

# US Utilities: Is Data Center Excitement Running Out of Fuel?

A sector pullback gives investors a chance to assess which utilities can meet lofty growth expectations.

## Morningstar Equity Research

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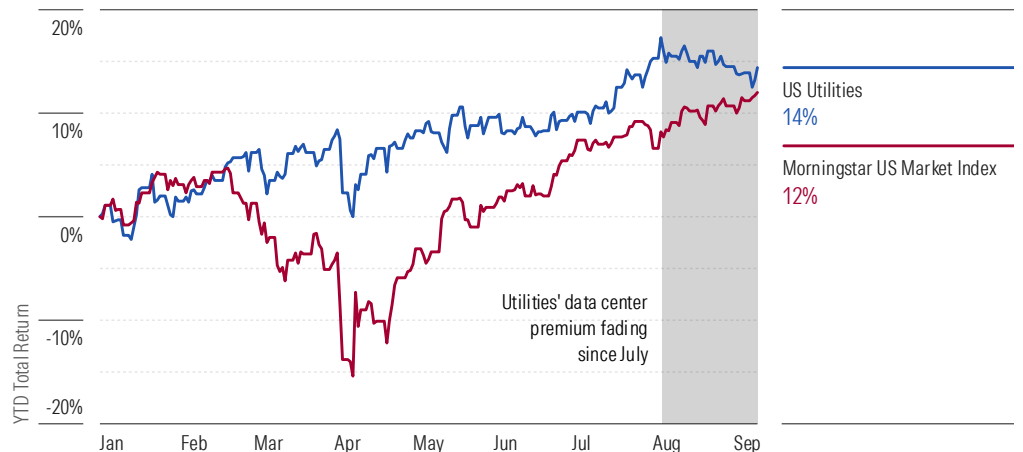
## Investors to Utilities: Show Us the Money

For almost two years, investors have been buying utilities stocks in anticipation that artificial intelligence data centers will usher in a generational revival of US electricity demand growth. The Morningstar US Utilities Index is up 70% from its low in late 2023, beating every sector except technology. But that excitement might have peaked. Utilities are the only sector down since July, despite a dovish interest rate turn. With most utilities' valuations still elevated relative to historical levels and our fair value estimates, we think investors will have to be selective to find utilities that can produce consistent, long-term earnings growth that justifies their premium valuations.

### Key Takeaways








- ▶ Utilities' median 18 P/E is above the sector's 20-year average, and their 3% dividend yield is possibly the lowest ever, suggesting that investors value utilities' growth prospects more than their dividends.
- ▶ We expect data center energy demand to triple in the next five years before energy efficiency and a shift to more inference, or predictive, models begin to slow data centers' energy use growth.
- ▶ We think mid-cap utilities in the Midwest have the best chance of realizing the earnings growth and return expectations that are priced into their stocks.
- ▶ Investors have ignored top picks Eversource Energy, Edison International, and Portland General Electric because the utilities have minimal data center exposure or face idiosyncratic challenges. We think the market underappreciates the growth potential of top picks Alliant Energy and Duke Energy.

**Exhibit 1** After Beating the Market for Most of 2025, US Utilities Stocks Have Faded Since July



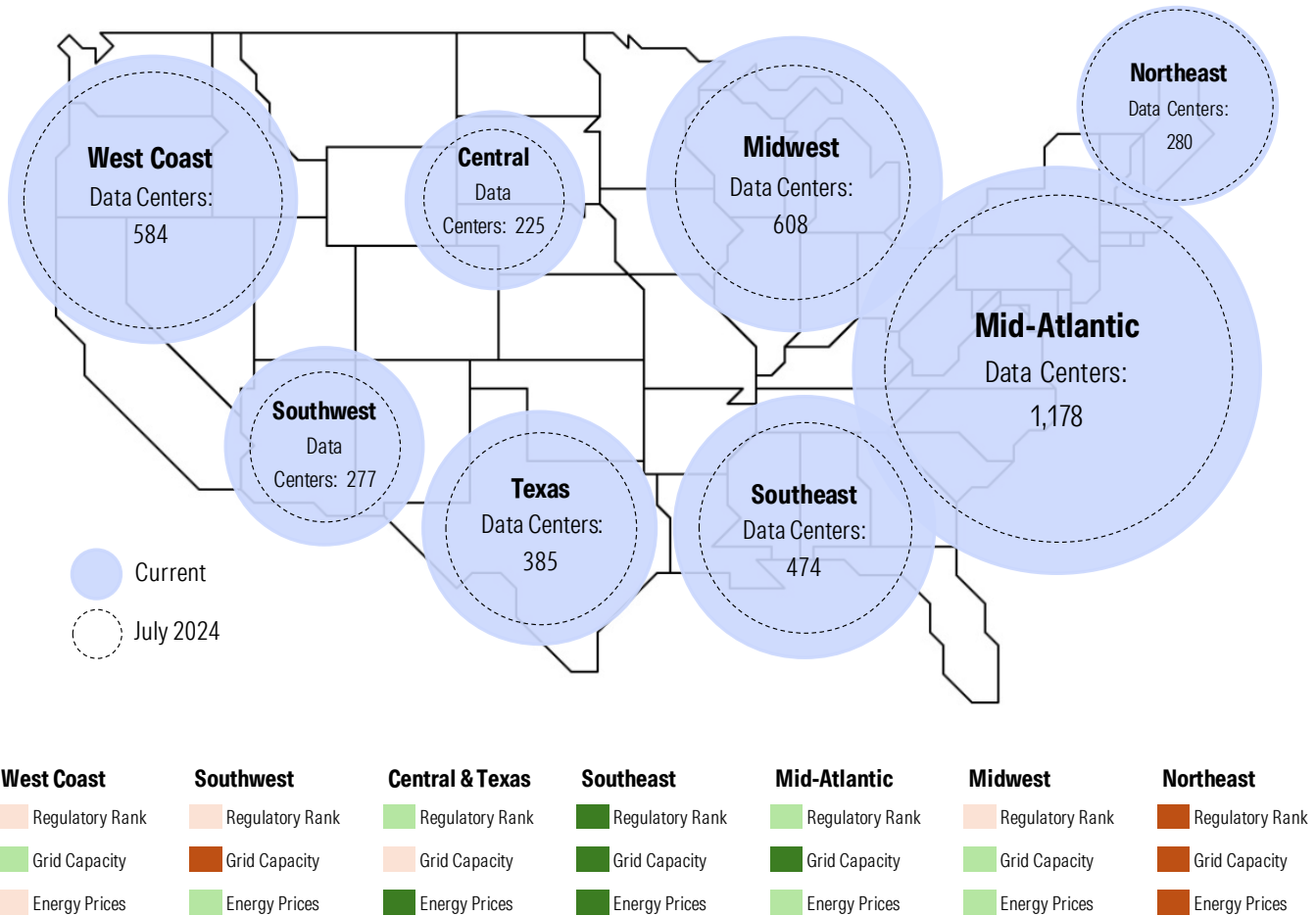
Source: Morningstar. Data as of Sept. 10, 2025.

**Exhibit 2** The Race Is On: Ranking Utilities' Long-Term Data Center Growth Opportunities

<b>Pole Position</b>	<b>Star Rating</b>	<b>Price / Fair Value</b>	<b>Location</b>	   	
Alliant Energy (LNT)	★★★	1.00	Midwest		2 large data center campuses, 3rd being considered; 2.1 GW peak demand, up to 4 GW
Evergy (EVERG)	★★★	1.02	Midwest		Building generation to serve new data centers; 14 GW pipeline would double systemwide load
American Electric Power (AEP)	★★	1.05	Midwest		Expect to add at least \$16B to capital plan in November; 24 GW of announced incremental load
Dominion Energy (D)	★★★	1.10	Mid-Atlantic		40 GW in various stages of development, 8.8 GW with ESA; connects avg 15 data centers annually
Southern Co (SO)	★★	1.22	Southeast		16 GW contracts/commitments; 50 GW pipeline supports \$15B+ annual capex beyond 2027
Entergy (ETR)	★	1.32	Southeast		Large-load demand already climbing; \$10B annual capex plan with regulatory support
<b>Outside Pole</b>					 
Portland General (POR)	★★★★★	0.78	West Coast		Wildfire, affordability concerns overshadow growth from large tech customer base
PG&E (PCG)	★★★★★	0.78	West Coast		Serves Silicon Valley and reports 10 GW pipeline; primary concerns are wildfires and affordability
FirstEnergy (FE)	★★★	0.96	Midwest/Mid-Atl		2.7 GW data center load contracted and 3 GW pipeline through 2029; 14 GW pipeline beyond 2029
Duke Energy (DUK)	★★★	1.00	Southeast/Midwest		Enterprise load growth to accelerate to 3%-4% during 2027-29, \$10B AWS campus in Carolinas
PPL (PPL Corp)	★★	1.05	Mid-Atlantic		14.4 GW data center pipeline, JV with Blackstone proactive approach to new generation
WEC Energy Group (WEC)	★★	1.06	Midwest		\$3.3 billion Microsoft campus progressing as planned, supporting 4%-5% load growth
Pinnacle West (PNW)	★★	1.10	Southwest		Arizona a top destination for industrial customers; energy infrastructure must keep up
OGE Energy (OGE)	★★	1.10	Central		Improving regulation, customer growth support long-term upside
Ameren (AEE)	★★	1.10	Midwest		2.1 GW of signed ESA supports 5.5% sales growth over 2025-29
NiSource (NI)	★★	1.13	Midwest		Generation company regulatory approval could spur data center dealmaking in Indiana
Xcel Energy (XEL)	★★	1.15	Midwest		Favorable service territory supports growth from data centers, other large industrials
<b>Back Row</b>					
NextEra Energy (NEE)	★★★	0.95	Southeast		Florida customer count grows 1%-2% annually, little data center interest; 3 GW in sites highlighted
Exelon (EXC)	★★★	1.03	Midwest/Mid-Atl		Northeast opportunities limited by PJM; Illinois regulation can prove challenging
AES (AES)	★★★	1.06	Midwest		International operation limits upside to data centers amid pullback of renewable energy ambitions
Fortis (FTS)	★★	1.06	Southeast/Midwest		Arizona positioned well for growth but small piece of Fortis' portfolio
Sempra Energy (SRE)	★★★	1.04	California/Texas		Texas shows data center promise, but overshadowed by limited opportunity in urban CA territory
DTE Energy (DTE)	★★	1.09	Midwest		3 GW pipeline, first deal coming soon; large energy storage investment opportunity
CenterPoint (CNP)	★★	1.11	Midwest		High-growth, dense Houston area has little room for data center growth
Emera (EMA)	★★	1.15	Southeast		Florida gets 75% of growth investment, though little directed to data centers
Public Svc Ent Grp (PEG)	★★	1.15	Mid-Atlantic		NJ not data center hotbed, but PSEG nuclear fleet could benefit from regional growth
CMS Energy (CMS)	★★	1.17	Midwest		Data centers small piece of total economic growth; Michigan competing with nearby states
NRG Energy (NRG)	★	1.75	Texas/Mid-Atl		Initial large contract underwhelming; low data center contract margins could limit upside
Vistra Corp (VST)	★	3.43	Texas/Mid-Atl		Despite investor enthusiasm, still waiting for data center deal; power market policies key risk

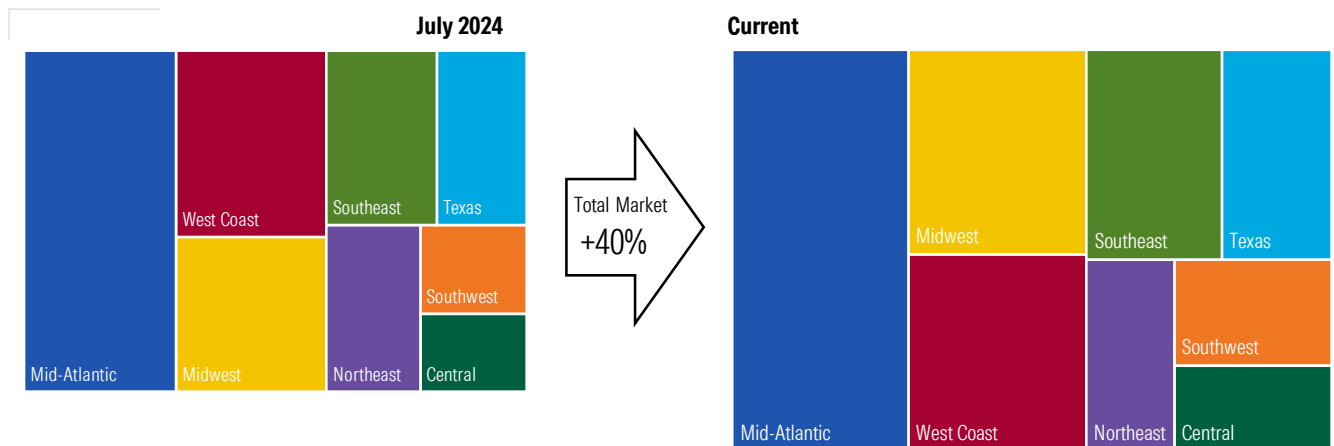
**Not in the Race:** American Water Works (AWK), Atmos Energy (ATO), Con Edison (ED), Edison International (EIX), Essential Utilities (WTRG), Eversource Energy (ES), Hawaiian Electric (HE), Hydro One (H), New Jersey Resources (NJR), MGE Energy (MGEE)

**Exhibit 3** Mapping Utilities' Data Center Growth Opportunities



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

**Exhibit 4** Data Center Market Has Grown 40% in the Last Year, Led by Midwest and Mid-Atlantic Regions; Central and Southwest Gain Share



Source: Data Center Map. Data as of Sept. 8, 2025.

