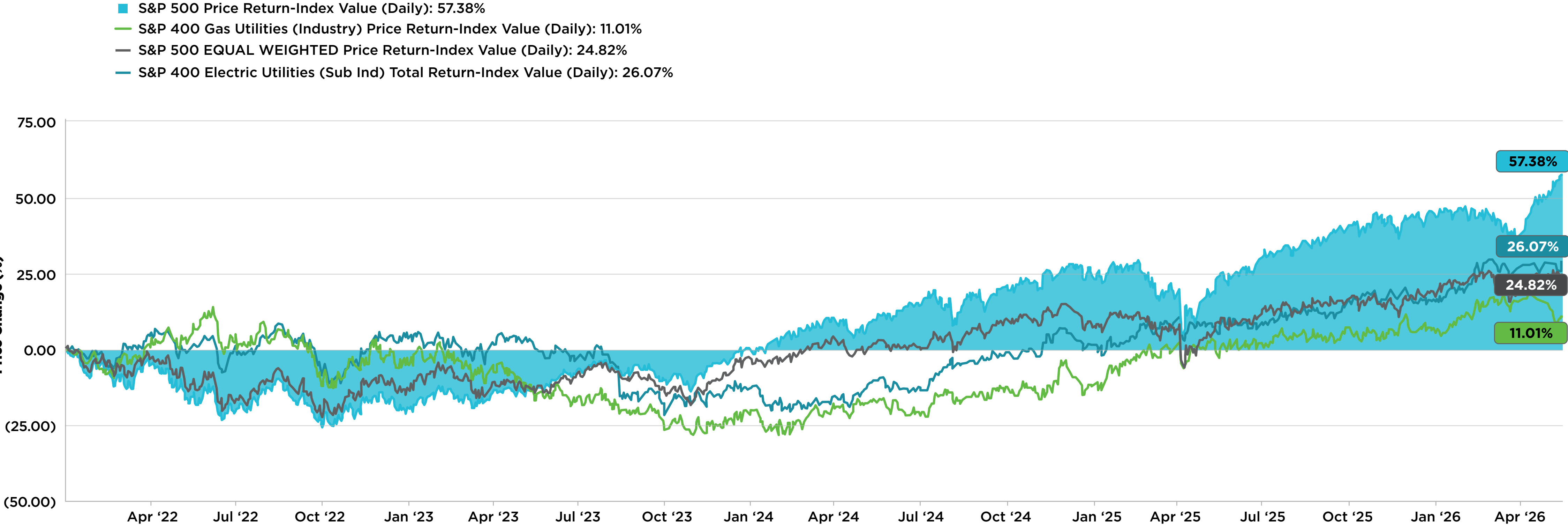
SEPA Portugal Factfinding Mission and Lessons from a Blackout

ScottMadden joined SEPA on a factfinding mission to Portugal to study how a grid with high levels of inverter-based resources operates, with lessons informed by a recent blackout. The trip highlighted that high levels of inverter-based resources require changes in grid operations, with greater emphasis on visibility and flexibility.





FIGURE 1
Selected Utility and Other Equity Index Performance (Jan. 2, 2021—July 6, 2026)



