



# US Utilities: 2025 Q4

Utilities close 2025 with another market-beating performance and tailwinds for 2026



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# Executive Summary

Utilities' fundamental growth opportunities could extend stock rally.

# US Utilities Record-Setting Stock Rally Stretches Into Third Year

Utilities have matched technology stocks as the top-performing sector in 2025, even after a drop from their October peak. As of mid-December, the Morningstar US Utilities Index is up 22% in 2025 and 76% from its October 2023 low, including dividends. This is utilities' best two-year performance in more than 20 years.

- Utilities' earnings growth outlooks suggest their rally could extend into 2026. Valuations remain far from peak levels.
- Dividend yields remain well below interest rates, suggesting investors are assuming utilities' earnings will grow much faster than historically. This focus on growth means lower interest rates are unlikely to have a major impact on utilities' stock prices.
- Customer bill affordability is a significant issue for many utilities. Regulatory support for utilities' large investment growth plans is critical to realize the earnings growth that investors expect.

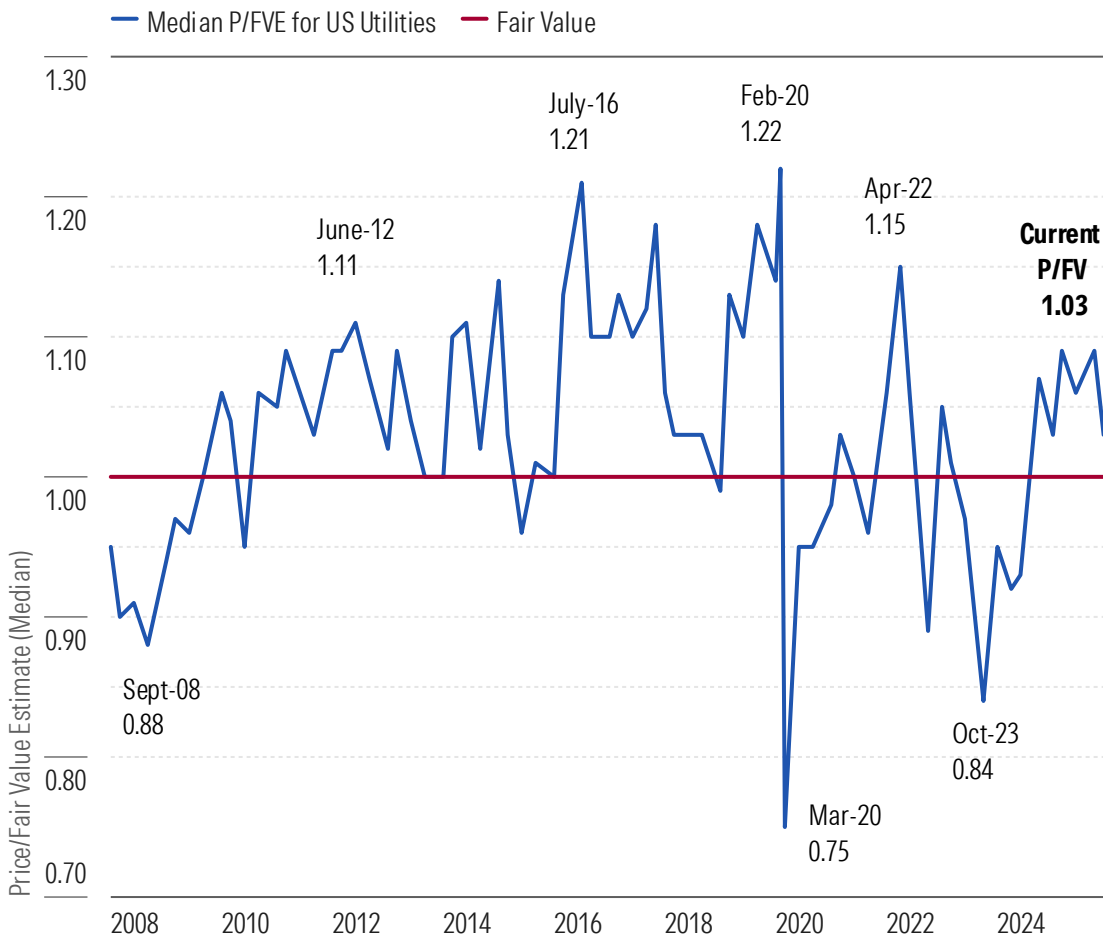
## Utilities' Returns Since Late 2023 Handily Beat the Market Even After Recent Retreat

Utilities set to outperform the US market for the second consecutive year in 2025.

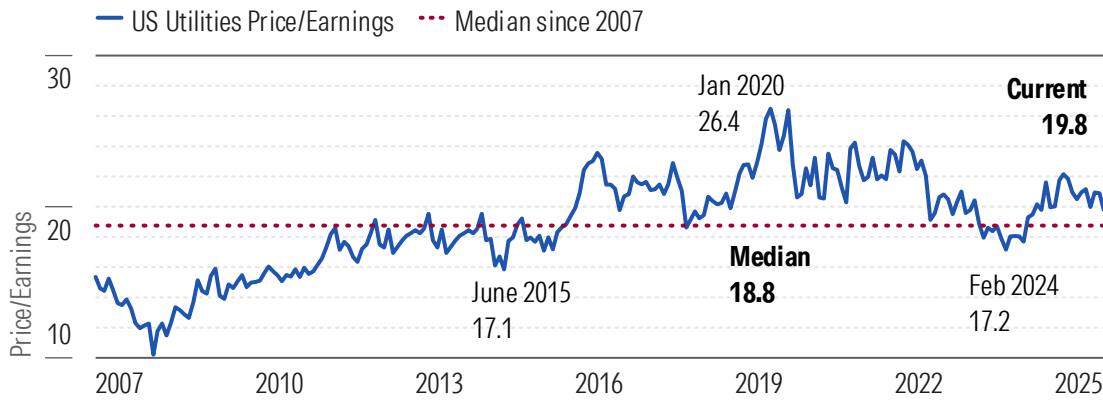


# Utilities' Valuations Historically Rich but Far From Peak Levels

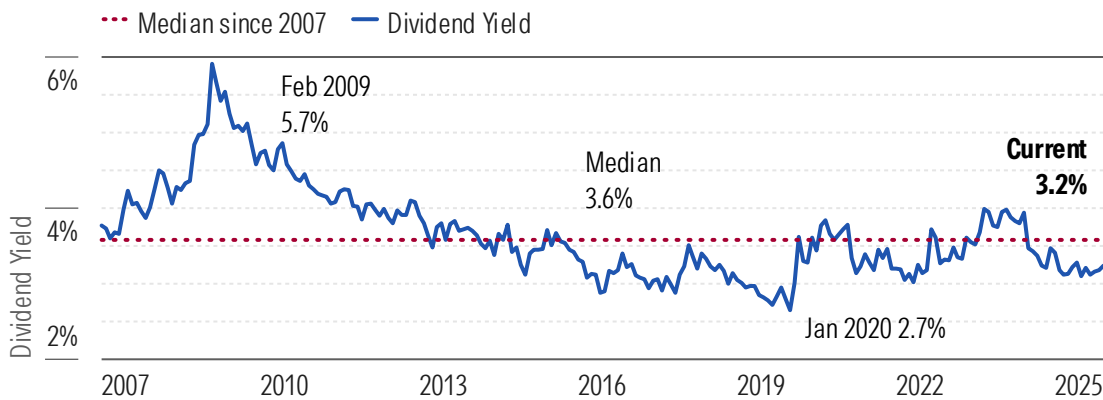
## Utilities Back Near Fair Value After Sell-Off in Late 2025