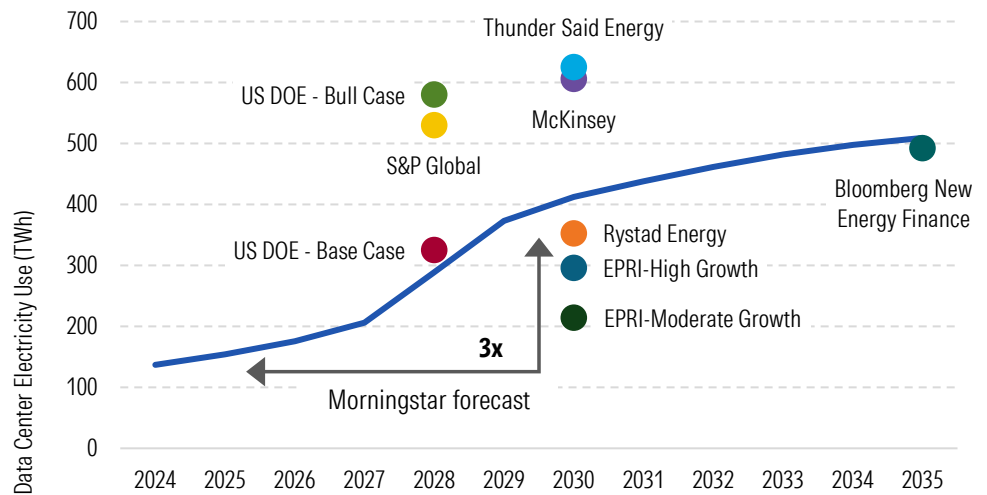
## Data Center Growth Outlook

### Morningstar Forecast

#### Data Center Electricity Demand to Triple by 2030, Then Grow More Slowly

The commercialization of AI engines represents a transformational source of new electricity demand growth. We assume that US data center electricity demand triples between 2024 and 2030, climbing to 10% of total US electricity demand in 2030 from 3% today (Exhibit 5).

**Exhibit 5** Our Data Center Demand Growth Forecast Is Less Bullish Than Most Forecasts



Source: Morningstar, various. DOE = Department of Energy. EPRI = Electric Power Research Institute. Data as of Sept. 10, 2025.

We estimate AI-dedicated data centers will increase from 25% of data center capacity in 2024 to two-thirds by 2030 (Powering Tomorrow's AI Data Centers). This increase in AI-dedicated data centers and the much larger energy requirements of AI-dedicated data centers produce the sharp increase in electricity demand in our forecast.

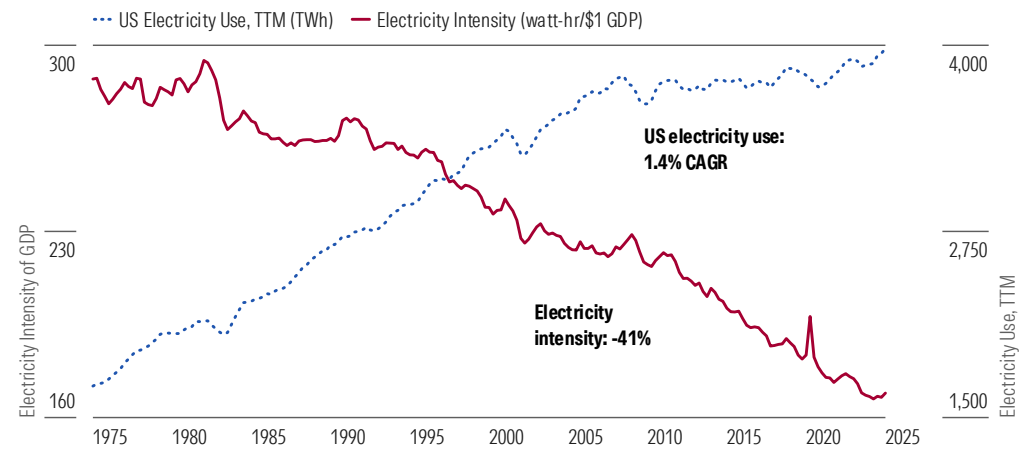
Beyond 2030, we expect AI-related energy use to continue to grow but at a slower rate due to energy efficiency gains and a shift to AI model inference, or prediction, from AI model training.

#### Energy Efficiency Slows Energy Demand Growth Rate

Efficiency has slowed or reduced energy use for most of the major sources of electricity demand, such as lighting and climate control, for several decades. In the US, the electricity intensity of GDP nearly

halved during the last 50 years, resulting in 1.4% annual average electricity demand growth, while US real GDP has grown twice as fast (Exhibit 6).

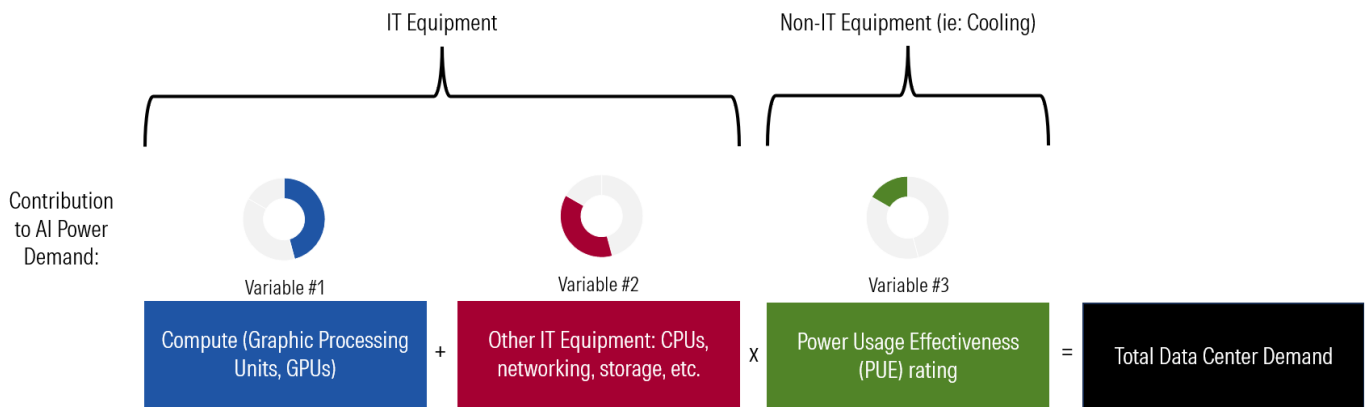
**Exhibit 6** Energy Efficiency Gains Have Slowed Electricity Demand Growth Since the 1970s



Source: Morningstar, US Energy Information Administration. Data as of Sept. 8, 2025.

Data centers can achieve energy efficiency gains in three primary areas (Exhibit 7). We think efficiency gains in non-IT equipment, such as lighting, cooling, and other overhead expenses, are most likely in the near term. Energy efficiency gains in graphics processing units could develop in the long run.

**Exhibit 7** Data Centers Are Aiming to Make All of Their Operations More Efficient



Source: Morningstar.

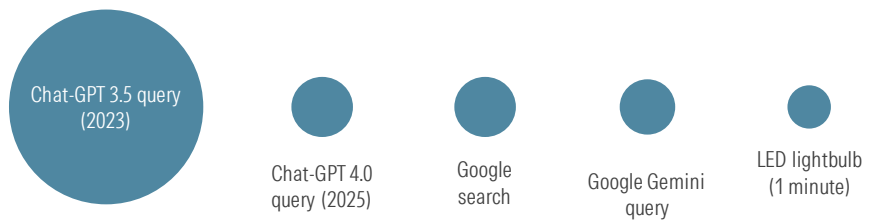
- **Compute:** Data center customers value compute power over energy efficiency for now. This means that new GPU models in the next few years could require more incremental energy demand than their incremental compute capability. Nvidia's Rubin Ultra model planned for release in 2027 could require 3,600 watts, 3 times its GB200 model's requirement. Energy efficiency could become a focus if incremental compute capabilities shrink, but that's not likely for several years.

- ▶ **Other IT equipment:** Almost half of data center energy demand comes from equipment such as central processing units, memory, storage, and networking that support compute functions. Energy demand from these non-GPU sources tends to scale with compute capabilities. Significant energy efficiency gains are unlikely in the near term but a key area of focus in the medium term.
- ▶ **Non-IT equipment:** This tends to be around 10% of a data center's total energy demand but a big opportunity for near-term energy savings. A data center's power usage effectiveness rating measures its non-IT energy needs relative to its computing energy needs. The theoretical 1.0 PUE rating limit implies no non-IT energy use. Traditional data centers typically have 1.5-2.0 PUE ratings. Hyperscale data centers typically have 1.2-1.5 PUE ratings because of the higher energy intensity of the GPUs. US data centers have cut their average PUE by about 10% during the last decade, although some of that could be due to mix shift as low-PUE hyperscalers become a larger share of the data center market. Cooling is a key focus as data centers analyze the shift from cheap but inefficient air cooling to expensive but highly efficient liquid cooling.

**Google Gemini Study**

In August, Google said it had reduced energy consumption for the median Gemini Apps text prompt by 33 times since mid-2024. A Gemini query now consumes 0.24 watt-hour of energy, the same as turning on an LED lightbulb for 90 seconds. This is a 92% reduction in the energy required for a ChatGPT-3.5 query and slightly less than the energy required for a ChatGPT-4.0 query or Google search (Exhibits 8 and 9).

**Exhibit 8** Energy Use per AI Query Has Come Down Substantially With New Models



Source: Google. Data as of August 2025.

**Exhibit 9** 4,000 Gemini Queries Consume the Same Amount of Electricity as an Air Conditioner Running for 24 Minutes or an EV Driving 3 Miles



Source: Morningstar. Data as of August 2025.

### Shift From AI Model Training to AI Inference

Offsetting some of the energy efficiency gains in our forecast is a sharp increase in AI inference energy usage relative to model training energy usage. Data centers running queries on average require half of the energy of a data center running model training (Exhibit 10).