Source: S&P Capital IQ

Political Pressure Builds on Ratemaking Processes

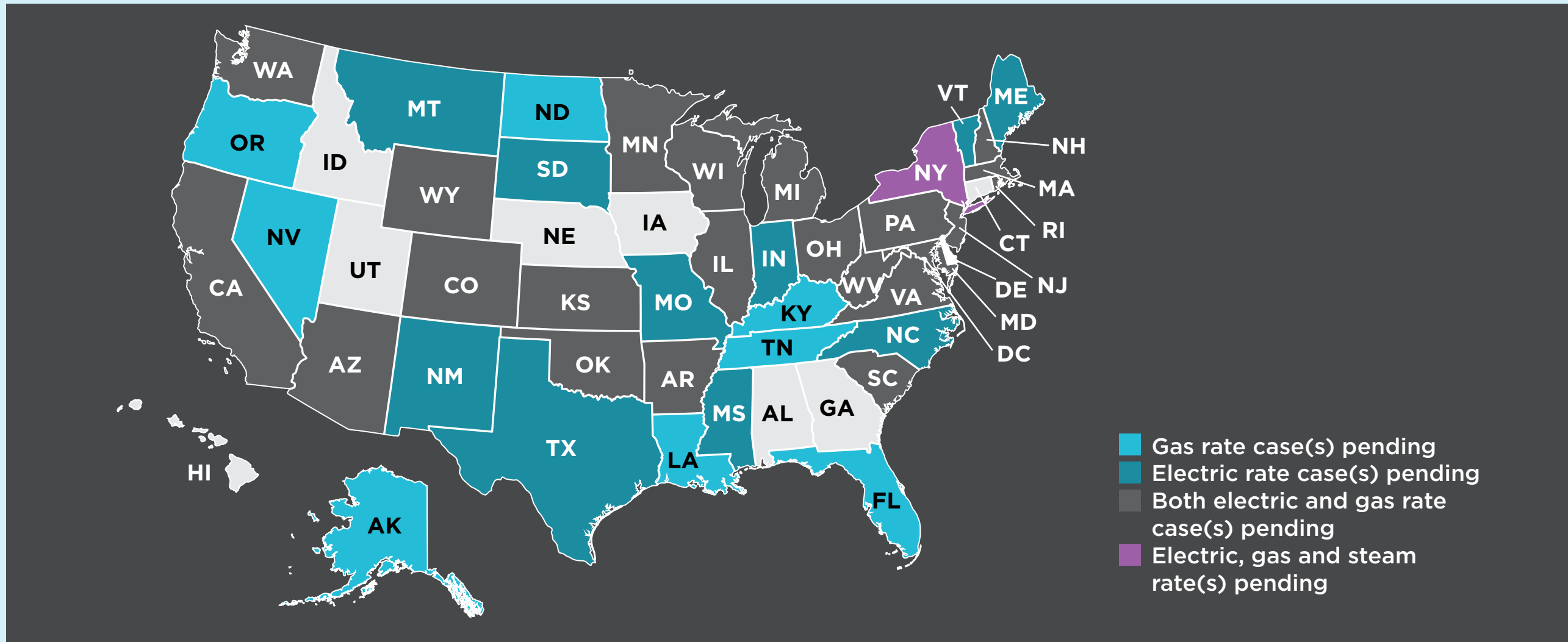
As shown in Figure 4, electric rate case activity continues an upward trend as does the rate change amounts requested and awarded.

In some jurisdictions, pressure from constituents regarding affordability has led to legislative and policy interventions that intervene with traditional regulatory processes and ratemaking approaches. For example:

- Legislation in Alabama expanded PSC seats, created a new cabinet-level executive director position, and limits Alabama Power rate increases through 2028.
- Pennsylvania governor submitted a general letter to utility executives in late April that informed them that his administration would “vocally and forcefully oppose rate case requests” that did not comport with “three commonsense practices” that he articulated (see Fig. 5). Gov. Shapiro also appointed a Special Counsel for Energy Affordability to advance administration policy vis-à-vis utilities.
- In New Jersey, Governor Mikie Sherrill signed Executive Orders Nos. 1 and 2 on January 20, 2026, declaring New Jersey’s electricity affordability crisis an emergency and directing the Board of Public Utilities to freeze electricity supply rate increases for residential customers to provide short-term relief.

