Oil and Gas Policy 2026 Preview

Energy's Pragmatic Turn

Power, Pipelines, and the Affordability Dilemma

CAPSTONE

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THE BOTTOM LINE

Capstone expects the Trump administration to continue backing investment in conventional energy in 2026, including expanded federal oil and gas leasing and pipeline development to support growing data center demand. Energy affordability concerns ahead of the midterm elections are likely to push states toward regulatory support for natural gas infrastructure over climate-driven policies, benefiting gas utilities, while liquefied natural gas producers should gain from federal permitting decisions and trade agreements.

Outlook at a Glance

- FEDERAL SUPPORT FOR NEW DRILLING CONTINUES ON LAND AND WATER; DESPITE STRONG GOVERNMENTAL BACKING, SUSTAINED WEAK OIL MARKET WILL CHILL INTEREST FROM E&PS
- AFFORDABILITY AND RELIABILITY CONCERNS, COMBINED WITH DATA CENTER GROWTH, DRIVE STRONG STATE-LEVEL REGULATORY SUPPORT FOR NEW PIPELINE PROJECTS, A TREND THAT WILL CONTINUE
- GAS UTILITIES, SERVICE PROVIDERS WILL BENEFIT FROM STATES DEPRIORITIZING ELECTRIFICATION; LEGISLATION WILL ALSO HELP UTILITIES, GAS MARKETERS AS STATES TRY TO ATTRACT LARGE LOAD USERS
- LNG PRODUCERS WILL BE WELL-POSITIONED AS FEDERAL SUPPORT, THROUGH PERMITTING AND LNG USE IN TRADE DEALS, BOOSTS PROSPECTS
- NEW REFINED PRODUCT PIPELINE PROPOSALS HELP ALLEVIATE DELIVERY CONCERNS FOR LATE 2020S AS SHUTTERING CALIFORNIA REFINERIES CREATES SUPPLY CRUNCH

Federal Support for New Drilling Continues on Land and Water; Despite Strong Government Backing, Sustained Weak Oil Market Will Chill Interest from E&Ps

Winners	Occidental Petroleum Corp. (OXY), EOG Resources Inc. (EOG), EQT Corp. (EQT), Antero Resources Corp. (AR), Devon Energy Corp. (DVN), Valaris Ltd. (VAL), Transocean Ltd. (RIG)
Losers	N/A

MASSIVE LEASING EXPANSION TO CREATE TAILWINDS FOR EXPLORATORY DRILLERS, E&PS

In 2026, Capstone expects the Trump administration to finalize a significant expansion of oil and gas leasing on federal lands and in federal waters, including a final Outer Continental Shelf (OCS) leasing program in the Gulf of Mexico, Alaskan waters, and off California's coast; leasing in the Arctic National Wildlife Refuge and National Petroleum Reserve-Alaska; and onshore lease sales throughout the contiguous US.

Exploration and production companies (E&Ps), such as Occidental, EOG, EQT, Antero, and Devon, stand to benefit from leasing programs, lower royalty rates on leases, and the implementation of the One Big Beautiful Bill Act's (OBBBA) same-year deduction of intangible drilling costs (IDCs).

However, while leasing will allow E&Ps to secure new reserves for future production, the combination of tariff-driven breakeven uncertainty for new production, low global oil prices, and high interest rates makes it unclear when, or even if, output on the administration's new leases will materialize. Capstone believes that in the short term, offshore exploratory drillers Valaris and Transocean are best positioned to capture new revenue from the administration's expanded OCS leasing program, which we expect to be finalized in H2 2026.

Also in 2026, Capstone sees potential for impactful policy developments related to the disposal of wastewater from oil and gas operations—so-called produced water—in Texas and New Mexico. We expect the Texas Railroad Commission to release draft rules implementing the state's liability exemption for both the producer and the offtaker of beneficial use recycled produced water. In New Mexico, we see potential for reform of produced water recycling regulations as the clash plays out between New Mexico Governor Michelle Lujan Grisham (D), who views produced water as a resource to address droughts, and the state Water Quality Control Commission, which considers it an environmental risk.

As these policy developments unfold, many US conventional and offshore wells will experience production declines. The Energy Information Administration (EIA) estimates that in 2024, steep declines of 4.3 mb/d at existing wells were offset by 4.4 mb/d of new production brought online by E&Ps. Reduced drilling capex from E&Ps amid the low oil price environment and similar production declines forecasted by the EIA pose the possibility of lower oil production in 2026.