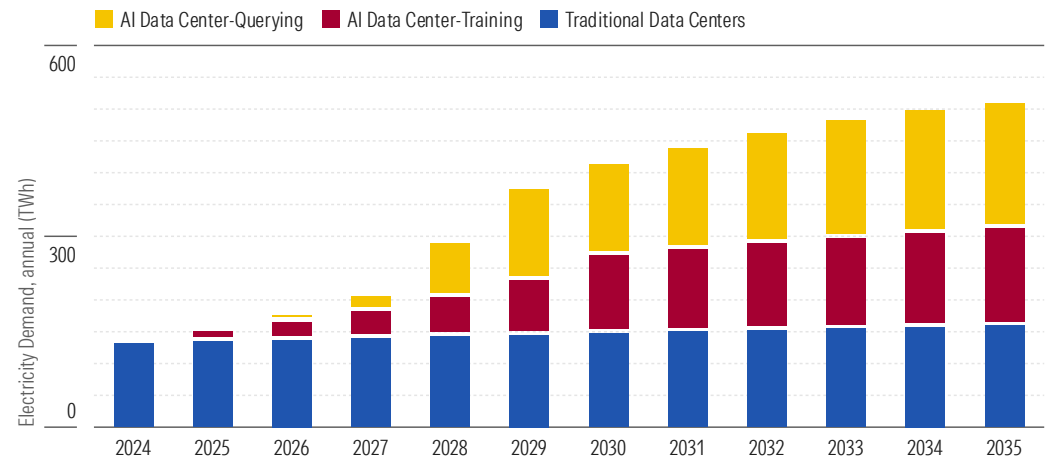
**Exhibit 10** AI Inference Data Center Requires Less Electricity Than AI Training Data Center

Category	Typical Data Center Without AI Demand	AI Data Center in Training Phase	AI Data Center in Inference Phase
<b>Description</b>	CPU-based servers	High-powered GPU-based Servers	CPU/GPU-based
<b>Rack Power Density</b>	<b>6-12 kW</b>	<b>26-80 kW</b>	<b>12-40 kW</b>
<b>Processors Used</b>	CPUs (Intel Xeon)	Nvidia H100 + Google TPU	Nvidia H100 + Nvidia L40s, Intel Xeon
<b>Power load variability</b>	Limited	Higher	Limited
<b>Share of Gen AI market</b>	N/A	Today: ~ 80% End State: ~ 20%	Today: ~ 20% End State: ~ 80%
<b>Latency Requirements</b>	Varies	Minimal Requirements	Stringent Requirements

Source: Dominion Energy.

We assume energy use from model training falls from 75% of total AI data center energy demand in 2024 to 44% by 2035, contributing to our forecast for slowing growth in total data center energy use beyond 2030 (Exhibit 11).

**Exhibit 11** As More People Use AI, Inference Model Energy Use Will Surpass AI Training Model Energy Use



Source: Morningstar, Thunder Said Energy.

### Energy Infrastructure, Regulatory Constraints

We think the most bullish forecasts don't consider the challenges that utilities, regulators, and grid operators will face in supplying the energy to support huge new data centers, particularly in areas that have minimal existing infrastructure or that already face reliability risks. The following constraints, in

order of importance, are key considerations to watch in the coming years. These could affect project timing and potential growth opportunities for utilities.

- ▶ Developing new energy infrastructure typically requires multiple layers of regulatory approvals. Regulatory approvals will determine how quickly utilities can raise the capital necessary to complete growth projects.
- ▶ Tight supply chains for large power generation and electrical equipment mean large, greenfield data centers could have to wait at least three years for new energy supply.
- ▶ Utilities and grid operators must ensure grid reliability during peak demand periods before adding large data centers. Meeting that reliability standard could require additional infrastructure.
- ▶ Many new data centers aim to use clean energy. Serving constant data center demand with intermittent wind and solar will require investment in energy storage, gas generation, and grid upgrades.

### Regulatory Constraints

As we wrote in [Will Utilities Crash the AI Party?](#) last year, federal and state regulators will determine how quickly utilities can accommodate data centers' energy demand.

Many utilities have implemented or are seeking regulatory approval for separate large-load tariffs for customers with more than 100 megawatts of load. The contracts are typically take-or-pay, requiring a large-load customer to guarantee a minimum demand level, even if the customer uses less. The long-term contracts (15-plus years) are with creditworthy counterparties. Additionally, the contracts usually require the large-load customers to directly pay for utility infrastructure related to a data center, preventing any stranded costs, should the customer no longer need the load in the future. This is a direct response to some criticism that consumers are bearing the cost for the data infrastructure buildout. These tariffs aim to support data center growth while not shifting costs to other customer classes.

### State Policy

Economic incentives and fast-moving utility commissions have made these states early leaders in attracting data centers.

- ▶ **Louisiana:** Utilities regulators fast-tracked renewable energy project approvals and signed off on Entergy's proposal to serve a \$10 billion Meta data center.
- ▶ **Indiana:** One of the first states to offer generous economic incentives for data center development, Indiana attracted several early project announcements. NiSource's proposal to create a generating company to serve data centers will test how quickly state regulators can act to maintain the momentum.
- ▶ **Iowa:** The state was recently designated a national data center hub with sales tax incentives for data centers, a shift in policy to allow state utilities to attract data center customers.
- ▶ **Missouri/Kansas:** In a rare example of teamwork, utilities commissioners in both states recently approved large power generation projects that Eversource will share between its two jurisdictions to attract large development projects by Panasonic, Google, and other large-load customers.

- ▶ **Ohio:** American Electric Power's Ohio subsidiary filed for a large tariff for loads greater than 25 MW, which would require large-load customers to pay for 85% of the stated load even if the customer uses less. Numerous financial assurances from customers are required.
- ▶ **Virginia:** Dominion has proposed a separate rate class for "high-load" customers to avert recent concerns from the Joint Legislative Audit & Review Commission about increasing costs for data centers.
- ▶ **Wisconsin:** WEC Energy Group recently filed for a very large tariff, one of the early leaders to do so. This would provide for a standardized contract length and rate structure to allow for quicker regulatory approval.

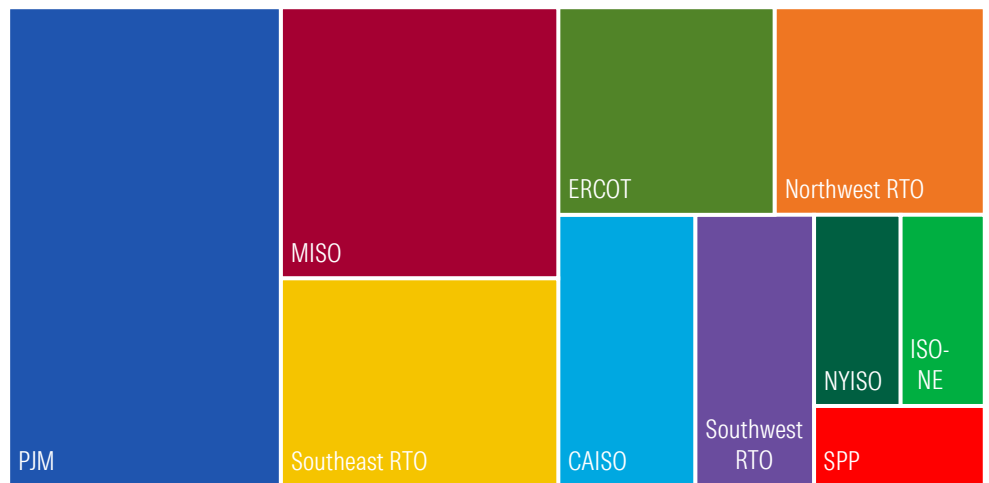
**Federal Policy**

In November 2024, the five-person Federal Energy Regulatory Commission rejected Amazon's contract to co-locate a data center at Talen Energy's Susquehanna, Pennsylvania, nuclear plant. Since that decision, FERC Chair Mark Christie has resigned, and the US Senate must confirm President Donald Trump's nominees to reach a quorum. Trump has made data center expansion a policy priority, even hosting a national event earlier this year in Pennsylvania to promote data center growth. We think the new FERC chair and commissioners will have a mandate to speed approval of large behind-the-meter proposals, like the Amazon-Talen proposal.

**Grid Operators**

Although not technically regulators, the transmission grid operators responsible for maintaining reliability are another bottleneck, especially in areas with high data center concentration and growth (Exhibit 12).

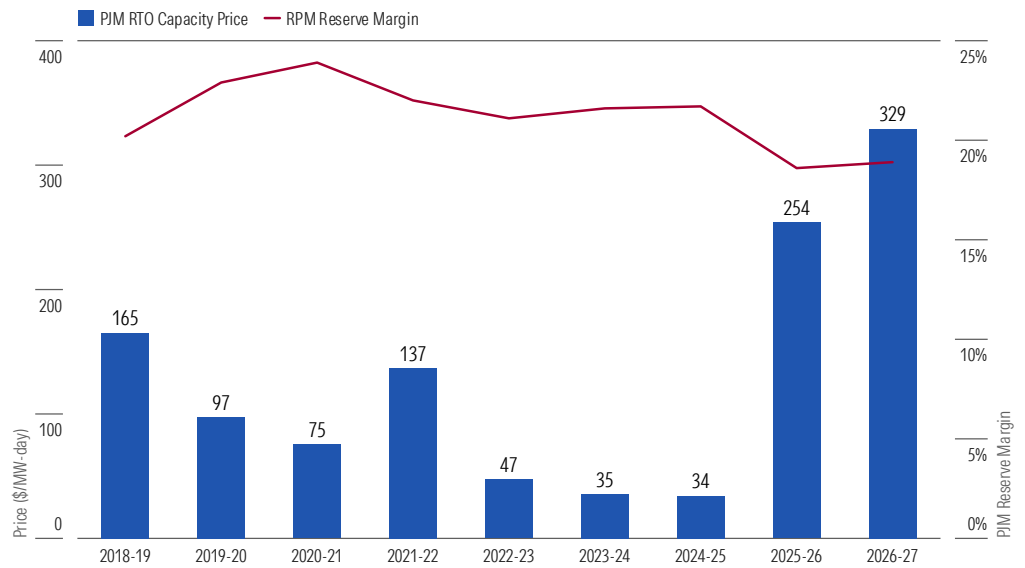
**Exhibit 12** Mid-Atlantic Grid Operator (PJM) Is Home to Nearly 30% of US Data Centers and Growing



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

- **PJM:** The largest grid operator in the US serves 67 million people from Chicago to New Jersey in 13 states. Earlier this year, PJM raised its 2030 peak electricity demand forecast by 16 gigawatts, or nearly 10%. It now expects nearly 5% average annual demand growth for the next 10 years, including more than 30 GW of new data center demand. This jump in forecast demand combined with expected coal plant retirements and slow-to-develop new generation led to a spike in capacity prices in recent auctions and declining reserve margins (Exhibit 13). We expect another high capacity clearing price later this year for the 2027-28 auction before new supply catches up with demand growth.

**Exhibit 13** Jump in PJM Capacity Prices Shows the Region's Electricity Supply/Demand Constraints

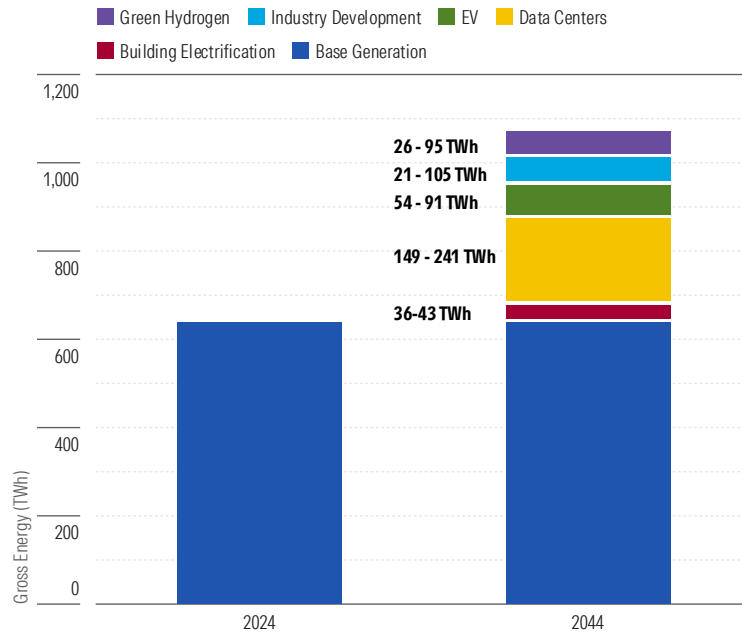


Source: PJM. As of August 2025.