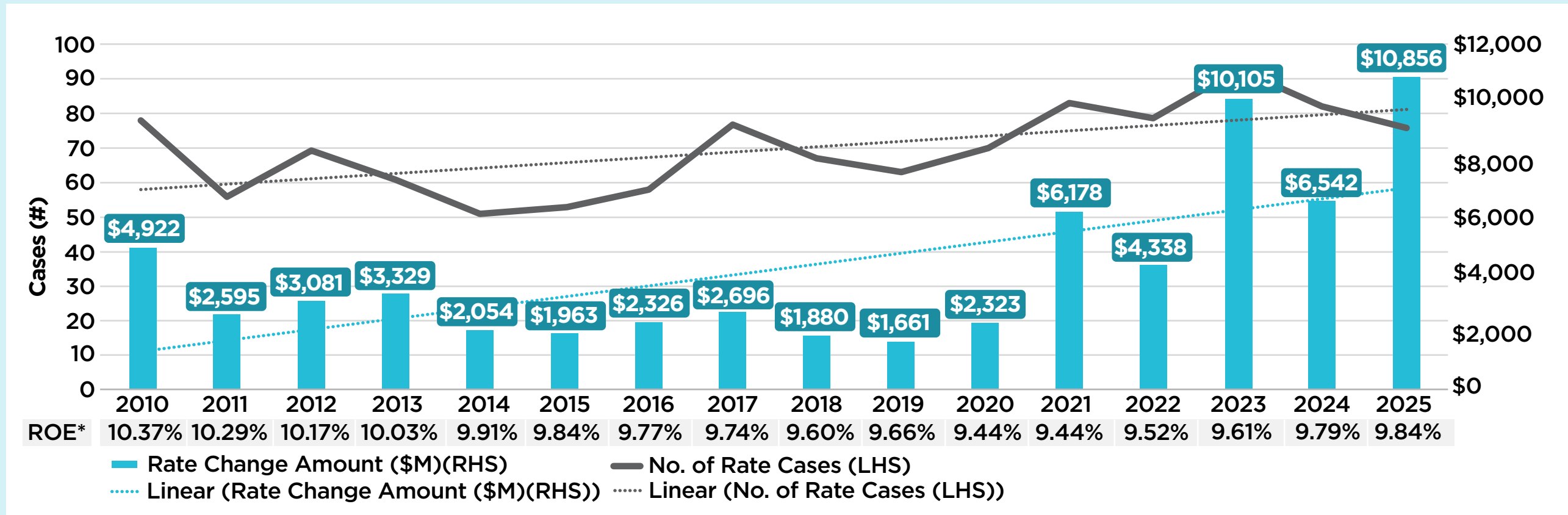


FIGURE 3
Pending Energy Rate Cases (as of Apr. 28, 2026)



Source: S&P Capital IQ/Regulatory Research Associates

FIGURE 4
Electric Rate Cases, Rate Change Amounts (\$ Millions), and Average Authorized Return on Equity (2010–2025) (with Trendlines)





Hyperscalers Allocate More Capital to Data Centers

The “Big 4” hyperscalers—Amazon, Google, Meta, and Microsoft—are investing heavily in frontier AI models, agentic systems, and enabling infrastructure needed to advance toward artificial general intelligence (AGI) capabilities. The term AGI refers to AI capabilities that can match or exceed human capabilities.

Surging capex budgets illustrate the intense competition to build and power “AI factories.” The Big 4 hyperscalers have announced more than \$700 billion in planned capex for 2026. Multiple Wall Street analysts anticipate the industry will surpass \$1 trillion in capex in 2027.