Affordability and Reliability Concerns, Combined with Data Center Growth, Drive Strong State-Level Regulatory Support for New Pipeline Projects, a Trend That Will Continue

Potential Winners	Williams Cos. Inc. (WMB), Kinder Morgan Inc. (KMI), Energy Transfer LP (ET), Enterprise Products Partners LP (EPD), ONEOK Inc. (OKE)
Losers	N/A

Capstone believes the Trump administration will continue to support the development of new natural gas pipelines to advance its goals of AI development and energy dominance, as well as its general championing of the oil and gas industry. The significant energy needs of data centers, especially for dispatchable generation, have led to subsequent demand for new gas infrastructure. We have seen the largest pipeline developers, such as Williams, Energy Transfer, and Kinder Morgan, announce open seasons or final investment decisions (FIDs) for new interstate pipelines, especially in the Southeast US.

We continue to expect developers to favor jurisdictions that combine large load projections and friendly state regulatory environments, such as the Southeast or Southwest. That said, we have also seen states that historically opposed new gas infrastructure change their tune as affordability concerns have sparked mounting political pressure, especially in the Northeast. This was exemplified by New York and New Jersey regulators recently granting Williams' Northeast Supply Enhancement Project its Section 401 Water Quality Certifications. Just a few years ago, these same regulators rejected Williams' application, demonstrating a new potential paradigm facing pipelines in blue states.

Some holdout states may remain, and without significant reforms to underlying statutes such as the Clean Water Act or Clean Air Act, they can retain their ability to delay or reject new pipeline projects in their states. We believe the Trump administration will continue to pull whatever levers at its disposal, both at the agency level and by pushing for reforms in Congress, to support natural gas and liquids pipelines.

Despite the lack of momentum in Congress, the US Supreme Court's unanimous May 2025 ruling in Seven County Infrastructure Coalition v. Eagle County Colorado, streamlining the environmental review process, will continue to have lasting impacts. We have already seen the DC Circuit cite this ruling in multiple opinions, rebuking project opponents, but late in 2025, we also saw the Fifth Circuit cite Seven County in its defense of the Federal Energy Regulatory Commission's (FERC's) National Environmental Policy Act (NEPA) review in a decision on pipeline rates, demonstrating the far-reaching impacts of the ruling. We expect Seven County to continue to benefit pipeline developers facing challenges from project opponents over federal reviews of their projects.

Gas Utilities, Service Providers Will Benefit from States Deprioritizing Electrification; Legislation Will Also Help Utilities, Providers as States Try to Attract Large Load Users

Winners	Artera Services LLC, CenterPoint Energy Inc. (CNP), Centuri Holdings Inc. (CTRI), Southwest Gas Holdings Inc. (SWX), National Fuel Gas Co. (NFG), NiSource Inc. (NI)
Losers	N/A

EXPECT AFFORDABILITY CONCERNS TO OVERSHADOW REGULATORY SCRUTINY OVER UTILITY CAPEX TRENDS

We believe that gas distribution and utility service providers will benefit from continued rate base growth, despite state regulators, primarily in Democratic-led states, placing increased scrutiny on gas utility capital spending. At least 13 states are currently conducting "future-of-gas" proceedings to assess how utilities can align with climate goals such as carbon neutrality and electrification of hard-to-abate sectors. The first major proceedings were initiated by Massachusetts, New York, and California, with a focus on long-term gas planning and identifying alternatives to pipelines.

We believe that ongoing “future-of-gas” discussions have led the market to overstate the risks facing gas utility infrastructure contractors, driven by concerns about the durability of gas pipeline replacement programs. These “future-of-gas” proceedings are exploratory workshops rather than enforceable actions taken by regulators. The objective is to educate stakeholders on the available options to meet long-term decarbonization goals and to provide visibility into the financial and operational feasibility of alternative methods, without displacing gas distribution from utilities’ operating framework.

We do not expect subsequent “future-of-gas” discussions to impact the outlook for gas pipeline replacement programs. As utility ratepayer concerns continue to rise across the country, we expect Democratic governors to become more amenable to the continued use and expansion of natural gas distribution and infrastructure. That atmosphere is evident in several Democratic-led states, such as New York and Massachusetts, which are rolling back previously set climate goals to align with the current ratepayer environment and acknowledge available resources. Moreover, New York and New Jersey regulators recently approved the expansion of an interstate natural gas pipeline, with the understanding that the gas will serve markets across the New York and New England power markets.

Gas utilities and service providers will likely continue to benefit from regulations that enable pipeline maintenance, as states increasingly prioritize safety and affordability over meeting climate mandates.

LEGISLATION WILL MODERNIZE RATE-MAKING STRUCTURE TO ATTRACT LARGE LOAD USERS

We believe 2026 will usher in a noticeable increase in momentum for state lawmakers pursuing legislation that allows gas utilities to participate in alternative rate-making mechanisms, similar to SB 103 in Ohio and Nevada’s SB 417. These moves are driven by concerns about AI data center development and grid reliability. As state lawmakers acclimate to the energy priorities of the Trump administration, we expect an uptick in proposed legislation to implement flexible rate structures for both gas and electric utilities, intended to incentivize large load users, such as data center developers, to set up shop.