- **ERCOT:** The Texas grid operator surprised many utilities, regulators, and politicians in February when it released an updated five-year forecast showing peak demand growing by more than 50 GW, or 65%, by 2029 from the system's record-setting peak demand in 2024. Texas politicians seeking to maintain the state's lead in data center development while avoiding blackouts passed laws this year that ensure more detailed demand forecasts and offer subsidized loans for new gas power generation. The lack of long-term power and gas price visibility in the ERCOT market makes it difficult for generators to justify new investment. This could lead data centers to bring their own behind-the-meter generation, benefiting large energy companies like Energy Transfer and Exxon rather than utilities.
- **MISO:** The Midcontinent Independent System Operator, which serves 15 US states and the Canadian province of Manitoba, last year forecast electricity demand would increase by 1.9% annually, accelerating to 3.3% through 2044. By far the largest contributor to the expected demand increase was the expectation for 19-30 GW of new data center capacity, driving 149-241 terawatt-hours of electricity demand (Exhibit 14). This will require a significant need for new generation but also provide material growth opportunities for transmission and distribution operators. As part of MISO's long-range





transmission planning process, \$10.3 billion of transmission projects were approved in the first tranche and another \$21.8 billion in the second tranche. A third tranche is already being planned.

**Exhibit 14** Data Centers the Largest Source of New Electricity Demand in MISO's 20-Year Forecast



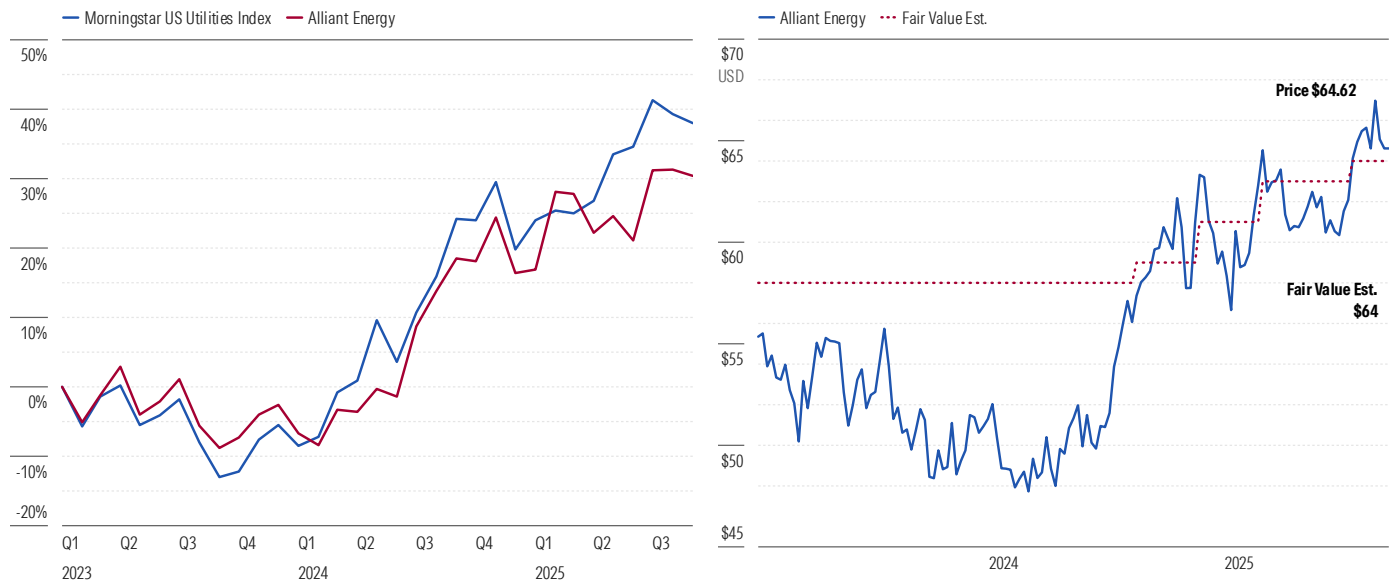
Source: MISO. Data as of March 2025.

## Utilities With an Early Lead

Pole Position	Star Rating	Price / Fair Value	Location	   
Alliant Energy (LNT)	★★★	1.00	Midwest	2 large data center campuses, 3rd being considered; 2.1 GW peak demand, up to 4 GW
Eergy (EVRG)	★★★	1.02	Midwest	Building generation to serve new data centers; 14 GW pipeline would double systemwide load
American Electric Power (AEP)	★★	1.05	Midwest	Expect to add at least \$16B to capital plan in November; 24 GW of announced incremental load
Dominion Energy (D)	★★★	1.10	Mid-Atlantic	40 GW in various stages of development, 8.8 GW with ESA; connects avg 15 data centers annually
Southern Co (SO)	★★	1.22	Southeast	16 GW contracts/commitments; 50 GW pipeline supports \$15B+ annual capex beyond 2027
Entergy (ETR)	★	1.32	Southeast	Large-load demand already climbing; \$10B annual capex plan with regulatory support

**Alliant Energy LNT (★★★) Yield: 3.2%**  
**P/FVE: 1.00 | Moat Rating: Narrow | Uncertainty: Low**

**Exhibit 15** Market Starting to Appreciate Alliant Energy's Data Center Growth Opportunities; Positioned for Further Growth



Source: Morningstar. Data as of Sept. 10, 2025.

Alliant Energy is a scrappy Midwest utility that is now ahead of the curve in the data center race after a slow start. Over the past year, Alliant has announced an expanded \$10 billion data center campus in Cedar Rapids, Iowa, a campus in Beaver Dam, Wisconsin, and a developing project just outside Madison, Wisconsin.

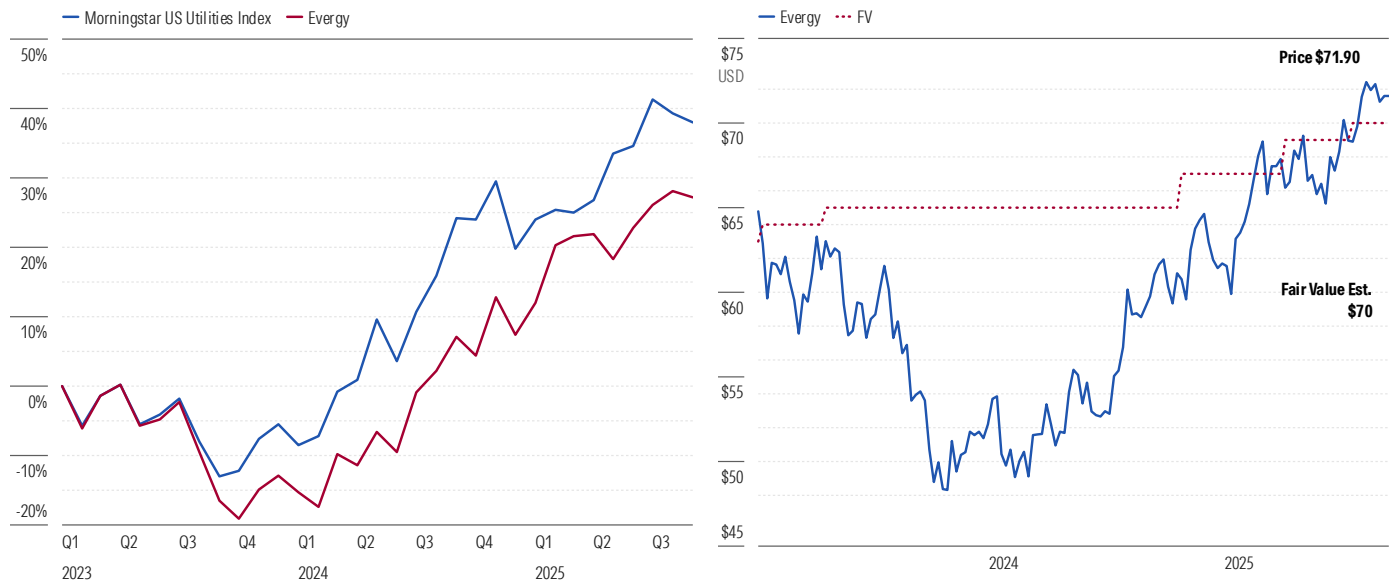
- ▶ Alliant is forecasting 9%-10% total electric sales growth based on current data center demand through 2030, which excludes mature opportunities in the pipeline. Additional data center opportunities will push total electric sales growth beyond 10%, highlighting the effect that a few data centers have on smaller utilities' earnings.
- ▶ Management has been conservative, not including data centers in its forecasts until it has a firm contract in place, which we like. Alliant has 2.1 GW in base new demand from data centers, with at least another 2 GW in the pipeline that is mature. It has signed long-term energy service agreements with QTS and Google in Cedar Rapids as well as Beaver Dam.
- ▶ QTS announced a \$10 billion investment, the largest in Iowa's history, signaling even further development at the Cedar Rapids campus beyond what is currently in Alliant's plan.

#### **Valuation and Outlook**

Continued identification and execution of incremental data center opportunities has led us to increase our earnings forecast to 7%, and we think management may reassess its long-term growth target later this year as additional data center opportunities, including outside Madison, materialize and are incorporated into its capital forecast.

**Our fair value estimate is \$64 per share, in line with the current stock price.** Our near-term profit outlook accounts for recently approved rate increases, completed generation projects, normal weather, and a gradual improvement in power demand.

We estimate that Alliant will invest \$15.6 billion during 2025-29. This includes more capital than the current plan, as we think management will continue its strong execution and identify additional data center opportunities across its service territories. Based on our investment outlook, we expect Alliant's long-term annual earnings growth to reach the top end of management's 5%-7% forecast. We expect continued constructive regulatory outcomes throughout our forecast. A recent rate case settlement in Wisconsin for a 9.8% allowed return on equity supports our view of the highly constructive Wisconsin regulatory environment.

**Evergy EVRG (★★★) Yield: 3.8%****P/FVE: 1.01 | Moat Rating: Narrow | Uncertainty: Low****Exhibit 16** Investors Have Been Slow to Recognize Evergy's Upside to Data Center Development; Stock Has Lagged Peers

Source: Morningstar. Data as of Sept. 10, 2025.

Evergy has been conservative with its earnings growth outlook despite a series of positive developments this year. Management continues to target 4%-6% annual earnings growth, lower than most other utilities' growth targets. However, investors' growth expectations seem to be moving higher. The stock is up 7% since June, including dividends, double the Morningstar US Utilities Index and pushing the stock up to our fair value estimate. Some recent developments contributing to investors' increased confidence in Evergy's growth include:

- ▶ Projects totaling 1.1 GW, or 10% of Evergy's system demand, are under construction, including a large Meta facility. Management has suggested it has agreements with or interest from customers totaling another 14 GW, more than double Evergy's current system demand.
- ▶ Kansas and Missouri regulators this summer signed off on three new gas power plants and three solar farms totaling a combined 2.2 GW. This includes a unique agreement in which Evergy's Missouri and Kansas customers will split in half the costs and benefits of two gas plants.
- ▶ On April 9, Missouri Gov. Mike Kehoe signed into law Senate Bill 4, which revises the state's plant-in-service accounting and authorizes construction work in progress ratemaking, like recent Kansas legislation. This improves the economics for utilities to build new infrastructure that can attract economic development, including data centers.
- ▶ Kansas regulators approved Evergy's base rate settlement, raising customer rates by \$196.4 million. We consider this another sign that the state's historically challenging ratemaking is improving.