## Utilities Sector 20 P/E Only Slightly Above Long-Term Average



## Dividend Yields Historically Low Even After Recent Dividend Increases



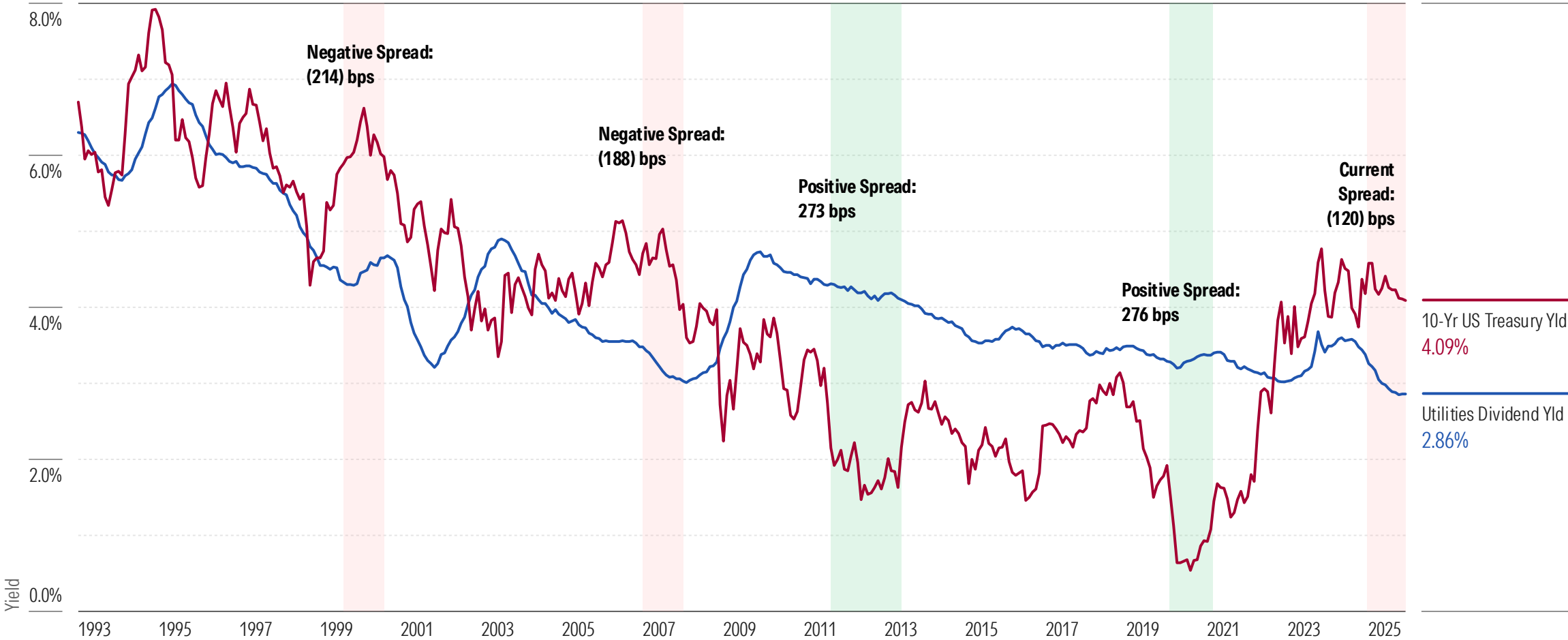
# Rates, ROE, and Inflation

Utilities' strong fundamentals ease concerns about interest rates and inflation.

# Utilities' Dividend Yields Remain Well Below Interest Rates

## Utilities Index Dividend Yield Falls Below 3% For First Time in More Than 30 Years, While Interest Rates Remain Near 20-Year High

Utilities stocks will have to fall to offer more attractive yields relative to current fixed-income investments.



Source: Morningstar, US Federal Reserve. Data as of Dec. 8, 2025.

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# Utilities' Growth Investment Plans Need Regulatory and Policy Support

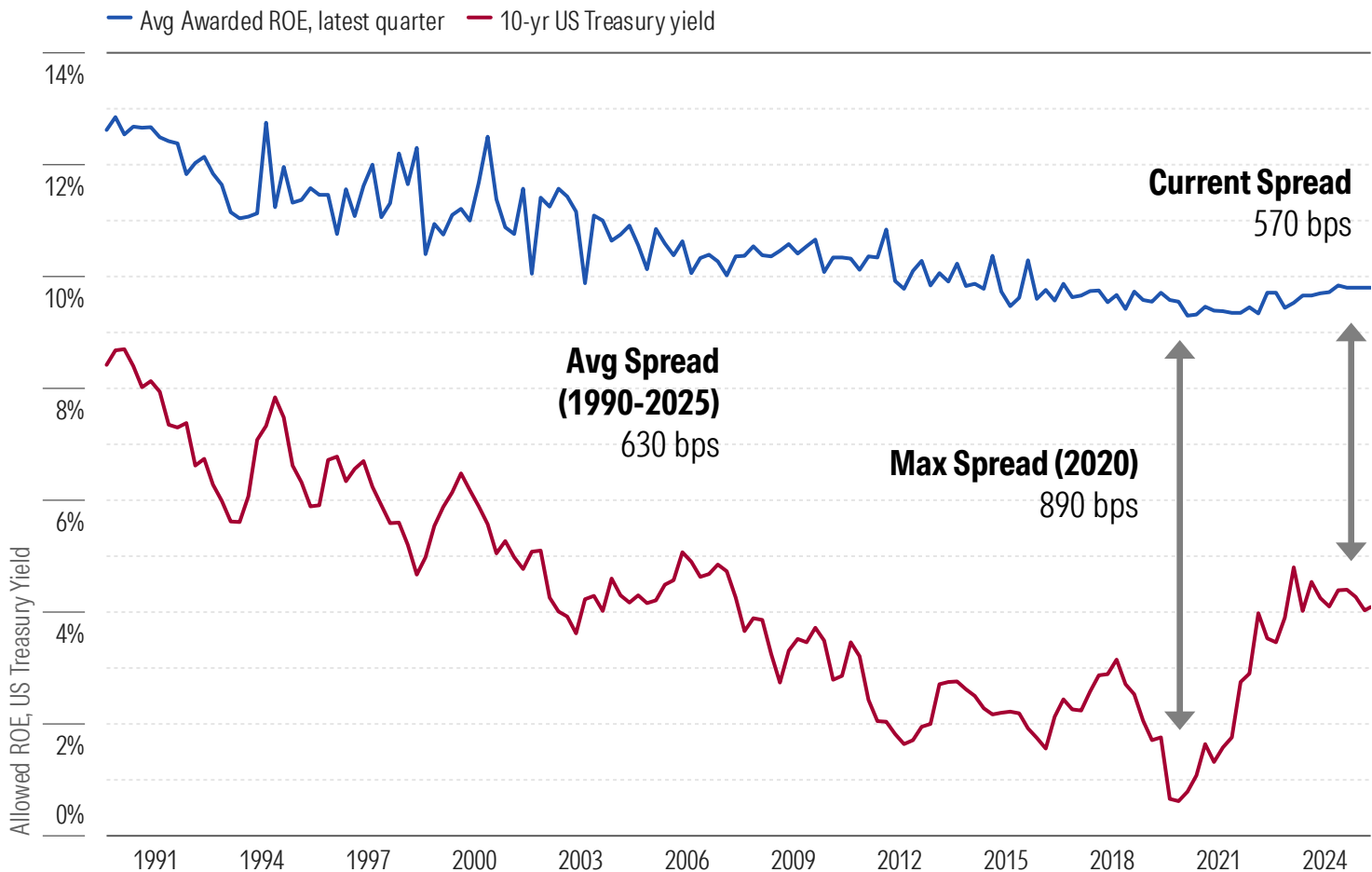
The biggest challenge for utilities with significant growth opportunities is ensuring that customer benefits outweigh the higher rates customers pay to fund those investments. Earnings and dividend growth will slow if utilities face resistance from regulators and policymakers. One common approach utilities are taking involves allocating more costs to new customers, like data centers that require the largest infrastructure investments.

### Key Regulatory Activity

- Alliant Energy: Subsidiary WPL's 2026-27 rate outcome includes a 9.8% allowed return on equity, in line with our expectations and reinforcing our constructive view of Wisconsin regulation.
- NextEra Energy: FP&L's approved settlement includes a 10.95% allowed ROE and 100-basis-point ROE band. The ROE is among the highest in the sector.
- NiSource: Indiana regulators approved a new subsidiary to support data center development while minimizing customer rate impacts.
- Con Ed: New York settlement implies 9% annual growth in 2026-28 with a 9.4% ROE, up from 9.25%.