Specific provisions we believe are likely to be consensus among proposed bills across state lines are:

- Enabling gas utilities to engage in multi-year rate plans, which include forecasted test years;
- Statutory deadlines on rate cases and large load agreements; and
- Formulation of rate plans that allow for automatic adjustments.

We believe such legislation will accelerate earnings growth and enhance transparency into utility cost recovery. It will also increase the competitiveness of utilities relative to Independent Power Producers (IPPs), as utilities will be able to promote new gas plant entry by creating more favorable terms for offtake agreements, particularly for behind-the-meter (BTM) or self-supply arrangements.

LNG Producers Will Be Well-Positioned as Federal Support, Through Permitting and LNG Use in Trade Deals, Boosts Prospects

Winners	Venture Global Inc. (VG), Cheniere Energy Inc. (LNG), NextDecade Corp. (NEXT)
Losers	N/A

We expect the Trump administration to continue to prioritize the development and permitting of LNG facilities, given domestic economic benefits and the use of LNG in trade negotiations. Recently, we saw Saudi Arabia and its associated firms sign multiple memorandums of understanding (MOUs) with US-based LNG companies, through direct investments or offtake agreements. We expect other countries or foreign energy companies to consider, and likely commit to, additional offtake agreements for future LNG projects.

The administration has maintained LNG exports as a key priority from day one, when it initially lifted the Biden-era freeze on non-Free Trade Agreement (FTA) export licenses. We expect the Department of Energy (DOE) will continue to issue non-FTA licenses to projects that request them, and other agencies, such as FERC, will also continue to issue construction authorizations.

FERC has begun creating a blanket certification process for LNG projects, similar to the one currently in place for pipeline projects. This would further the administration's deregulatory efforts by removing red tape and simplifying the approval process for certain actions that require federal authorization. This blanket certification process aligns with the pending rulemaking at the Pipeline and Hazardous Materials Safety Administration (PHMSA), which is seeking industry feedback on broader efforts to update its standards for large LNG facilities.

We expect LNG will continue to play a meaningful role in broader trade negotiations between the US and other countries. This could come in the form of additional offtake commitments, like those we saw from the EU and its Member States, joint partnerships on in-development projects, like we are seeing from Asia-Pacific countries and the Alaska LNG project, or general offtake agreements to help avoid retaliatory tariffs. LNG will likely continue to play a strategic role in security, too, with continued Western pressure on Russia and sanctions on the use of Russian gas.

New Pipeline Proposals Will Help Alleviate Delivery Concerns for Late 2020s as Shuttering California Refineries Creates Supply Crunch

Winners	Midstream companies, such as Kinder Morgan
Losers	Incumbent refiners in California, such as PBF Energy Inc. (PBF)

CA'S REFINING WOES EXPECTED TO CONTINUE; STORAGE REQUIREMENTS TO BE TOP OF MIND IN 2026

Capstone believes there are few policy maneuvers left for California Governor Gavin Newsom (D) to save one of the two refineries set to shutter in the state. The Phillips 66 (PSX) Los Angeles refinery began shutting down operations in Q3 2025. The Valero Energy Corp. (VLO) Benicia refinery is set to close in April 2026. Barring the sale of the Benicia asset to a third party, Capstone believes time is running out for a policy solution to keep the refinery open, meaning the state is likely to lose about 17.5% of its refining capacity from the two refineries.

The California Energy Commission (CEC) may impose additional regulations on refiners in the form of minimum storage and resupply requirements. The CEC's rulemaking on such actions is underway.

When the California legislature reconvenes in January 2026, we expect to see proposals to address the regulatory environment for refiners or to provide targeted funding to entice Benicia to stay open. However, any such policy would have to go through the normal legislative process and would likely be too late to stop the closure.

PIPELINE EXPANSIONS INTO CALIFORNIA COULD ALLEVIATE SOME SUPPLY CRUNCH IN THE LATE 2020S

Assuming California loses significant capacity starting in April 2026, the state will likely need to fill in the supply gap with waterborne imports. In the longer term, beginning around 2029, new pipeline projects will likely come online to supply the state's petroleum demand as well as the needs of Nevada and Arizona, given their dependence on California production.

Capstone expects continued discussions on new projects, such as the Western Gateway pipeline proposed by Kinder Morgan and Phillips 66, which would reverse the flow of a pipeline that currently sends product from California to Arizona, and construct a new pipeline to Arizona. HF Sinclair Corp. (DINO) is likewise considering a multi-phased pipeline to expand its footprint on the West Coast and in the Rocky Mountains—PADD 4 and 5—to address potential supply bottlenecks. Capstone will monitor the regulatory approvals required and potential policy interventions from state legislatures should these projects or forthcoming proposals materialize.

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