**Valuation and Outlook**

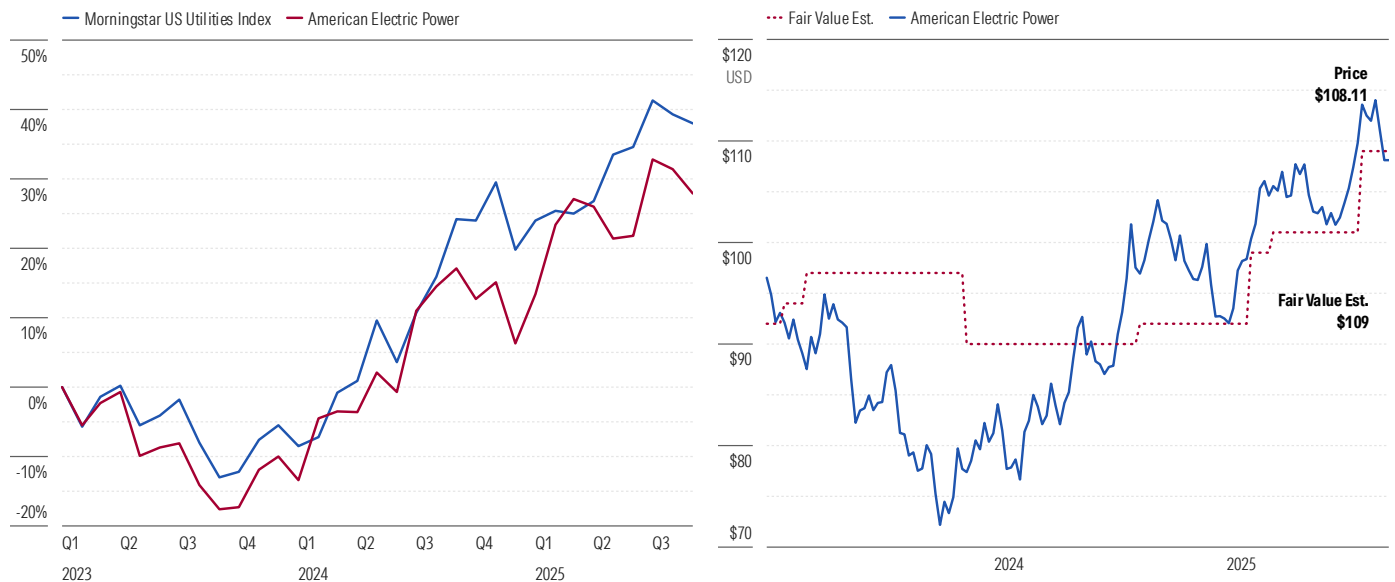
Evergy's stock has been slower than its peers to incorporate the data center premium. However, its recent rally suggests that investors are gaining confidence in the company's growth. Its 18 P/E is still a discount to the sector median but in line with what we think is a fair valuation.

**Our fair value estimate is \$70 per share, in line with the current stock price.** We assume Evergy invests nearly \$15 billion during 2025-28, slightly higher than management's most recent investment plan. This supports our 6% average annual earnings growth forecast, at the high end of management's 4%-6% target. Our forecast includes Evergy's three new gas plants and other renewable energy investments that Kansas and Missouri regulators have approved.

We also expect electricity demand growth in Evergy's service territories to remain higher than the national average for at least the next four years, primarily because of new industrial customers such as data centers. Growing demand should ease some pressure from customer rate increases. Evergy must continue appealing to regulators for rate increases to support its long-term investment plan. Regulatory settlements in Kansas in late 2023 and in 2025—its first base rate changes since the merger—were in line with our forecasts. Recent Kansas and Missouri legislation should further boost Evergy's earned returns as its growth investment peaks.

**American Electric Power (★★★) Yield: 3.5%**  
**P/FVE: 0.99 | Moat Rating: Narrow | Uncertainty: Low**

**Exhibit 17** New Management Focuses on Identifying Capital Opportunities and Restoring Regulator Relationships



Source: Morningstar. Data as of Sept. 10, 2025.

- ▶ Uncharacteristic missteps led to unusual executive turnover at AEP, with CEO Bill Fehrman the third CEO in two years; the company had only six CEOs in the previous 50 years. However, AEP has found its stride once again, and new management is rightly focused on improving regulatory relationships and identifying and implementing growth opportunities. Being the largest transmission and distribution operator in the US positions AEP well for data centers, particularly across its Midwest and Central Plains operating areas.
- ▶ AEP announced in August that it will update its five-year capital plan to at least \$70 billion in November, up significantly from the current \$54 billion capital plan. This is in addition to the nearly 30% increase last November. In our estimates, the revised capital plan puts AEP at the high end of the current 6%-8% annual earnings growth guidance.
- ▶ The company has identified 24 GW of incremental load (18 GW data center, 6 GW industrial) over the next five years. This supports a 12% increase in total peak load for 2026-27.
- ▶ There is 190 GW in the active interconnection queue. There is likely significant duplicative bidding across numerous independent system transmission operators as data centers look for the quickest connection, but this highlights the significant runway of data center opportunities.

#### **Valuation and Outlook**

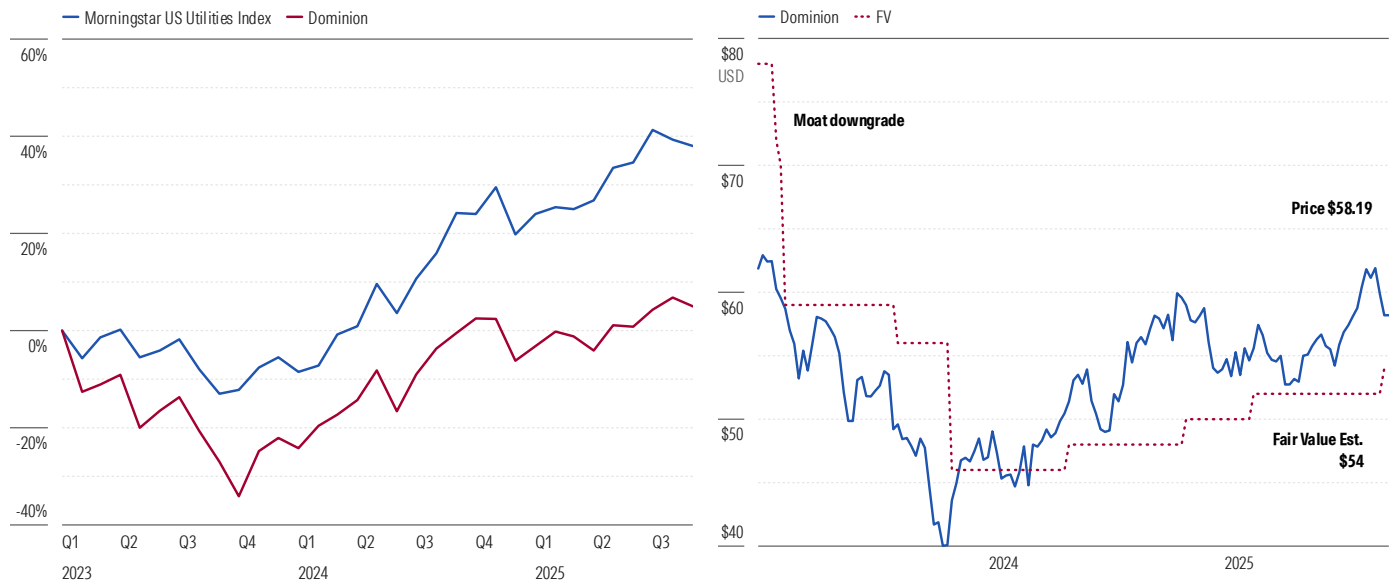
The \$16 billion capital increase announcement led us to increase our fair value estimate to \$109, up \$8 from our previous estimate, and pushed our earnings estimate to the high end of management's 6%-8% guidance range. Additionally, new management has been working with key stakeholders to narrow the gap between allowed and earned returns, giving us more confidence that the company will close the gap sooner than we previously expected.

**Our fair value estimate is \$109 per share, in line with the current stock price.** We estimate AEP will invest \$66 billion through 2029, above management's current \$54 billion plan but in line with management's recent disclosure that its 2026-30 capital plan will be at least \$70 billion. Primary growth investments at the regulated utilities include transmission, distribution, and renewable energy to support increasing electricity demand growth.

We forecast 8% annual earnings growth through 2029, in line with management's 6%-8% guidance. A narrowing of the gap between earned and allowed returns and additional capital investment growth opportunities are the main reasons we think management will achieve the high end of its earnings growth target.

**Dominion Energy D (★★★) Yield: 5.1%**  
**P/FVE: 1.08 | Moat Rating: Narrow | Uncertainty: Medium**

**Exhibit 18** Dominion a Leader in Data Center Development, but Market Ignoring Coastal Virginia Offshore Wind Risks



Source: Morningstar. Data as of Sept. 10, 2025.

Dominion Energy's business review was difficult for shareholders and led to the company losing its wide moat. The stock price still hasn't recovered from its 2023 collapse. While we think the Coastal Virginia Offshore Wind project will continue to be an overhang, Dominion was the clear early leader in data center development, with its service territory covering Virginia's data center hub. Despite its recent troubles, Dominion has proved to be a data center leader.

- ▶ Dominion connected 16 data centers in 2024 with more than 1 GW of capacity, its highest total yet. Since 2013, Dominion has averaged 15 data center connections annually.
- ▶ 40 GW is in various stages of development; 8.8 GW of this has energy service agreements, which include base revenue requirement and cost recovery mechanisms.
- ▶ PJM's 2025 Dominion Zone, which covers Dominion's Virginia territory, is forecast to see 6.3% annualized summer peak load growth over the next 10 years.
- ▶ Commercial customers, including data centers, currently account for 50% of demand, growing to more than 60% over the next decade.

**Valuation and Outlook**

We downgraded our moat rating to narrow from wide in early 2024, as management's business review was a necessary but value-destructive action to shore up the balance sheet in a changed Virginia regulatory environment. Dominion stock's price has yet to recover, and we think investors should be

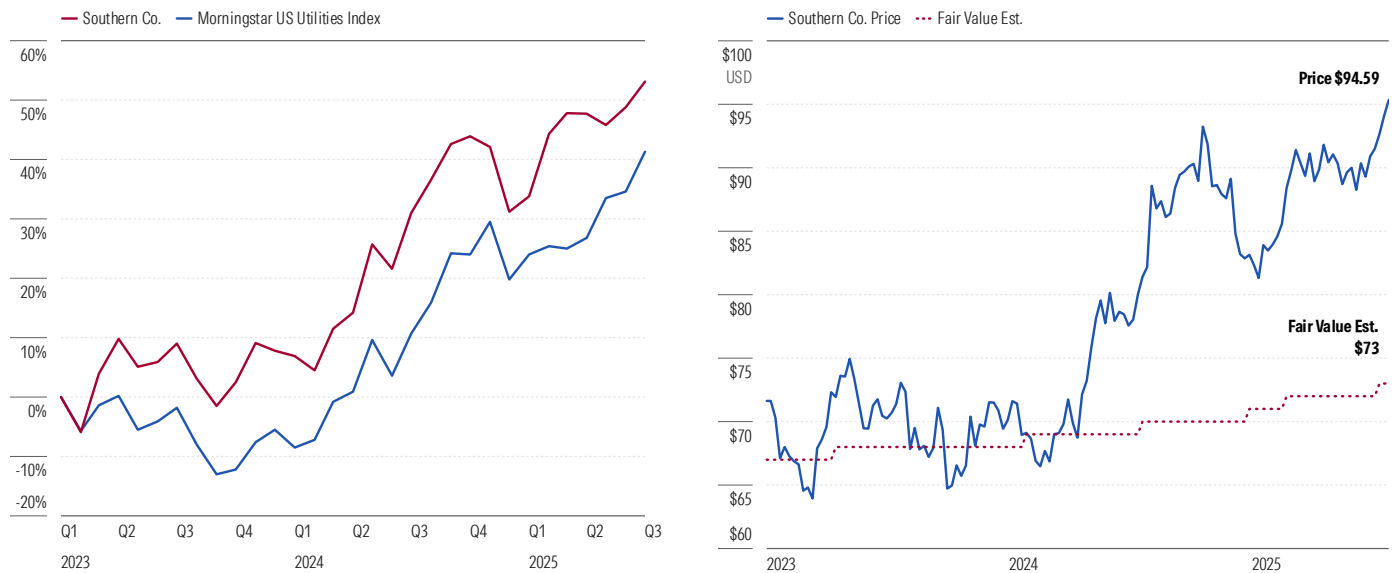
cautious around potential cost overruns at its offshore wind project amid the Trump administration's push to delay or cancel current offshore projects.

