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Global Listed Infrastructure

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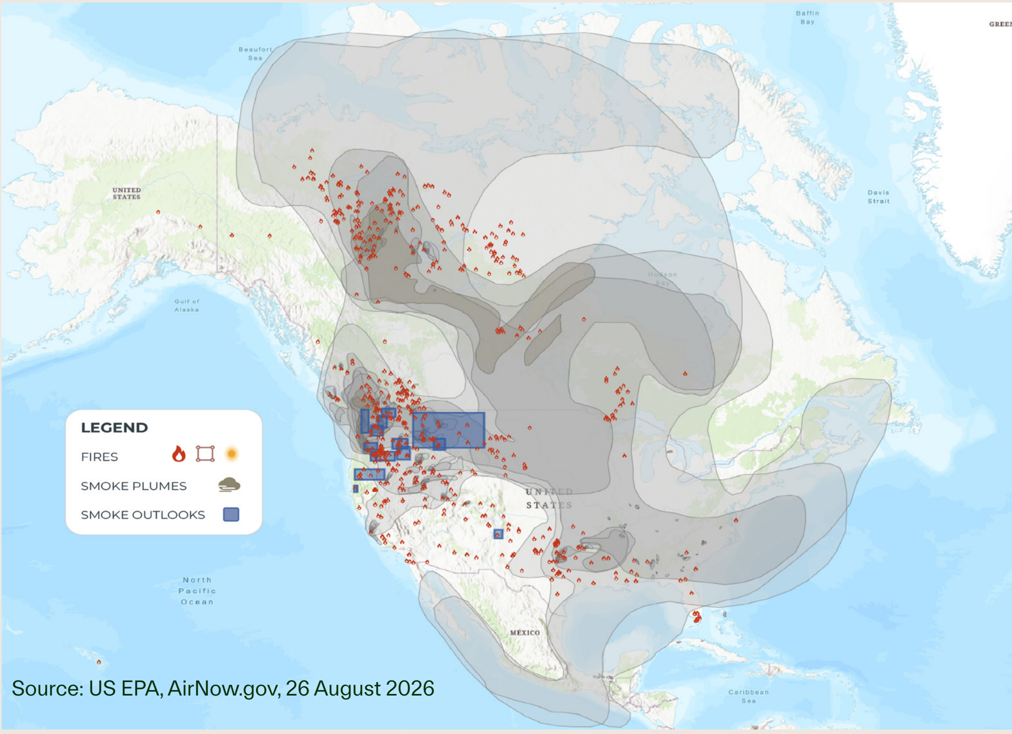
Infrastructure in focus: September 2026

The burning infrastructure issue from wildfires

This has been a scorching summer in the Northern Hemisphere. Wildfires have caused significant damage, with far-reaching implications through smoke plumes.



Source: US EPA, AirNow.gov, 26 August 2026

- This intensity poses a risk to infrastructure assets, as these are physical assets with a typically large footprint. Electricity utilities, transmission and distribution companies and water utilities are particularly exposed. For power utilities and the grid, damage to these assets can be widespread and expensive. In a climate of household affordability challenges, this can also mean a cost squeeze for these companies, with regulators reluctant to allow higher compensation for capital spent. For water utilities, the drought conditions associated with heightened wildfire activity mean operational issues, damage to assets and challenges with repricing water use.
- This is not just damage to a company's assets that is in question or implications for their operations. The issue is one of cause and effect. Electricity utilities can be implicated in the cause of wildfires. In California, for example, the existing system allows for inverse condemnation, where utilities can be ultimately held liable for wildfire losses if their power lines contributed to the fire, even if they were not negligent. This means insurers (or anyone who suffers a loss) can sue utilities to recover costs paid out to households. This puts the investable nature of these companies in question. The severity and frequency of wildfires in recent years, and the ongoing role of climate change in driving greater wildfire risk, drive an open question of liability in the future. State or regional review of existing systems is a live issue. In California, proposed reform is underway and appears to remove the ability for insurers to recover losses from utilities while capping utilities' payments to households, transferring risk away from utilities. However, the change could mean a direct payment from utilities to households each year. Such reviews are material to the outlook for these companies, as investable or at risk.
- Regardless of the legal framework, adaptability will be critical. Grid hardening and investment in early warning systems for utilities is ever more important. There are also new challenges. For example, wildfire smoke significantly reduces solar radiation reaching solar panels. This indicates a need for more investment in storage for grid and service reliability.
- In building infrastructure portfolios we pay close attention to the risks posed to assets through both physical damage and regulatory decisions.

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magellaninvestmentpartners.com
or contact your financial adviser.

Connect with us

Email: info@magellanfinancialgroup.com
Phone: +61 2 9235 4888 or 1800 6243 5526