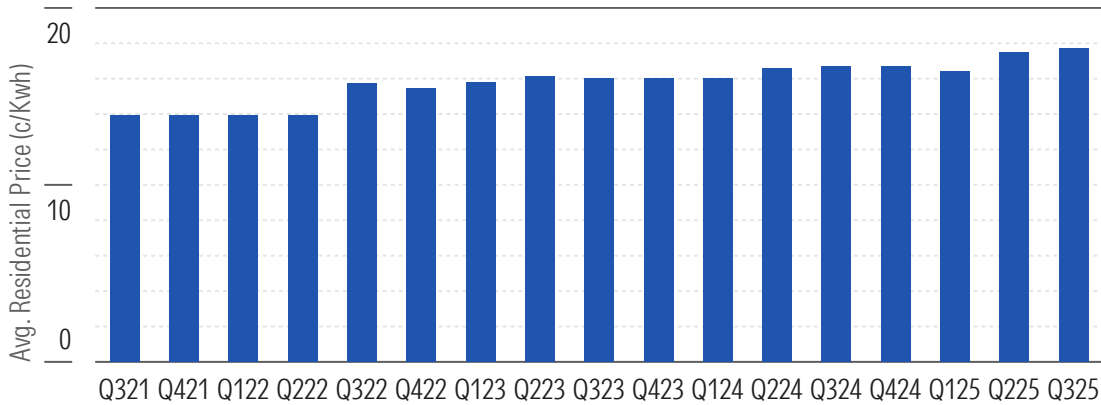
### Higher Financing Costs, Affordability Concerns Squeeze Profitability of Growth Investments

Creative rate structures can ensure utilities' investors and customers realize benefits from growth plans.

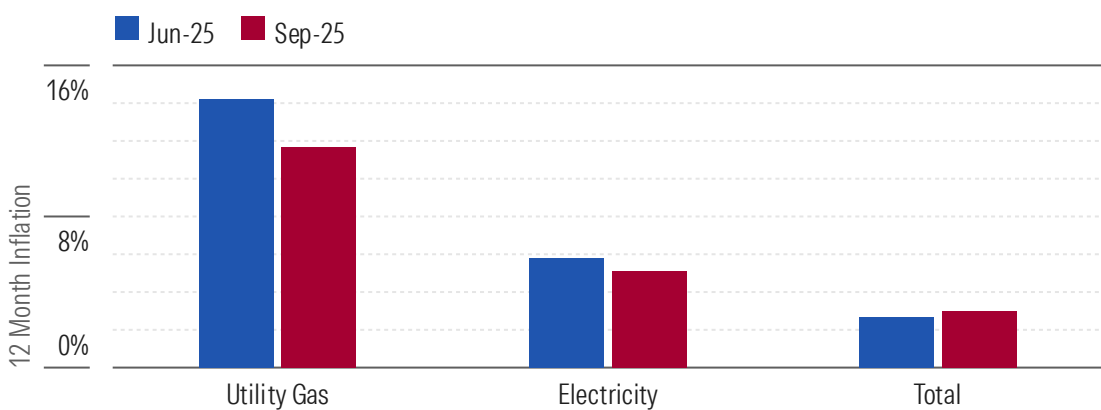


# Residential Electricity Inflation Remains Concern for Customers

Electricity Prices Plateau, Easing Pressure on Consumers



Electricity, Gas Inflation Remain Elevated Relative to All Other Items



- After rising quickly through mid-2022, average US residential electricity prices plateaued starting in 2023. However, prices have increased faster than inflation recently, up 6% year-to-date, given higher commodity prices and rate increases to fund utilities' growth investments.
- About half of an average customer's bill includes energy costs, taxes, and other fees that utilities incur and pass through to customers with no markup.
- Most state regulators have allowed utilities to raise base rates during the last two years. We expect a pickup in the number of utilities that request rate increases in 2026-27 to cover higher operating costs and infrastructure investment.
- Utilities bills continue climbing faster than other consumer costs. Electricity (5.1%) and utility gas (11.7%) were among the largest contributors to annual inflation in the US Bureau of Labor Statistics' Consumer Price Index report in September.
- Customer bill inflation could make it more difficult for utilities to receive regulatory approval for investment plans.
- Natural gas utility prices were up sharply in early 2025, according to CPI reports. This could in part reflect a return to normal winter weather in 2025 after an historically warm 2024 winter. Normal 2026 weather should ease bill increases.

Source: Energy Information Administration, FRED. Data as of Dec. 8, 2025.

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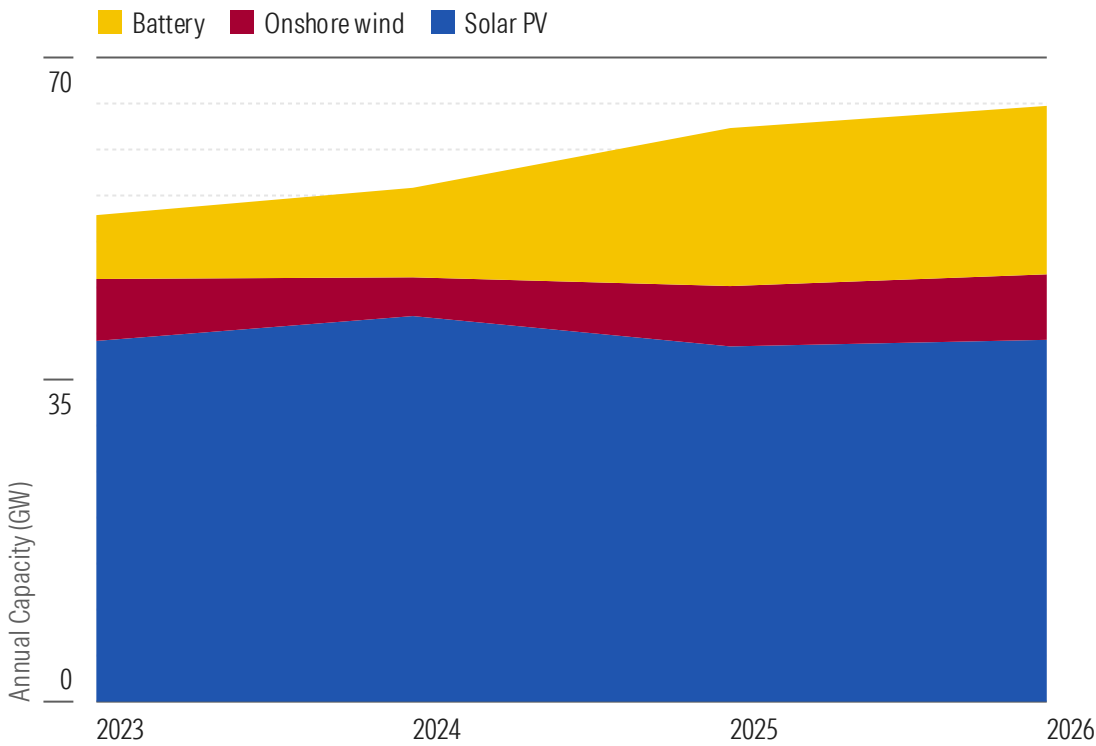
# Growth Opportunities

Renewable energy mandates and electricity demand growth require large infrastructure investments.