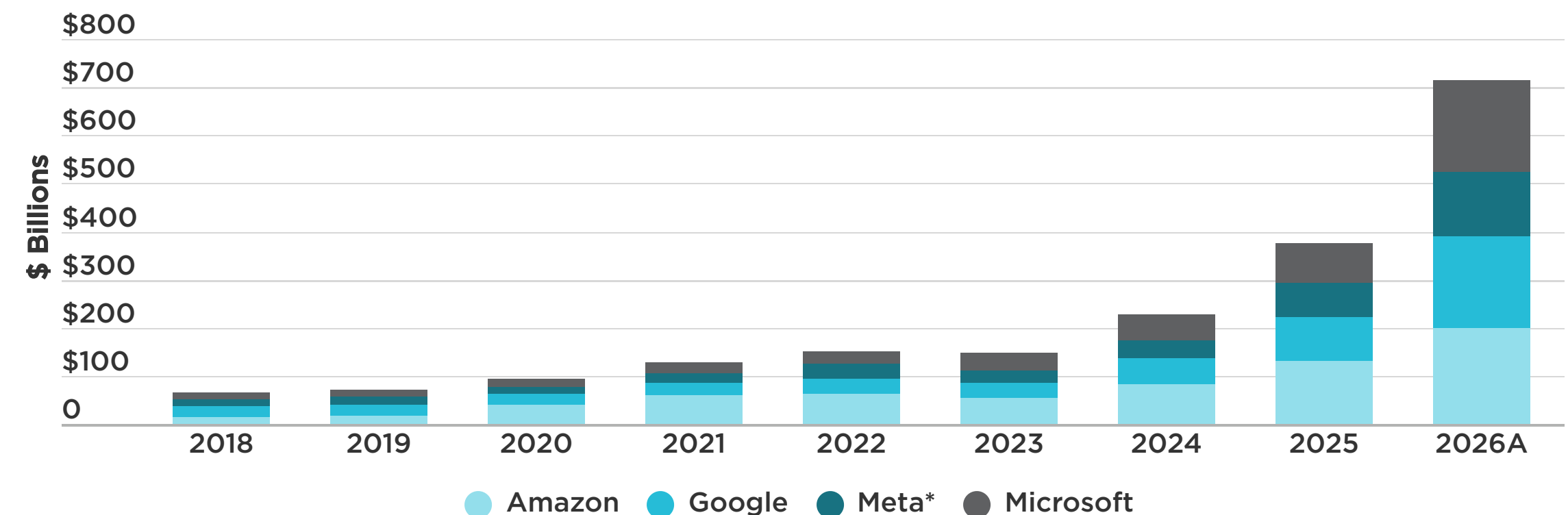
The scale of investment is difficult to comprehend. For comparison, consider the following:

- **\$208 billion:** Estimated capital expenditure of U.S. investor-owned utilities in 2025
- **\$868 billion:** Department of Defense expense on military programs during FY 2025
- **\$1.1 trillion:** Market cap of 37 investor-owned utilities tracked by the Edison Electric Institute on December 31, 2025

AI factories create a near-term load growth opportunity for utilities. However, it remains difficult to determine which projects will overcome mounting market challenges and become a reality. Recent reports suggest that construction has not begun on 60% of data center capacity planned for completion in 2027.

FIGURE 1

“Big 4” Historical and Announced Capex Plans (as of April 30, 2026) (\$ Billions)