**Our fair value estimate is \$54 per share, 7% below the current stock price.** Over the next five years, we expect Dominion to invest \$50 billion primarily in decarbonization, new generation, and transmission and distribution upgrades. We expect its significant capital investment needs and electricity growth will support earnings at the high end of management's 5%-7% annual growth target for 2025-29. We expect the company to issue \$3 billion in equity over our forecast to support this growth.

We forecast no dividend growth through 2028. Based on our earnings forecast, we think Dominion will resume dividend growth once its dividend payout ratio falls to 65% in 2029.

**Southern Co. SO (★★) Yield: 3.3%**  
**P/FVE: 1.29 | Moat Rating: Narrow | Uncertainty: Low**

**Exhibit 19** Data Center and Other Growth Expectations Have Powered Southern's Rally in 2024-25; Stock Overvalued



Source: Morningstar. Data as of Sept. 10, 2025.

This giant, century-old utility is living up to its reputation as an industry leader. Southern stumbled for several years as it pushed its new Vogtle nuclear project across the finish line. But it appears to be back to its old self, putting up some extraordinary data center growth numbers that overwhelm the rest of the utilities sector.

- Southern management reported 6 GW of new contracted data center load, 10 GW committed, and a total pipeline of 50 GW. It's unlikely that Southern will convert that entire pipeline in the next five years, but the opportunity dwarfs other utilities.

- ▶ Data center electricity use was up 11% year over year in the first quarter and 13% in the second quarter.
- ▶ In August, management raised its five-year capital investment plan to \$76 billion, up \$13 billion from its plan at the beginning of the year. Another \$5 billion could go into the plan next year, mostly in 2028-30 to serve anticipated demand growth.
- ▶ Southern recently asked Georgia regulators to approve 10 GW of new generation by 2030, consistent with its 2025 integrated resource plan. Southern aims to own more than 7 GW through a mix of new gas generation, solar, and battery storage. A ruling could come by year-end.

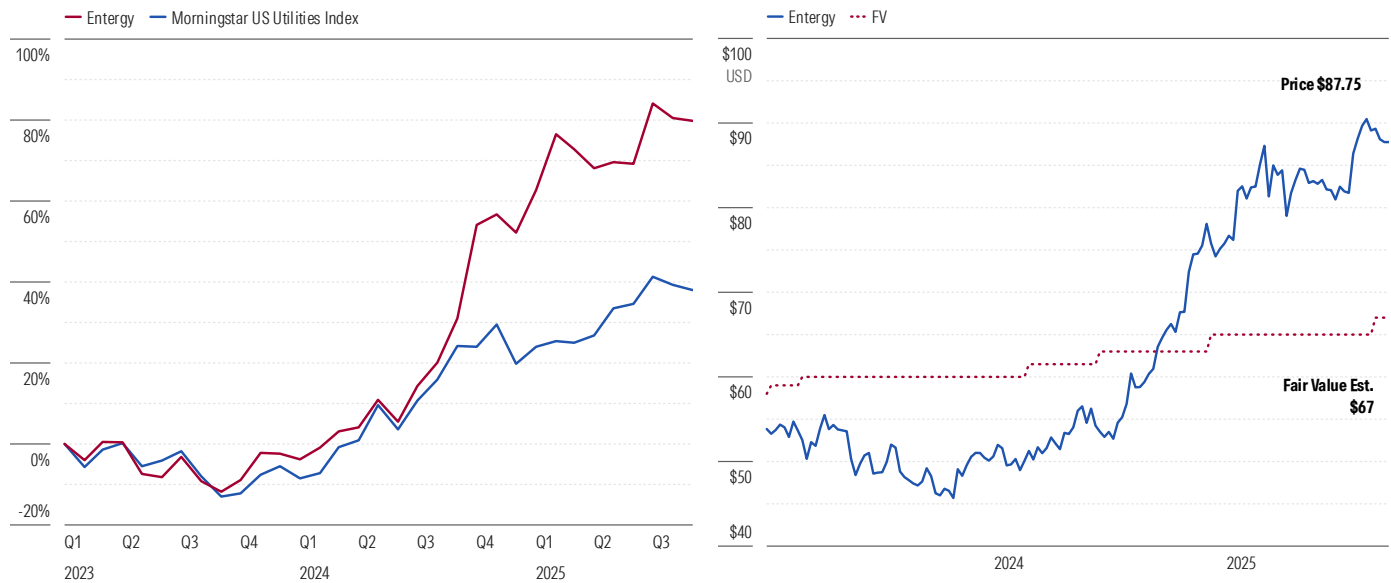
### Valuation and Outlook

All this growth potential will test investors' patience. Financing this investment with new equity and debt is going to be a significant drag on earnings and dividend growth in the short term. Dividend growth has lagged the rest of the sector at 3% annualized for the last decade. That is unlikely to pick up, given Southern's 70% payout ratio and cash required for its growth investments. With the stock already trading at a premium to peers, a 23 P/E (its highest in more than 10 years), and a 3% dividend yield as of mid-September, we think it's unlikely Southern's valuation can go much higher.

**Our fair value estimate is \$75 per share, 23% below the current stock price.** We forecast 5% annual average earnings growth for the next four years based on an average \$15 billion of annual capital investment and 1%-3% annual demand growth, mostly at its electric utilities. Investment at Southern's electric utilities, especially Georgia Power, ramps up in 2027 and beyond, primarily for new generation. Annual earnings growth could accelerate to the high end of management's 5%-7% target by 2029 as investments go into service and demand growth accelerates.

In the near term, Southern's four natural gas distribution utilities are positioned to grow in line with its electric utilities. We forecast \$5.5 billion of investment at the gas utilities in 2025-27. However, the gas utilities represent less than 15% of Southern's total earnings.

We expect Southern will invest about \$1 billion annually in energy infrastructure outside of its rate-regulated utilities in 2025-29. This includes gas pipelines, renewable energy, and possible new gas generation at Southern Power in 2027 and beyond. We estimate that earnings from these investments will remain about 10% of consolidated earnings.

**Entergy ETR (★) Yield: 2.8%****P/FVE: 1.31 | Moat Rating: Narrow | Uncertainty: Low****Exhibit 20** Entergy's Early Success Securing Large Data Center Customers Is Reflected in Stock's Outperformance in 2024-25

Source: Morningstar. Data as of Sept. 10, 2025.

Entergy was one of the first utilities to attract significant data center customers and continues to be a leader. Two of the largest planned data center developments in the US are in Entergy's Louisiana and Mississippi service territories. The company is pursuing 5-10 GW of additional opportunities, including a large contract in Arkansas, according to management. If Entergy can build the required infrastructure on time and on budget, it could attract additional large data centers, given the plentiful land and relatively low energy prices in the Gulf Coast region.

- ▶ The \$10 billion, 4 million-square-foot Hyperion facility in Louisiana was Meta's largest planned data center when it was announced in December 2024. It will be one of the largest economic developments in Louisiana history. Louisiana regulators recently approved Entergy's contract with Meta to build three gas power plants and transmission infrastructure by 2029 to serve the facility.
- ▶ Entergy is developing a plan to serve Amazon's \$10 billion proposed data center in its Mississippi service territory, announced in early 2024. We expect the state utilities commission to move quickly once Entergy submits its plan. This would be the largest economic development in Mississippi history.
- ▶ Entergy management said it has 7 GW of power generation turbines on order in addition to the 8 GW already committed to data center projects. This should help the company attract new customers that don't want to wait for the multiyear turbine order backlog to clear.
- ▶ Entergy owns and operates the second-largest nuclear fleet in the US, giving it a platform to expand nuclear capacity at a low cost and with little regulatory risk relative to new-build nuclear.

**Valuation and Outlook**

Excitement around Entergy's data center growth opportunity has pushed the stock up 54% during the last 12 months, including dividends. Even though we expect Entergy will continue to benefit from data center growth, we think the stock's 23 P/E makes it one of the most expensive US utilities.

**Our fair value estimate is \$67 per share, 24% below the current stock price.** We expect energy use in Entergy's service territories to grow faster than most US utilities, primarily due to industrial customer growth on the Gulf Coast. This growth and the region's increasing demand for renewable energy support our forecast for more than \$9 billion of capital investment annually over 2025-28.

Entergy's capital investment opportunities, combined with constructive regulation in most of its service territories, support our 8% average annual earnings per share growth forecast through 2028, higher than most US utilities' growth rates. We expect a jump in earnings growth starting in 2026 as Entergy's growth investment climbs. Expanding its renewable energy portfolio and investing in resiliency upgrades are other growth opportunities. We expect substantially all of Entergy's earnings to come from its regulated utilities for the foreseeable future.

## Chasing the Leaders

### Outside Pole



Portland General (POR)	★★★★★	0.78	West Coast	Wildfire, affordability concerns overshadow growth from large tech customer base
PG&E (PCG)	★★★★	0.78	West Coast	Serves Silicon Valley and reports 10 GW pipeline; primary concerns are wildfires and affordability
FirstEnergy (FE)	★★★	0.96	Midwest/Mid-Atl	2.7 GW data center load contracted and 3 GW pipeline through 2029; 14 GW pipeline beyond 2029
Duke Energy (DUK)	★★★	1.00	Southeast/Midwest	Enterprise load growth to accelerate to 3%-4% during 2027-29, \$10B AWS campus in Carolinas
PPL (PPL Corp)	★★	1.05	Mid-Atlantic	14.4 GW data center pipeline, JV with Blackstone proactive approach to new generation
WEC Energy Group (WEC)	★★	1.06	Midwest	\$3.3 billion Microsoft campus progressing as planned, supporting 4%-5% load growth
Pinnacle West (PNW)	★★	1.10	Southwest	Arizona a top destination for industrial customers; energy infrastructure must keep up
OGE Energy (OGE)	★★	1.10	Central	Improving regulation, customer growth support long-term upside
Ameren (AEE)	★★	1.10	Midwest	2.1 GW of signed ESA supports 5.5% sales growth over 2025-29
NiSource (NI)	★★	1.13	Midwest	Generation company regulatory approval could spur data center dealmaking in Indiana
Xcel Energy (XEL)	★★	1.15	Midwest	Favorable service territory supports growth from data centers, other large industrials

### Portland General Electric POR (★★★★★) Yield: 5.0%

**P/FVE: 0.78 | Moat Rating: Narrow | Uncertainty: Low**

Wildfire-related concerns tied to legal challenges facing neighbor utility PacifiCorp have caused investors to shy away from Portland General Electric despite its attractive growth potential and low-wildfire-risk service territory. PGE's 14 price/earnings multiple and 5% dividend yield suggest that the market is giving the company no credit for its upside to data center and tech sector electricity demand or improving rate regulation.

- ▶ PGE's stock is mostly flat this year, trailing the Morningstar US Utilities Index by 12 percentage points through mid-September.
- ▶ Industrial demand was up 16.5% year over year in the second quarter due to new data centers and semiconductor manufacturing. Management expects systemwide electricity demand growth to average 3% annually through 2029, but we think that could go higher if data centers keep expanding.
- ▶ We assume that management's \$6.5 billion capital investment plan during the next five years continues to expand as energy demand growth requires additional infrastructure. Our 7% annual earnings growth forecast through 2029 is at the high end of management's guidance.

**PG&E PCG (★★★★) Yield: 0.7%****P/FVE: 0.75 | Moat Rating: None | Uncertainty: Medium**

PG&E, which serves Silicon Valley, has a lot of storylines, most of which are positive. We think PG&E can grow earnings 9% annually for the next four years, one of the top growth rates in the sector. But investors are overly focused on wildfire risk, particularly the longevity of the state's AB 1054 legislation, which protects shareholders from extraordinary wildfire liability claims. If PG&E can ease investors' wildfire worries, we think the stock price will jump to reflect the company's growth opportunities.

- ▶ We expect PG&E to invest more than \$50 billion over 2025-28, in line with management's plan. The outcome of the 2027-30 general rate case will in part determine whether PG&E keeps up this pace of investment.
- ▶ Management says it has a 10 GW pipeline of data center opportunities. Higher data center demand would reduce costs for customers systemwide, helping PG&E manage concerns about customer bill inflation.
- ▶ The stock is down 24% this year, mostly due to concerns that shareholders might suffer follow-on impacts from the Southern California wildfires in January. We think the stock can rebound to our \$19.50 fair value estimate, near where it traded before the January fires, if California politicians reassure investors.