# Power Generation: Macroeconomic Concerns Not Slowing US Renewable Energy Buildout

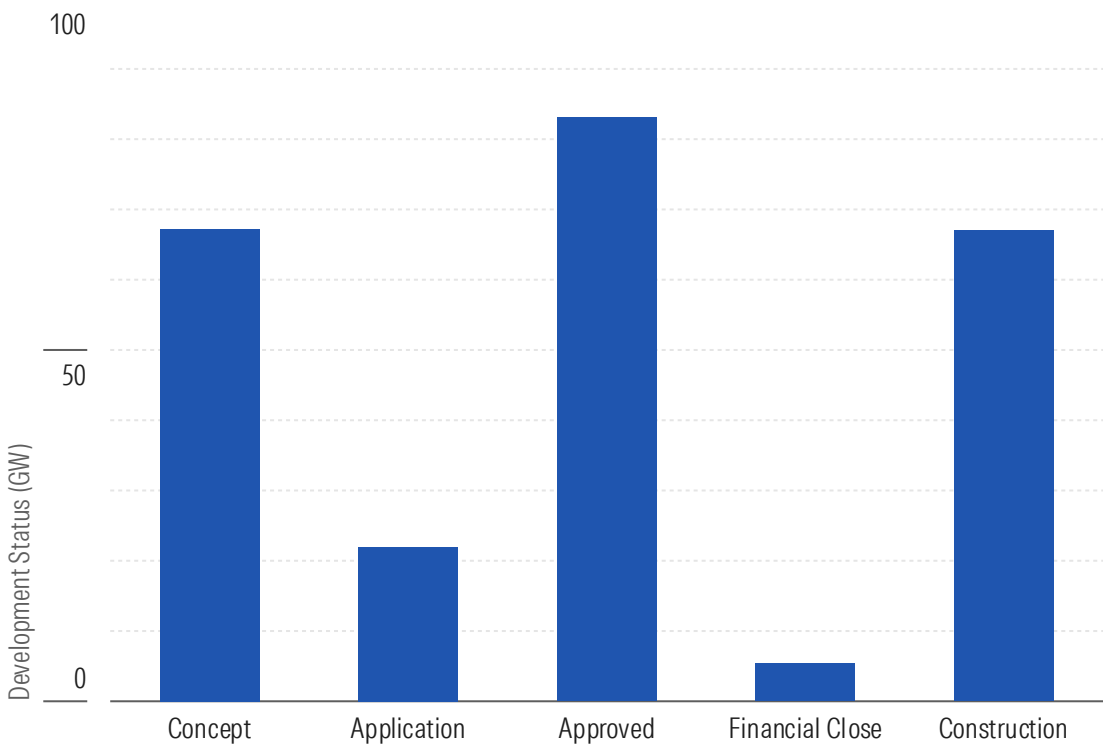
Federal policy uncertainty has not slowed solar or battery storage investment. Battery storage demand has accelerated, as the technology is often paired with solar. Wind capacity additions grew slightly in 2025 after falling nearly 50% from 2023 levels in 2024.

## Battery Adoption Accelerates as Wind Stagnates



Initial and approved applications for new renewable energy projects remain robust through 2030, supporting utilities' long-term growth plans. Higher equipment costs and higher interest rates have increased power prices consistently since 2019.

## Renewable Energy Development Supports Long-Term Growth



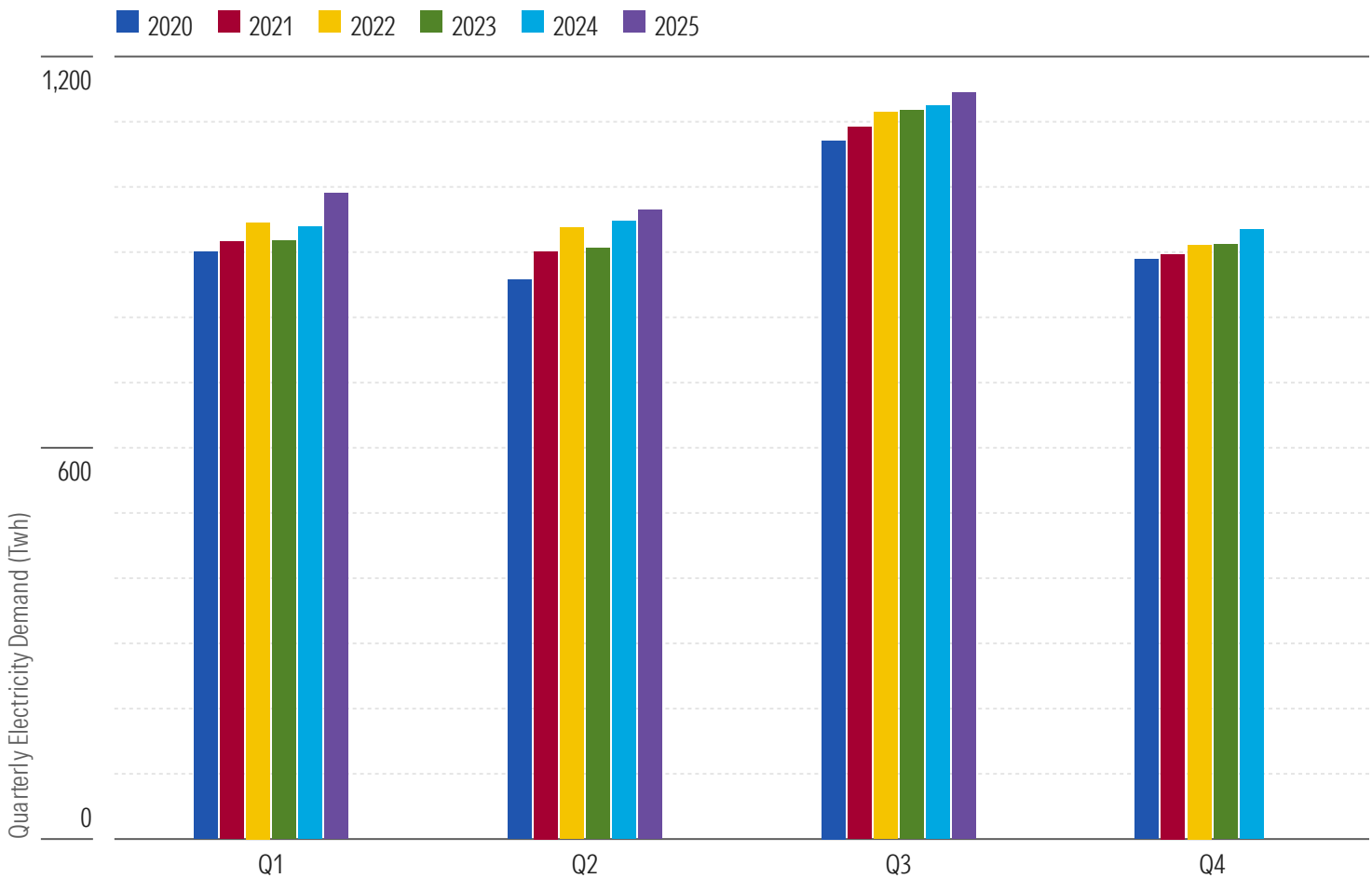
Source: Rystad. Data as of Dec. 8, 2025

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# Growth Picks Up as Data Center Buildout Begins

## US Electricity Demand Growth Driven by Commercial Strength

Data center demand drives 4.5% commercial growth.



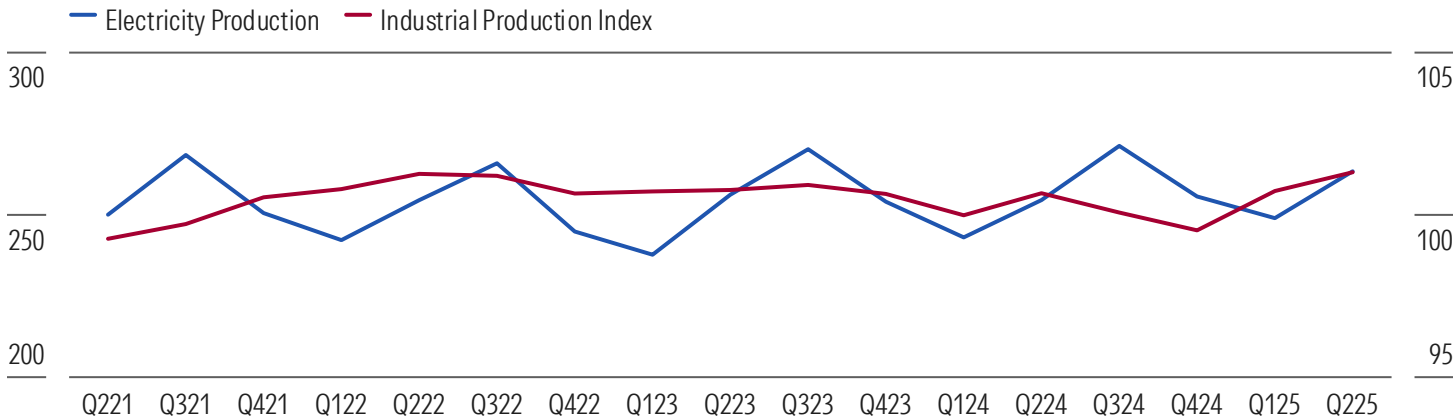
## Total US Electricity Demand

- Total US electricity demand is up 3% year-to-date as robust underlying customer growth, particularly new energy-intensive data center and manufacturing customers, continues to drive energy demand growth.
- After more than a decade of little electricity demand growth in the US, we estimate annual electricity demand will average 1.4% through 2030. This is below the 2.7% average annual growth rate before 2010.
- Electric vehicles, data centers, and building electrification support our long-term electricity demand growth outlook.

