Opportunities from the Infrastructure Investment and Jobs Act

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After years of under-investment in U.S. infrastructure, on November 15, 2021, President Biden signed into law a historic $1.2 trillion bipartisan bill, the Infrastructure Investment and Jobs Act (Act), which contains over $550 billion in new federal spending.

The Act is supportive to most sectors where the firm invests, with utilities being the largest beneficiary. We anticipate infrastructure companies to benefit in multiple ways from the Act:

1. The creation of legislation to facilitate and, in some cases, accelerate critical infrastructure investment.
2. The provision of financial funding for long-delayed investment in U.S. infrastructure.
3. Higher overall demand and earnings growth driven by an expanded pipeline of infrastructure projects.

Duff & Phelps Investment Management Co.'s (DPIM's) infrastructure strategies target four sectors: utilities (electric, gas, and water), transportation (railroads, toll roads, and airports), energy infrastructure (pipelines, natural gas processing, and liquefied natural gas export facilities) and communications (wireless towers). An overview of how the Act will impact our investment opportunity in each of the sectors follows.

Utilities

With $178 billion allocated to utility and energy-related initiatives, the Act calls for significant investment in the energy grid and transmission capabilities, which should facilitate the expansion of renewables and contribute to earnings growth for many utility companies. Beyond the Act, the Biden administration's initiatives to reduce emissions should further support the deployment of renewables and provide a commensurate boost to utility earnings. The administration's non-binding goal of obtaining 80% of U.S. grid power from emission-free sources by 2030 is estimated to require a doubling of renewable capacity.

The Act supports investment in electrification of the economy, which is also likely to benefit utility earnings. An example of electrification investment in the Act is the $7.5 billion allocation to the nationwide deployment of electric vehicle (EV) charging stations. Though it is not part of the Act, the administration concurrently aims to have 50% of new passenger cars and light trucks be zero-emission vehicles by 2030. The combined initiatives should drive electricity demand higher over the coming years.

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In addition, the Act prioritizes clean drinking water and allocates $55 billion to upgrade water infrastructure. Through access to funding sources, water utilities can enlarge their investment plans to the benefit of the companies and the communities they serve.

Transportation

The Act allocates $304 billion to surface transportation infrastructure, including $110 billion for roads, bridges, and major projects and $66 billion for passenger and freight rail. DPIM invests in publicly traded toll-road operators with successful track records building and operating major road projects in the U.S. Accordingly, we see toll-road operators as well-positioned for new projects both through partnerships with state and local governments and through greater access to project funding. The $66 billion rail allocation is largely focused on passenger rail, but freight rail is still expected to play a significant role in rebuilding U.S. infrastructure. Freight rail is critical to transportation of the heavy materials required for infrastructure projects, and the rebuilding efforts should support healthy volume growth over the coming years.

Energy

The Act allocates $12.5 billion for carbon capture, utilization, and storage (CCUS) projects and technologies, and another $9.5 billion to accelerate the development of clean hydrogen technology. While midstream energy companies largely transport and process fossil fuels, CCUS holds the promise of reducing or eliminating net carbon emissions resulting from continued usage of these traditional fuels. Furthermore, even as hydrogen displaces fossil fuels for certain end uses over time, it will require transportation, storage, processing, and handling similar to carbon-based fuels. Therefore, technological advancements in these two areas could potentially extend the useful life and functionality of midstream company assets, as well as create opportunities to develop new infrastructure to support the buildout of CCUS and clean hydrogen networks nationwide. Several midstream companies have begun establishing partnerships and announcing commercial agreements to evaluate and develop CCUS and hydrogen projects, and the pace of these announcements is likely to accelerate as a result of these provisions in the Act.

Communications

The $65 billion for telecommunication infrastructure targets broadband deployment, affordability, and digital inclusion. Our communication holdings are primarily owner / operators of cell tower infrastructure, which are likely to remain outside the scope of the Act. From our perspective, communications are the sector least impacted by the Act. Nevertheless, we expect the sector to experience strong growth due to increased usage of wireless data and the upgrade of network equipment to 5G wireless technology.

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