**FirstEnergy FE (★★★) Yield: 4.1%****P/FVE: 0.96 | Moat Rating: Narrow | Uncertainty: Low**

FirstEnergy's service territory covers Ohio and Pennsylvania, which is showing strong momentum for data center development. We think FirstEnergy appropriately trades at a 10% discount to the group to account for regulatory risk, particularly in the PJM region, where higher capacity prices, which are ultimately passed on to customers through higher bills, have failed to incentivize much-needed generation.

- ▶ FirstEnergy's \$28 billion base capital plan supports 9% annual rate base growth and assumes 2% electricity growth; this includes only active and contracted data centers, which is one of the industry's more conservative approaches. Through 2029, the company has contracted 2.7 GW with an additional 3 GW pipeline of data center opportunities.
- ▶ The company noted that the planned \$14 billion in transmission and distribution growth capital is expected to increase by as much as 20% when it releases its next five-year plan later this year. Beyond 2029, there currently is the potential for 14 GW of total data center demand.
- ▶ We estimate FirstEnergy will achieve the midpoint of management's 6%-8% annual core earnings growth target, supported by its capital investment plan.

**Duke Energy DUK (★★★) Yield: 3.5%****P/FVE: 0.99 | Moat Rating: Narrow | Uncertainty: Low**

Duke Energy operates in some of the fastest-growing regions of the Southeast (Carolinas and Florida) and Midwest (Indiana); all are growing well above the national average, with customer growth between 1.6% and 2.2%. Customer growth will be supported with accelerating economic growth, including

significant data center interest, particularly in the Carolinas and Indiana. Given Duke's size, it will take numerous large contracts to further move the needle. Management is efficiently recycling capital through the recent Piedmont Natural Gas Tennessee sale and minority sale of its Duke Energy Florida subsidiary at attractive valuations.

- ▶ Enterprise load growth is expected to accelerate to 3%-4% in 2027-29, from 1.5%-2.0%.
- ▶ The Carolinas are expected to grow the fastest, being the best positioned to benefit from data center demand, with load growth accelerating to 4%-5% in 2027-29. In June, Amazon Web Services announced a plan to invest \$10 billion in North Carolina, setting the stage for additional announcements in the Carolinas.
- ▶ Duke is particularly well positioned to progress on its 7 GW of new natural gas generation, having secured all turbines and gas supply, navigating the strained supply chain for new turbines well. The company's five-year \$87 billion capital program supports our 7% earnings growth forecast, at the high end of management's 5%-7% guidance. We think management could revisit its long-term growth expectations later this year after the company updates its five-year capital program.

### **PPL PPL (★★★) Yield: 3.1%**

**P/FVE: 1.05 | Moat Rating: Narrow | Uncertainty: Low**

PJM capacity markets have failed to incentivize new generation, presenting both risk and opportunity for PPL. Higher capacity prices are passed on to customers through higher bills, increasing regulator risk. But this also presents additional growth opportunities. As Pennsylvania stakeholders grapple with how to incentivize new generation, legislators are considering allowing regulated utilities to own generation; under this plan, PPL would build and own regulated generation. This would be a first for the transmission and distribution-only utility.

- ▶ PPL is among the first of its peer group to enter a strategic partnership to own and operate generation to serve data centers under long-term contracts, positioning it to build nonregulated generation, should legislators fail to support regulated ownership. The joint venture with Blackstone will look to build generation while having a regulated-like risk profile. We like the proactive nature of the partnership and management's low-risk appetite.
- ▶ Management noted 14.4 GW of data center development in advanced stages, up from 11 GW in the prior quarter, positioning the company well for additional transmission and distribution investments. The capital investment needed to support the new generation would be \$750 million-\$1.25 billion, with only \$400 million currently included in the company's capital plan.
- ▶ We expect PPL's consolidated earnings to grow by 7% annually, in line with management's 6%-8% earnings guidance. We assume consistent regulatory treatment across the company's subsidiaries. We estimate that PPL will invest \$25 billion in its utilities through 2029, as we forecast additional capital opportunities in the back half of its plan.

**WEC Energy Group WEC (★★★) Yield: 3.3%****P/FVE: 1.04 | Moat Rating: Narrow | Uncertainty: Low**

Wisconsin's southeast economic development corridor has been the focus of WEC Energy's growth. Microsoft's campus in the region was one of the earliest and largest announcements in late 2023. While announcements have slowed, we expect additional announcements in WEC's service territory over the next one to two years.

- ▶ Despite market rumors otherwise, Microsoft continues to move forward on the \$3.3 billion data center campus, with completion expected in 2026, as planned. Additional acreage owned by Microsoft opens the door for more potential development.
- ▶ Vantage Data Centers is in the early stages of planning a data center campus for up to 3.5 GW in Port Washington. Data center demand supports 4.5%-5% electric sales growth for 2027-29 and more than 7% earnings growth.
- ▶ A proposed very large customer tariff would allow a 10.48% allowed return on equity, above the company's regulated 9.8% return, and protect the utility and customers through early termination fees and minimum purchase requirements.
- ▶ We forecast annual earnings growth through our five-year forecast to exceed management's narrow 6.5%-7% guidance, supported by \$28 billion in capital investments through 2029.

**Pinnacle West PNW (★★) Yield: 4.1%****P/FVE: 1.10 | Moat Rating: None | Uncertainty: Low**

Pinnacle West's service territory around Phoenix has been a hub for large manufacturers, data centers, and other businesses for several years. Business customers represent nearly half of subsidiary Arizona Public Service's total electricity demand, and that share is growing. Business customers' electricity use was up 6% during the first half of the year. Management expects new large-load customers like data centers to represent the bulk of its 4%-6% average annual demand growth forecast for the next few years.

- ▶ We expect Pinnacle West to invest \$7.6 billion in 2025-27 for new generation capacity and network upgrades. That could go higher with more distribution and transmission investment as demand grows.
- ▶ Recent ratemaking changes have been positive, but the outcome of Arizona Public Service's \$580 million base rate increase request next year will show whether those positive changes will translate into stable returns and earnings growth.
- ▶ Pinnacle West's stock has trailed the utilities index during the last year, bringing its relative valuation back in line with the sector average.

**OGE Energy OGE (★★) Yield: 3.9%****P/FVE: 1.09 | Moat Rating: Narrow | Uncertainty: Low**

Electricity demand in OGE's Oklahoma service territory is soaring. Commercial customer demand, including new data centers, is up 25% year over year through the first half of 2025. Just a few data centers can have a huge impact on earnings growth for a midsize utility like OGE.

- ▶ OGE's \$6.25 billion capital investment plan for 2025-29 includes 550 MW of new natural gas generation that should be operational next year and \$1 billion of transmission investment. We expect OGE to add \$240 million for a new transmission line in 2027-29 that is in the final planning stages.
- ▶ OGE recently requested approval from Oklahoma regulators to build another two gas generation units totaling 450 MW at its Horseshoe Lake facility.
- ▶ New legislation in Oklahoma and Arkansas allows OGE to recover new construction costs from customers while projects are under construction instead of waiting until they are complete. This should enhance cash flow and support OGE's balance sheet.
- ▶ OGE's stock is up 35% since early 2024. We think the valuation isn't very attractive at an 18 P/E and 11% premium to our \$40 fair value estimate.

### **Ameren AEE (★★) Yield: 2.8%**

**P/FVE: 1.11 | Moat Rating: Narrow | Uncertainty: Low**

An improving regulatory environment in Missouri, combined with significant economic development, supports our expectations for Ameren to reach the high end of management's 6%-8% annual earnings growth outlook. The company has its sights set on more than \$63 billion of additional investment opportunities over the next 10 years, providing a long runway of growth. However, we expect Illinois regulation to remain challenging, which we don't think the market appreciates.

- ▶ The data center pipeline includes 2.3 GW of signed energy service agreements, with ramp-up beginning in 2026 supporting 5.5% sales growth over 2025-29. New generation, including natural gas, will be needed to serve the load and any additional data center load.
- ▶ Ameren Transmission is well positioned to capitalize on transmission opportunities in MISO's Tranche 2.1 projects, in part to support economic development across the Midwest, with \$1.3 billion in projects assigned to Ameren and an opportunity for more than \$6.5 billion in upcoming competitive projects.
- ▶ A proposed large-load customer rate plan for customers seeking more than 100 MW of load would require ESA and include a minimum service term and demand charge, easing stakeholder concerns about residential customers footing the bill.

### **NiSource NI (★★) Yield: 2.8%**

**P/FVE: 1.12 | Moat Rating: Narrow | Uncertainty: Low**

Despite a recent shift in tone in Indiana, politicians and regulators in NiSource's largest service territories have been aggressive in attracting data centers and other large economic development with the region's low energy prices. Even after dropping 5% in early September following Indiana Gov. Mike Braun's terse statement about moderating customer bill increases, NiSource's stock is up 60% since its low in late 2023. It now trades at a 20 P/E and 11% premium to our fair value estimate.

- ▶ Management hasn't announced a specific data center pipeline, but a long-term plan regulatory filing late last year suggested that two or three large data centers could double peak electricity demand in its Northern Indiana service territory. Microsoft last year announced plans for a data center in La Porte, Indiana.

- ▶ NiSource has submitted a unique proposal to Indiana regulators to create a generation company subsidiary that could build rate-regulated infrastructure to serve new large customers outside of NiSource's NIPSCO subsidiary, eliminating the need for systemwide rate increases. Approval this year could spur data center contract announcements.
- ▶ NiSource's gas utilities, which represent about half of consolidated earnings, should realize some incremental growth to support data centers' backup power generation needs.
- ▶ We continue to expect 7% average annual long-term earnings growth, in line with management's 6%-8% target, based on constructive regulatory outcomes and \$20 billion of planned capital investment in 2025-29. Half of this investment is for gas safety and reliability investments, providing a foundation for growth while the electric business growth ramps up in 2027 and beyond.

### **Xcel Energy XEL (★★) Yield: 3.2%**

**P/FVE: 1.14 | Moat Rating: Narrow | Uncertainty: Low**

A vast service territory across the Central US and low energy prices make Xcel an ideal candidate to attract data center developers and other industrial customers. Management said it has received 8.9 GW of data center requests, of which 1.1 GW is under construction and 1 GW is nearing final contracts. Long-term resource plans that Xcel has filed recently in its largest service territories anticipate even larger increases in demand over the next five years, supporting management's \$45 billion capital investment plan. An additional \$15 billion of generation and transmission projects is possible if demand growth continues and regulators sign off.

- ▶ Colorado regulators should rule soon on Xcel's request to build or procure 5-14 GW of new generation by 2031 to meet 3%-7% annual sales growth in various scenarios.
- ▶ Regulators in Texas and New Mexico are reviewing Xcel's proposal to build 4.5 GW of new generation, with a decision likely next year.
- ▶ Xcel's stock is up 40% from its bottom in early 2024 as investors bought into its growth potential. The rally has cooled this summer, but we still think the stock's valuation is too high, given the regulatory risks that Xcel faces.