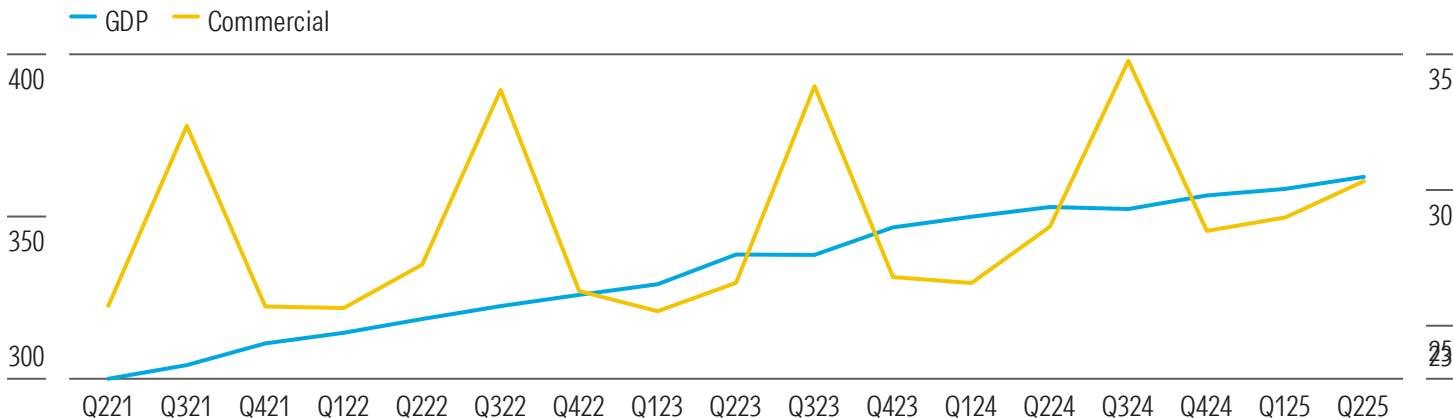
# Commercial Demand Accelerates While Industrial Is Steady

- Industrial electricity demand increased from the prior-year quarter, coinciding with continued strength in the Industrial Production Index.
- We expect industrial electricity demand to continue to increase or decrease in line with industrial production.
- Commercial electricity demand increased by 4.5% year-to-date as data center demand accelerated.
- Data center infrastructure buildout remains a large driver for utilities growth over the next five years and beyond.

Industrial Sector Production Keeps Pace With Industrial Production Index



Commercial Demand Driven by Data Center Demand Growth Tailwind For Utilities



# Step-Up in Utilities' Capital Expenditure Plans Supports Long-Term Growth

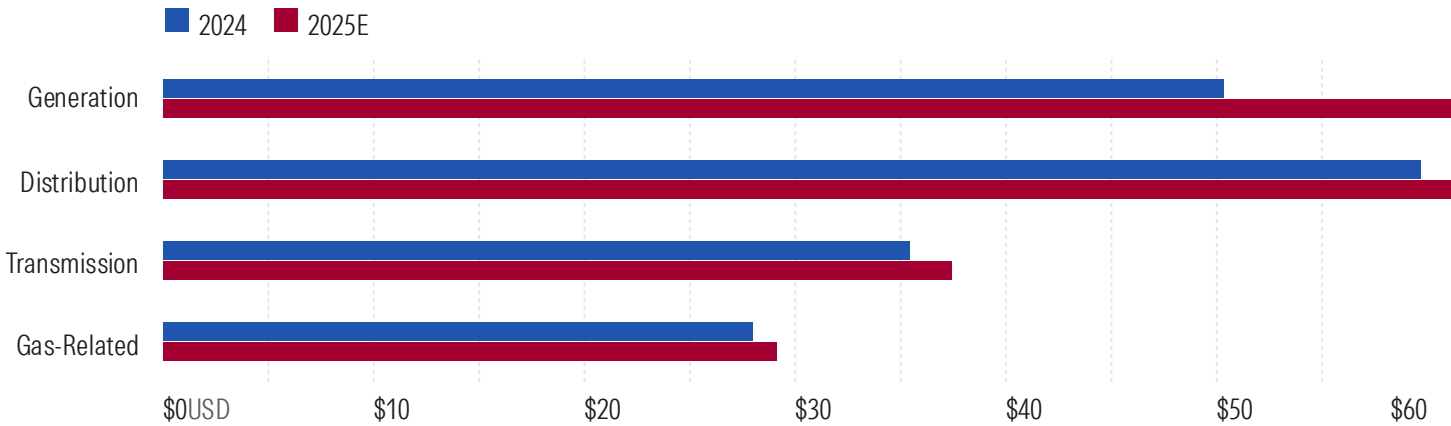
## Data Centers Support Best Growth Environment in Decades

- Utilities sector capital investment is set to climb 6% in 2026 from 2025, on top of a 12% increase in 2025, supporting a median 6.8% growth.
- EEI estimates utilities will invest \$1.1 trillion from 2025-29, compared with \$1.3 trillion invested in the prior decade, as utility investment has accelerated.
- Generation, distribution, and transmission investments are all expected to be higher in 2025 versus 2024, as utilities ramp up investments for new data centers and manufacturing.

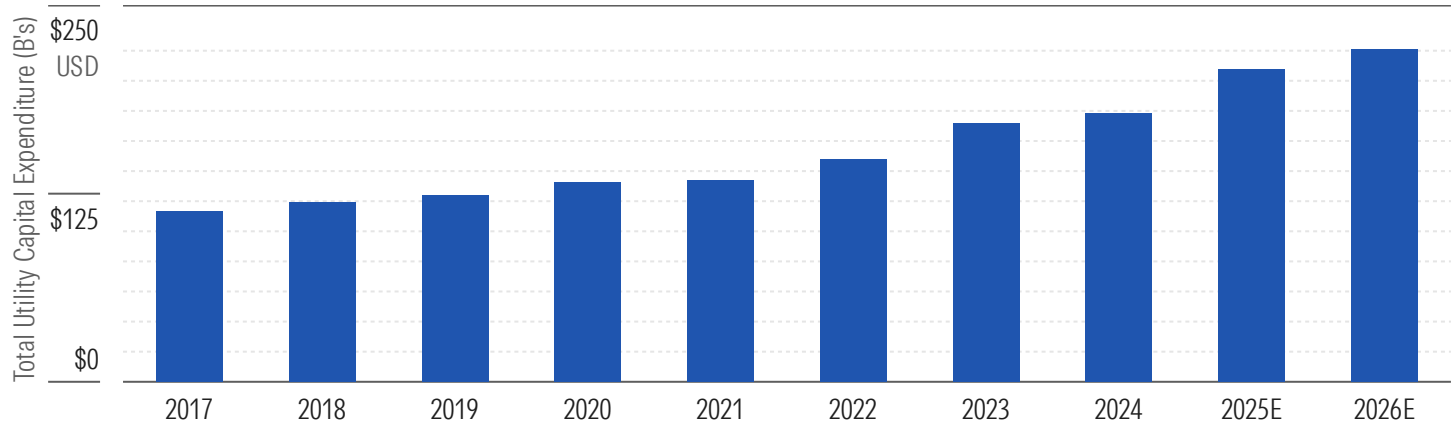
## Utilities Highlight Significant Incremental Capex Needs

- Alliant Energy: 17% increase to \$13.4 billion over 2026-29 to support estimated 12% load growth.
- American Electric Power: Capital plan increased to \$72 billion from \$54 billion, on top of a 30% increase last year.
- Xcel Energy: Management's \$60 billion investment plan for 2026-30 is up \$15 billion from its previous five-year plan.
- DTE Energy: \$36.5 billion investment plan for 2026-30 is up \$6.5 billion from management's previous five-year plan, primarily to serve new data center customers.