Skilled Labor Is a Scarce Resource

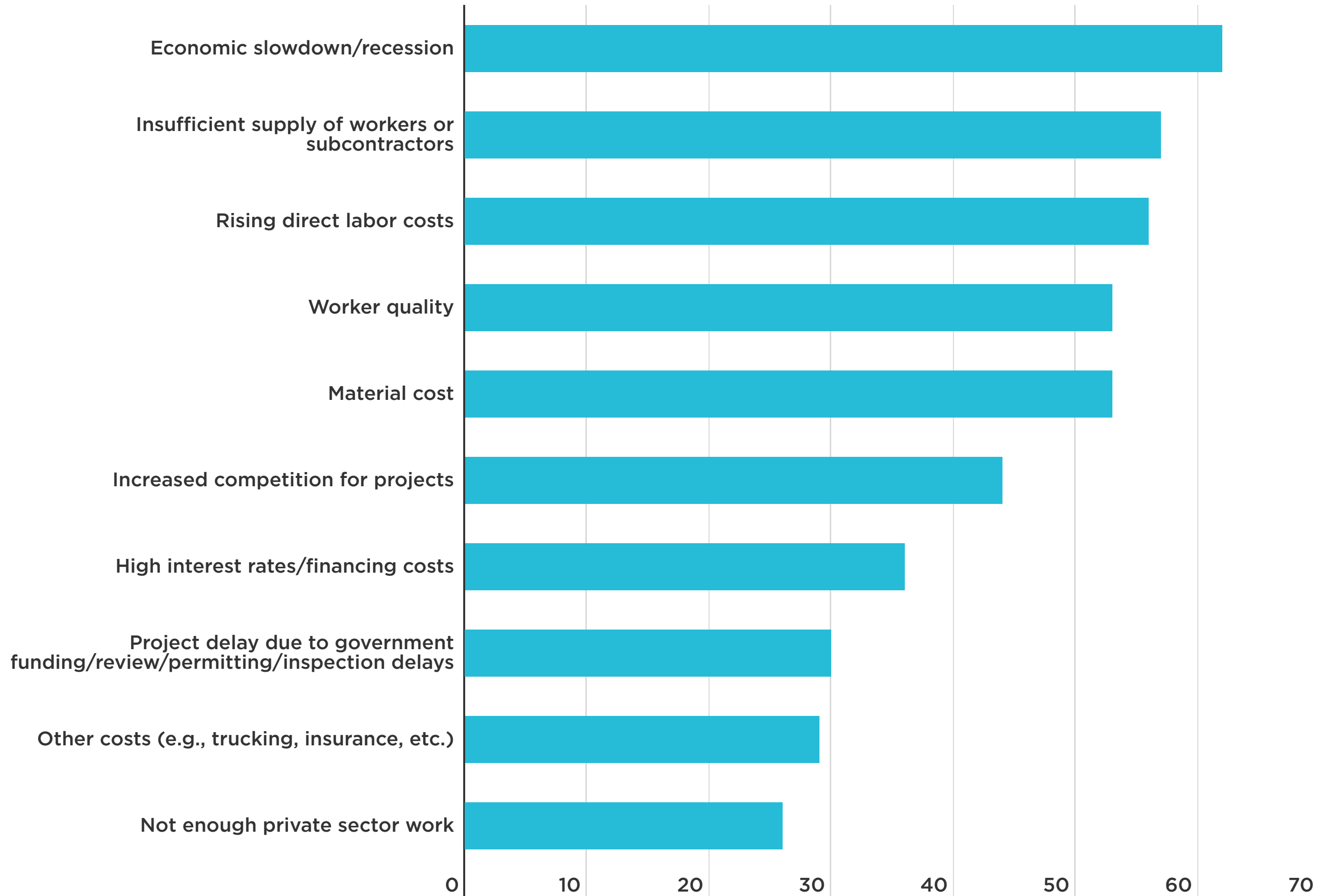
The availability of skilled labor remains a challenge and bottleneck for data center and electric infrastructure development.

The Associated General Contractors of America conducts an annual survey of commercial construction firms to gather insights into expectations for the coming year. Key findings from their 2026 survey include:

- Construction of data centers, power facilities, and healthcare projects will drive private sector construction in 2026.
- Contractors identified insufficient workers or subcontractors, rising direct labor costs, worker quality, and material costs as top concerns after recession risk.
- More than four out of five contractors with openings report difficulty filling hourly craft roles, and a majority expect hiring craft workers to remain difficult or become harder.

Electrical and mechanical trades are expected to remain in high demand. The U.S. Bureau of Labor Statistics projects nearly 10% employment growth for electricians and 7% growth for electrical power-line installers and repairers from 2024 to 2034. Utilities may face additional gaps in technical and supervisory fields to support major construction efforts such as project managers, engineers, and permitting professionals.

FIGURE 8
Top Concerns Among General Contractors
(% of Positive Survey Responses) (Jan. 2026)



Source: Associated General Contractors of America, 2026 Construction Outlook, National Survey Results