## Slow to Start

### Back Row



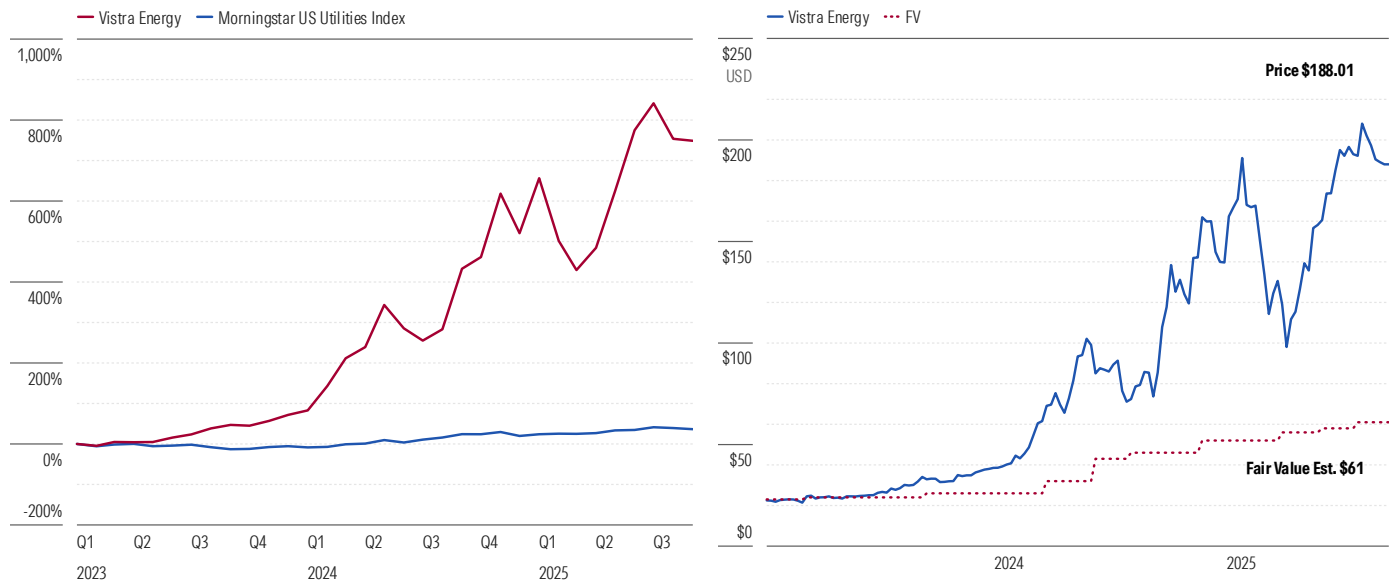
NextEra Energy (NEE)	★★★	0.95	Southeast	Florida customer count grows 1%-2% annually, little data center interest; 3 GW in sites highlighted
Exelon (EXC)	★★★	1.03	Midwest/Mid-Atl	Northeast opportunities limited by PJM; Illinois regulation can prove challenging
AES (AES)	★★★	1.06	Midwest	International operation limits upside to data centers amid pullback of renewable energy ambitions
Fortis (FTS)	★★	1.06	Southeast/Midwest	Arizona positioned well for growth but small piece of Fortis' portfolio
Sempra Energy (SRE)	★★★	1.04	California/Texas	Texas shows data center promise, but overshadowed by limited opportunity in urban CA territory
DTE Energy (DTE)	★★	1.09	Midwest	3 GW pipeline, first deal coming soon; large energy storage investment opportunity
CenterPoint (CNP)	★★	1.11	Midwest	High-growth, dense Houston area has little room for data center growth
Emera (EMA)	★★	1.15	Southeast	Florida gets 75% of growth investment, though little directed to data centers
Public Svc Ent Grp (PEG)	★★	1.15	Mid-Atlantic	NJ not data center hotbed, but PSEG nuclear fleet could benefit from regional growth
CMS Energy (CMS)	★★	1.17	Midwest	Data centers small piece of total economic growth; Michigan competing with nearby states
NRG Energy (NRG)	★	1.75	Texas/Mid-Atl	Initial large contract underwhelming; low data center contract margins could limit upside
Vistra Corp (VST)	★	3.43	Texas/Mid-Atl	Despite investor enthusiasm, still waiting for data center deal; power market policies key risk

Data center growth for some regulated utilities has been slow to develop because their service territories aren't conducive to large industrial energy users. Most of these utilities still have plenty of growth opportunities, but data center growth likely will trail that of other utilities we've highlighted.

Independent power producers' stocks have skyrocketed on the assumption that higher electricity demand will lead to higher power prices and profit margins. We think the market is overestimating the upside. Apart from a jump in mid-Atlantic capacity prices, power and gas markets are pricing in little change in supply and demand. The large IPPs have struggled to secure behind-the-meter contracts that were supposed to produce steady cash flow with high margins. Generators face stiff competition for data center contracts from rate-regulated utilities, private equity, and energy companies. Margins on large contracts with data centers are a big question mark.

**Vistra Energy VST (★) Yield: 0.5%**  
**P/FVE: 3.08 | Moat Rating: None | Uncertainty: High**

**Exhibit 21** Vistra's Stock Is Up More Than 800% Since 2023, but We Think Investors Are Too Optimistic



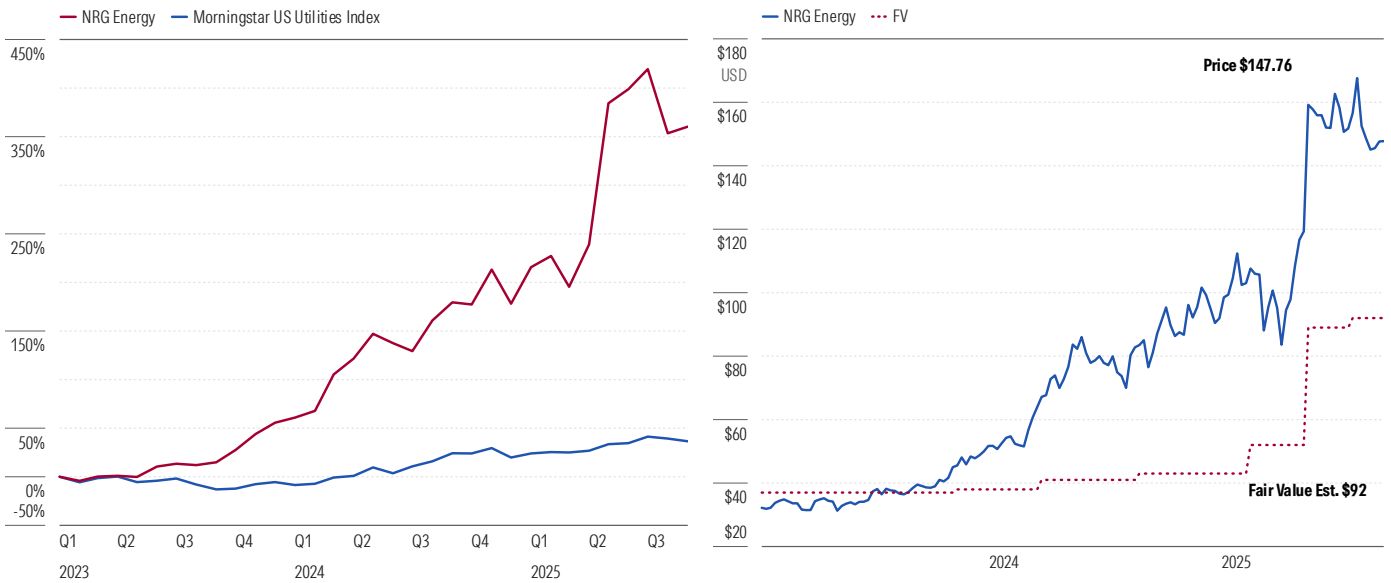
Source: Morningstar. Data as of Sept. 10, 2025.

Vistra's stock jumped 258% in 2024, the second-highest return among companies in the S&P 500 index behind Palantir Technologies (340%). That rally has continued in 2025, pushing the stock up 850% since 2023. Vistra's mix of power generation technologies, locations, and retail scale makes it a go-to stock for investors seeking to capitalize on the potential upside from data center energy demand growth. However, the stock has moved up far faster than energy markets, leaving investors hoping that Vistra can produce enough growth beyond 2026 to justify its premium valuation.

- ▶ Vistra remains well positioned and has strengthened its portfolio with its \$1.9 billion purchase of several gas-fired power plants this year. But it has yet to announce a headline data center deal like its three publicly traded peers, Constellation Energy, NRG Energy, and Talen Energy.
- ▶ A long-term contract tied to Vistra's Comanche Peak nuclear plant in Texas would satisfy antsy investors and add a steady long-term cash flow source.
- ▶ Without a foundational long-term contract, investors remain at the whim of volatile energy and retail markets, particularly in Texas and the mid-Atlantic. Growing demand and tight supply conditions in Texas should be a positive, but investors will have to wait for those fundamentals to be reflected in power prices and margins.
- ▶ Vistra's stock trades at 14.5 enterprise value/EBITDA based on our 2025 estimate, up from 6.5 EV/EBITDA in 2023. Legacy EBITDA in 2026 is set to grow only slightly.

**NRG Energy NRG (★) Yield: 0.5%**  
**P/FVE: 1.79 | Moat Rating: None | Uncertainty: High**

**Exhibit 22** NRG's Stock Up Nearly 400% Since 2023 but Has Trailed Other US Power Producers



Source: Morningstar. Data as of Sept. 10, 2025.

Although NRG's stock has rallied with the rest of the independent power producers, we think its retail-focused business limits its long-term data center upside. We estimate power generation will represent only about 20% of NRG's consolidated earnings in 2025. That share will grow if the company closes its \$12 billion LS Power asset acquisition announced in May and completes its proposed expansion projects in Texas, but that might be only temporary. We expect NRG will leverage those assets to support retail growth rather than increasing its wholesale market exposure like its peers.

- ▶ NRG has the scale to sign large data center retail contracts, but it's not clear that those contracts would have higher margins than traditional retail contracts. Management recently suggested that margins on its 295 MW data center supply contract in Texas will be only slightly better than typical industrial customer contract margins.
- ▶ NRG has limited organic growth investment opportunities. We expect it to return most of its free cash flow to shareholders through dividends and share buybacks.
- ▶ We expect the LS Power transaction to be highly value-accretive, given NRG's ability to use its free cash flow and \$2.8 billion of stock to buy the assets at less than \$1,000 per kilowatt.
- ▶ NRG's stock trades at 11.0 enterprise value/EBITDA, up from 6.8 EV/EBITDA in 2023. ■■■

## Research Methodology for Valuing Companies

### Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (mines, for example), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's Equity Research Group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating:

- ▶ our assessment of the firm's economic moat.
- ▶ our estimate of the stock's fair value.
- ▶ our uncertainty around that fair value estimate.
- ▶ the current market price.

This process ultimately culminates in our single-point star rating.

### Economic Moat

The Morningstar Economic Moat Rating is a structural feature that Morningstar believes positions a firm to earn durable excess profits over a long period of time, with excess profits defined as returns on invested capital above our estimate of a firm's cost of capital. The economic moat rating is not an indicator of the investment performance of the investment highlighted in this report. Narrow-moat companies are those that Morningstar believes are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those that Morningstar believes will earn excess returns for 10 years, with excess returns more likely than not to remain for at least 20 years. Firms without a moat, including those that have a substantial threat of value destruction-related risks related to environmental, social, and governance; industry disruption; financial health; or other idiosyncratic issues, are more susceptible to competition. Morningstar has identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

### Fair Value Estimate

Each stock's fair value is estimated by using a proprietary discounted cash flow model, which assumes that the stock's value is equal to the total of the free cash flows of the company is expected to generate in the future, discounted back to the present at the rate commensurate with the riskiness of the cash flows. As with any DCF model, the ending value is highly sensitive to Morningstar's projections of future growth.

### Fair Value Uncertainty

The Morningstar Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors. Based on these factors, analysts classify the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

### Market Price

The market prices used in this analysis and noted in the report come from exchanges on which the stock is listed, which we believe is a reliable source.

**Morningstar Rating for Stocks**

The Morningstar Rating for Stocks is a forward-looking, analyst-driven measure of a stock's current price relative to the analyst's estimate of what the shares are worth. Stock star ratings indicate whether a stock, in the equity analyst's educated opinion, is cheap, expensive, or fairly priced. To rate a stock, analysts estimate what they think it is worth (its "fair value"), using a detailed, long-term cash flow forecast for the company. A stock's star rating depends on whether its current market price is above or below the fair value estimate. Those stocks trading at large discounts to their fair values receive the highest ratings (4 or 5 stars). Stocks trading at large premiums to their fair values receive lower ratings (1 or 2 stars). A 3-star rating means the current stock price is close to the analyst's fair value estimate.

**Risk Warning**

Please note that investments in securities are subject to market and other risks, and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not continue in the future and is no indication of future performance. A security investment's return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost.

A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating is a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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