## Capex Breakdown by Function Highlights Increased Investment in Grid



## Utilities Accelerating Investment to Support Electricity Demand Growth



# Data Centers Set to Be a Demand Tailwind for Utilities

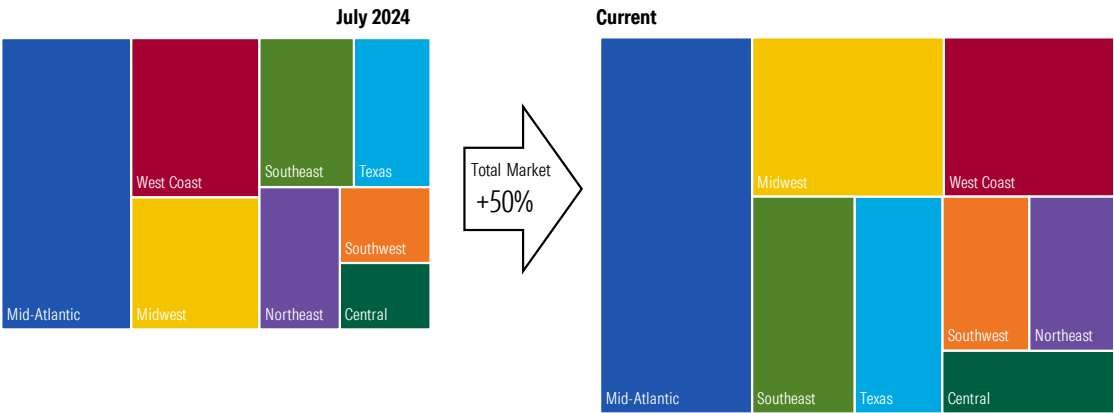
## Data Centers Likely Materially Positive for Electricity Demand

- The commercialization of artificial intelligence engines represents a transformational source of new electricity demand growth. We assume US data center electricity demand triples between 2024 and 2030, reaching 10% of total US electricity demand in 2030, up from 3% today.
- Beyond 2030, we expect AI-related energy use to continue to grow but at a slower rate due to energy efficiency gains and a shift to AI model inference, or prediction, from AI model training.
- We expect demand to be spread across regions, with the largest immediate impact in the mid-Atlantic states and California. Expect more investment in the Midwest, Southeast, and Texas.

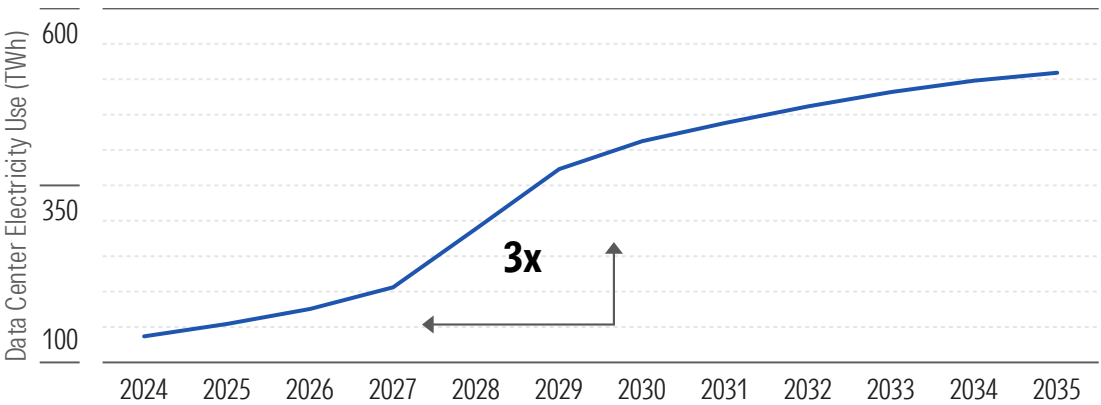
## Utilities Highlighting Significant Data Center Demand

- Dominion (D): New data centers are a primary reason why electricity demand is growing 5.5% annually in PJM's Dominion Zone. Since 2013, Dominion has averaged 15 data center connections annually.
- Entergy (ETR): Has secured equipment to develop 19 GW of new systemwide capacity, much of which will be committed to support new data centers.
- PPL (PPL): Data centers in advanced stages totaling 20.5 GW, with 5 GW under construction.
- Southern Company (SO): Data centers totaling 7 GW under construction and expected online by 2029. Total data center pipeline 50 GW through mid-2030s.

## US Data Center Market Has Grown 50% in 18 Months

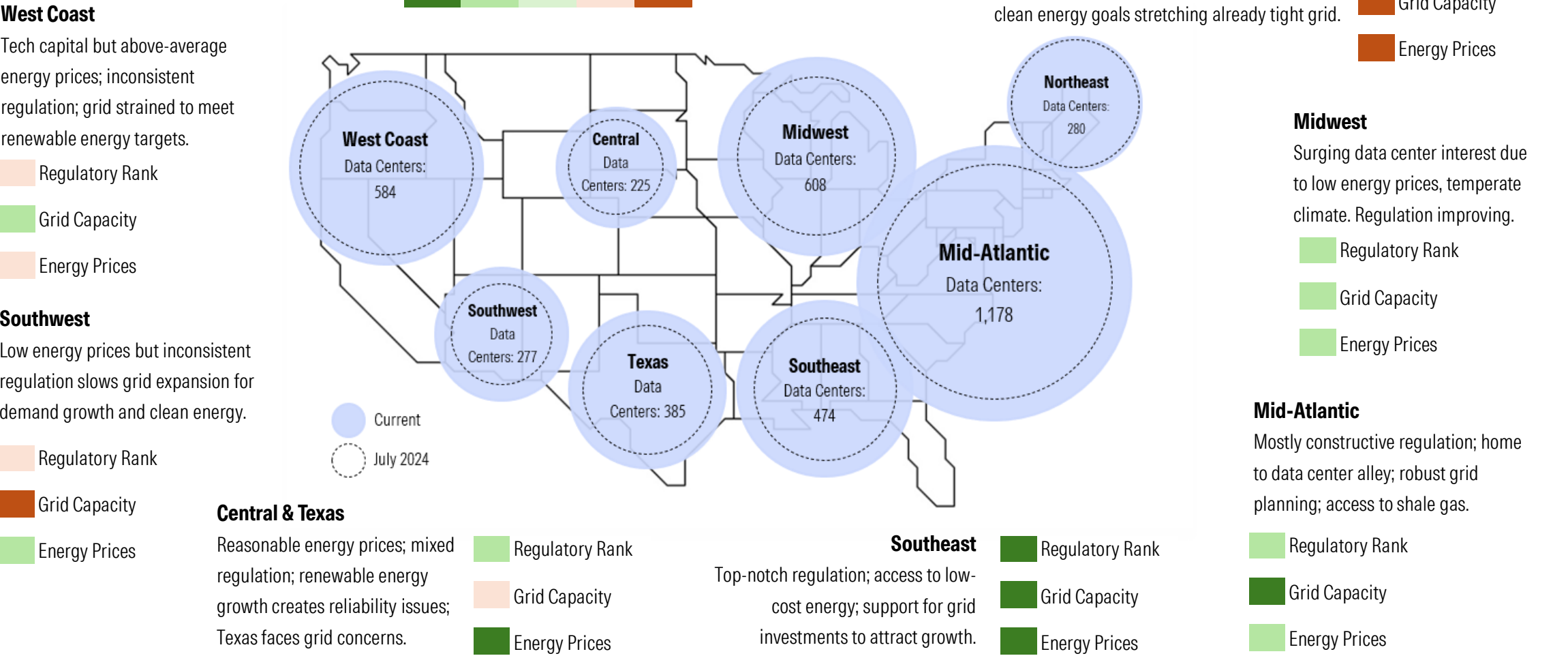


## Morningstar Forecast: Data Center Electricity Demand to Triple by 2030



# Data Center Growth Will Require Accelerated Utility Investment

## Data Center Developers Seeking Areas With Low-Cost Energy, Grid Access, and Constructive Regulation



Source: Morningstar, Data Center Map. Data as of Dec. 8, 2025.

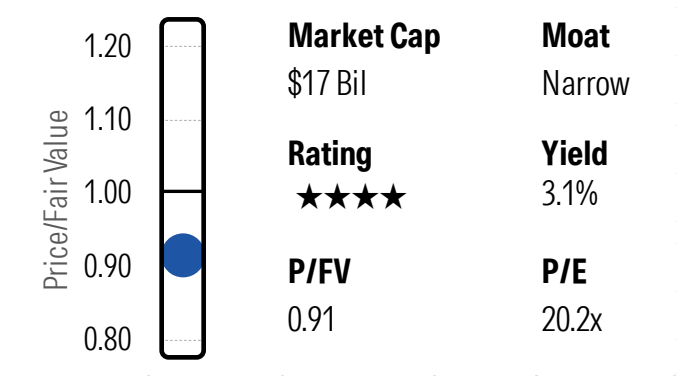
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# Top Picks and Coverage

Several utilities with attractive combinations of value and growth.

# Utilities Sector Top Picks

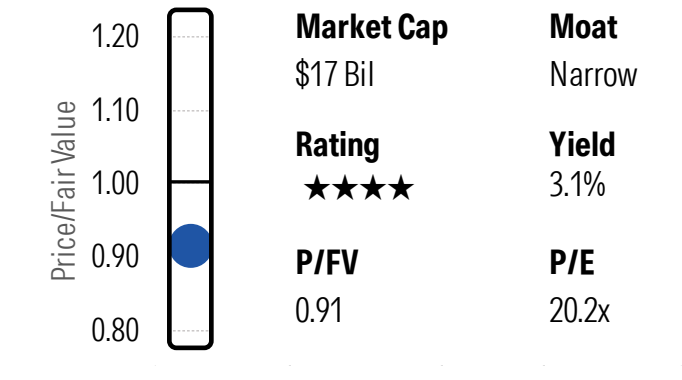
## Alliant Energy (LNT)



## Alliant Energy Well-Positioned for Data Center Expansion in Iowa and Wisconsin

- We estimate Alliant’s annual earnings growth at the high end of management’s 5%-7% guidance through 2027, and more than 7%-plus growth in 2027 and beyond.
- The company’s four-year \$13.4 billion capital investment plan supports our growth estimate, which is up 24% from its prior capital plan.
- Alliant Energy has four data center customers supporting 3 gigawatts of peak demand, driving 12% annual sales growth from 2025-30. Three data center campuses have started construction, and the fourth has a signed electric service agreement. Negotiations for an additional 2-4 GW could materialize beyond 2028. This plan is supported by constructive regulation across its operating subsidiaries.
- We expect management to continue to update and execute on the 2-4 GW of additional data center backlog throughout 2026.

## American Electric Power (AEP)

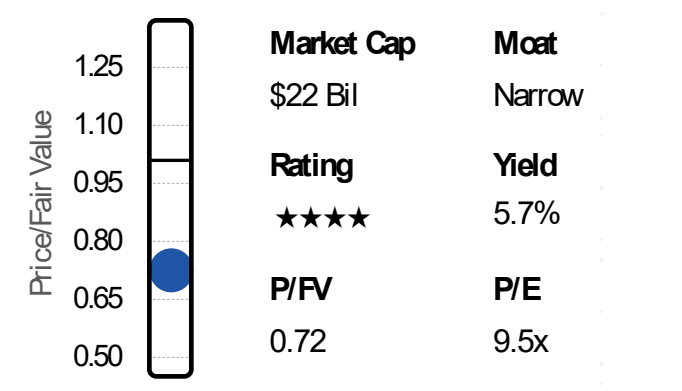


## AEP’s Largest Distribution and Transmission Network Well-Positioned for Growth

- AEP benefits from being the largest transmission and distribution company in the US, positioning it well to capitalize on investment needs to support accelerating electricity demand growth.
- AEP increased its 2026-2030 capital plan to \$72 billion, up from the company’s current \$54 billion capital plan, supporting 10% rate base growth. Management increased its long-term earnings guidance to 7% to 9% from 2026-30, with expectations to be at or above the range from 2028-2030, in line with our updated estimates.
- AEP’s expected system peak is expected to increase to 65 GW by year-end 2030, up from 37 GW currently, with 80% attributed to growing data center demand. The incremental demand is backed by either signed Energy Service Agreements or Letters of Agreement, giving us confidence in the company’s capital needs.

# Utilities Sector Top Picks

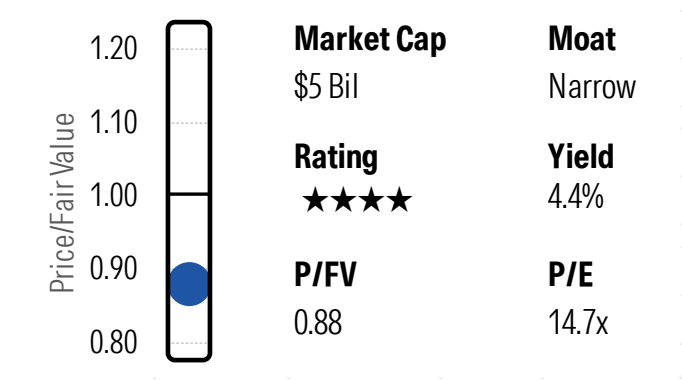
## Edison International (EIX)



## Constructive Regulatory Outcomes Support Growth; Wildfire Concerns Remain an Overhang

- Although management has said material losses from the Eaton fire in January are "probable," we think California's AB 1054 legislation will minimize shareholder losses.
- Edison's stock is down \$22 per share since the January fires. We estimate the worst-case scenario under AB 1054 is \$4.4 billion, or \$8 per share after tax. We believe Edison will qualify for AB 1054 insurance fund proceeds, which cover nearly all shareholder liabilities.
- We assume Edison invests more than \$7 billion annually during the next four years. Regulators signed off on most of that investment with approval of Edison's 2025-28 general rate-case settlement. This should support an average annual earnings growth rate of 7%, at the high end of management's 5%-7% target.
- Interest expense tied to 2017-18 disaster liabilities should ease as Edison implements regulatory approval to securitize those costs.

## Portland General Electric (POR)



## Investors Ignoring Fast-Paced Renewable Energy, Electricity Demand Growth

- We think investors are overestimating the impact of regulatory and policy uncertainties in Oregon. Recent constructive regulatory outcomes support long-term infrastructure growth investment.
- Oregon's renewable energy mandates offer upside to management's \$6.4 billion investment plan in 2025-29, pushing annual earnings growth to the high end of management's 5%-7%. Winning bids for another 4 GW of projects would be incremental to PGE's current growth plan.
- Electricity demand around Portland is set to grow 4% annually, among the top in the sector. Technology manufacturing and data center expansions are driving 8% annual growth in industrial demand. Higher electricity prices for data center customers should boost earnings in late 2026.
- Portland General's wildfire risk is minimal given its urban service territory and temperate climate.

# North American Utilities Coverage List

## Morningstar Covers 39 Utilities in the US and Canada

| Company (Ticker)                      | Market Cap<br>(Billions) | Moat Rating | Uncertainty Rating | Last Close | Fair Value<br>Estimate | Star Rating | P/FVE | P/E   | Yield | 1-Year<br>Return |
|---------------------------------------|--------------------------|-------------|--------------------|------------|------------------------|-------------|-------|-------|-------|------------------|
| Edison International (EIX)            | 22 USD                   | Narrow      | Medium             | 57.93      | 80.00                  | ★★★★        | 0.72  | 9.5x  | 5.7%  | -24.9%           |
| PG&E (PCG)                            | 33 USD                   | None        | Medium             | 14.83      | 19.50                  | ★★★★        | 0.76  | 9.9x  | 0.7%  | -24.6%           |
| Portland General Electric (POR)       | 5 USD                    | Narrow      | Low                | 47.52      | 54.00                  | ★★★★        | 0.88  | 14.7x | 4.4%  | +9.8%            |
| Essential Utilities (WTRG)            | 11 USD                   | Narrow      | Low                | 37.67      | 42.00                  | ★★★★        | 0.90  | 17.7x | 3.6%  | +1.0%            |
| American Electric Power Company (AEP) | 61 USD                   | Narrow      | Low                | 114.26     | 127.00                 | ★★★★        | 0.90  | 19.3x | 3.3%  | +26.0%           |
| New Jersey Resources (NJR)            | 5 USD                    | Narrow      | Low                | 45.91      | 51.00                  | ★★★★        | 0.90  | 14.7x | 4.1%  | -0.3%            |
| Alliant Energy (LNT)                  | 17 USD                   | Narrow      | Low                | 64.93      | 71.00                  | ★★★★        | 0.91  | 20.2x | 3.1%  | +10.8%           |
| FirstEnergy (FE)                      | 25 USD                   | Narrow      | Low                | 60.79      | 48.00                  | ★★★★        | 0.92  | 17.3x | 4.0%  | +14.3%           |
| Duke Energy (DUK)                     | 89 USD                   | Narrow      | Low                | 114.39     | 124.00                 | ★★★★        | 0.92  | 18.1x | 3.7%  | +8.2%            |
| Eversource Energy (ES)                | 25 USD                   | None        | Low                | 67.50      | 73.00                  | ★★★★        | 0.92  | 14.2x | 4.5%  | +17.5%           |
| American Water Works Company (AWK)    | 25 USD                   | Narrow      | Low                | 130.09     | 140.00                 | ★★★★        | 0.93  | 22.7x | 2.5%  | +2.3%            |
| DTE Energy (NYS:DTE)                  | 27 USD                   | Narrow      | Low                | 180.31     | 139.00                 | ★★★         | 0.94  | 18.1x | 3.3%  | +11.7%           |
| Evergy (EVRG)                         | 17 USD                   | Narrow      | Low                | 73.37      | 78.00                  | ★★★         | 0.94  | 18.4x | 3.8%  | +22.2%           |
| WEC Energy Group (WEC)                | 34 USD                   | Narrow      | Low                | 103.48     | 110.00                 | ★★★         | 0.94  | 19.8x | 3.7%  | +12.0%           |
| Mge Energy (MGEE)                     | 3 USD                    | Narrow      | Low                | 79.30      | 83.00                  | ★★★         | 0.96  | 21.6x | 2.4%  | -19.9%           |
| Exelon (EXC)                          | 43 USD                   | Narrow      | Low                | 43.09      | 45.00                  | ★★★         | 0.96  | 16.0x | 3.7%  | +21.6%           |
| CenterPoint Energy (CNP)              | 24 USD                   | Narrow      | Low                | 37.33      | 38.00                  | ★★★         | 0.98  | 21.2x | 2.4%  | +21.6%           |
| PPL (Allentown) (NYS:PPL)             | 25 USD                   | Narrow      | Low                | 33.46      | 34.00                  | ★★★         | 0.98  | 18.5x | 3.3%  | +5.6%            |
| Ameren (AEE)                          | 26 USD                   | Narrow      | Low                | 97.25      | 98.00                  | ★★★         | 0.99  | 19.5x | 2.9%  | +12.1%           |
| Consolidated Edison (ED)              | 35 USD                   | None        | Low                | 95.64      | 95.00                  | ★★★         | 1.01  | 16.9x | 3.6%  | +6.8%            |
| Utilities (Median)                    |                          |             |                    |            |                        |             | 1.01  | 19.3x | 3.3%  |                  |

Source: Morningstar. Data as of Dec. 12, 2025

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|---------------------------------------|-----------------------|-------------|--------------------|------------|---------------------|-------------|-------|-------|-------|---------------|
| Atmos Energy (NYS:ATO)                | 27 USD                | Narrow      | Low                | 167.09     | 165.00              | ★★★         | 1.01  | 20.6x | 2.4%  | +21.9%        |
| NiSource (NI)                         | 20 USD                | Narrow      | Low                | 41.69      | 41.00               | ★★★         | 1.02  | 22.1x | 2.7%  | +16.5%        |
| Fortis (Electric Utility) (TSE:FTS)   | 35 CAD                | Narrow      | Low                | 50.21      | 68.00               | ★★★         | 1.02  | 19.9x | 3.6%  | +20.8%        |
| Sempra (SRE)                          | 58 USD                | Narrow      | Medium             | 88.97      | 87.00               | ★★★         | 1.02  | 19.5x | 2.9%  | +4.7%         |
| Pinnacle West Capital (PNW)           | 10 USD                | None        | Low                | 86.75      | 83.00               | ★★          | 1.05  | 18.2x | 4.2%  | +1.6%         |
| OGE Energy (OGE)                      | 9 USD                 | Narrow      | Low                | 42.62      | 40.00               | ★★          | 1.07  | 18.6x | 4.0%  | +5.4%         |
| Dominion Energy (D)                   | 50 USD                | Narrow      | Medium             | 58.17      | 54.00               | ★★          | 1.08  | 17.0x | 4.6%  | +12.1%        |
| NextEra Energy (NEE)                  | 169 USD               | Narrow      | Medium             | 81.21      | 75.00               | ★★★         | 1.08  | 22.0x | 2.8%  | +12.8%        |
| Entergy (ETR)                         | 42 USD                | Narrow      | Low                | 93.32      | 86.00               | ★★          | 1.09  | 23.9x | 2.7%  | +29.5%        |
| Hawaiian Electric Industries (HE)     | 2 USD                 | None        | High               | 16.07      | 10.50               | ★★★         | 1.11  | 11.8x | 0.0%  | +14.0%        |
| Public Service Enterprise Group (PEG) | 39 USD                | Narrow      | Low                | 78.96      | 71.00               | ★★          | 1.11  | 19.6x | 3.2%  | -4.8%         |
| Emera (TSE:EMA)                       | 20 CAD                | Narrow      | Low                | 47.30      | 58.00               | ★★          | 1.12  | 18.4x | 4.5%  | +28.7%        |
| Southern Company (SO)                 | 93 USD                | Narrow      | Low                | 84.73      | 75.00               | ★★          | 1.13  | 19.8x | 3.5%  | +5.3%         |
| CMS Energy (CMS)                      | 21 USD                | Narrow      | Low                | 69.74      | 61.00               | ★★          | 1.14  | 19.4x | 3.1%  | +7.6%         |
| Xcel Energy (XEL)                     | 44 USD                | Narrow      | Low                | 74.68      | 65.00               | ★★          | 1.15  | 19.6x | 3.1%  | +12.5%        |
| Hydro One Networks (TSE:H)            | 31 CAD                | None        | Low                | 38.04      | 45.00               | ★★          | 1.17  | 24.4x | 2.5%  | +24.9%        |
| AES (AES)                             | 10 USD                | None        | High               | 14.00      | 12.00               | ★★          | 1.17  | 6.5x  | 5.0%  | +8.2%         |
| NRG Energy (NRG)                      | 33 USD                | None        | High               | 170.64     | 96.00               | ★           | 1.78  | 21.3x | 1.0%  | +80.6%        |
| Vistra Energy (VST)                   | 59 USD                | None        | High               | 174.60     | 86.00               | ★           | 2.03  | 32.8x | 0.5%  | +20.2%        |
| Utilities (Median)                    |                       |             |                    |            |                     |             | 1.01  | 19.3x | 3.3%  |               |

Source: Morningstar. Data as of Dec. 12, 2025

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