

Utilities 2026 Outlook: Curtain Call or Encore?

Sector's 2024-25 rally gives investors plenty of reason to cheer, but the music hasn't stopped yet.

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Andrew Bischof, CFA, CPA
Sr. Analyst, Utilities
+1 312-696-6433
andrew.bischof@morningstar.com

Travis Miller
Sr. Analyst, Utilities
+1 312-384-4813
travis.miller@morningstar.com

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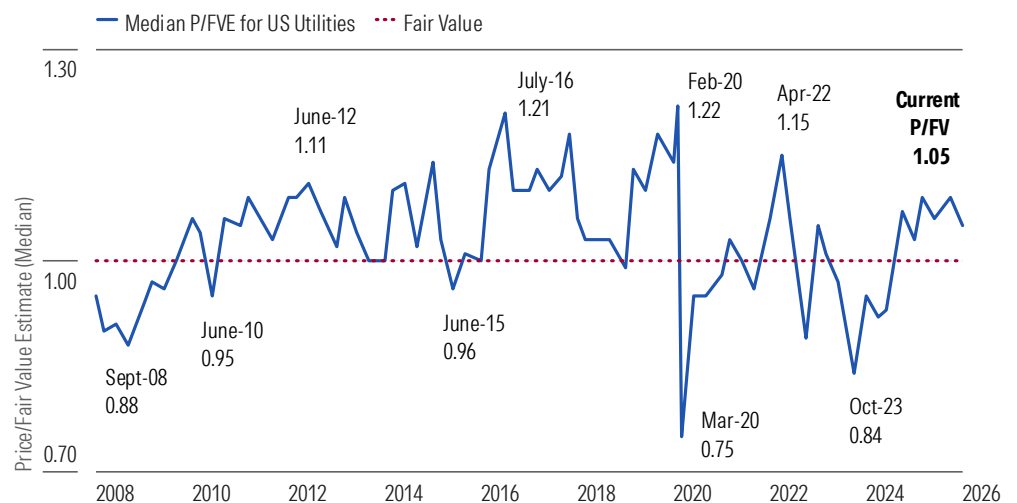
The Unlikely Rock Stars

Utilities stocks' late-2025 fade allowed technology stocks to finish the year as the top-performing sector. But utilities' run has topped most expectations. The Morningstar US Utilities Index was up 19% in 2025 and is up 70% since bottoming in late 2023, including dividends. Despite market-beating performances in three of the last four years, utilities' valuations aren't close to their 2020 peaks (Exhibit 1) and earnings growth is accelerating. We think utilities will stay in the spotlight.

Key Takeaways

- ▶ We consider US utilities fairly valued as of mid-January. Top picks include **Alliant Energy (LNT)**, **Duke Energy (DUK)**, **Edison International (EIX)**, and **Portland General (POR)**.
- ▶ Robust earnings and dividend growth in 2026-27 should support 8%-10%-plus annual total returns for utilities based on our forecasts.
- ▶ Utilities' 3% average dividend yield is an all-time low, signaling the market's focus on growth rather than yield. Execution will be critical for utilities to maintain and expand their valuations.
- ▶ Key themes in 2026 include data center growth, customer bill affordability, and new generation development. We don't expect interest rates to be a key factor for utilities' returns in 2026.
- ▶ We expect renewable energy to continue growing to meet state mandates and corporate demand regardless of federal policy.

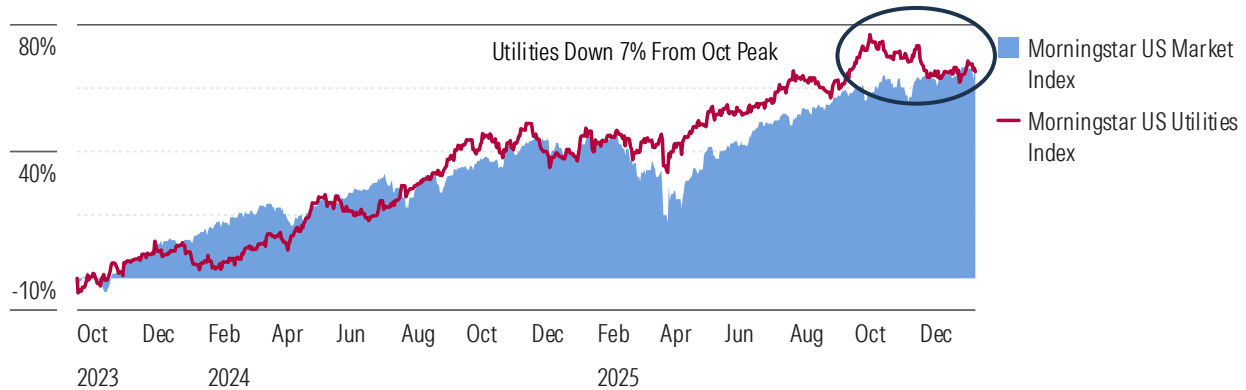
Exhibit 1 Earnings Growth and Late-2025 Selloff Leave Most Utilities Stocks Trading Near Fair Value



Source: Morningstar. Data as of Jan. 21, 2026.

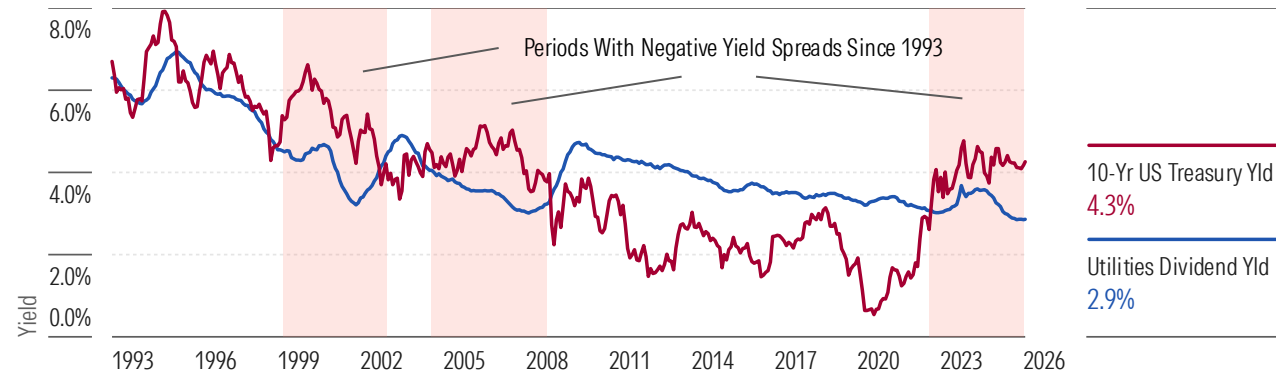
Utilities Valuation Snapshot

Exhibit 2 Despite a Fall Off in Late 2025, Utilities Are Up 70% Including Dividends Since Their Bottom in October 2023, Matching the Market



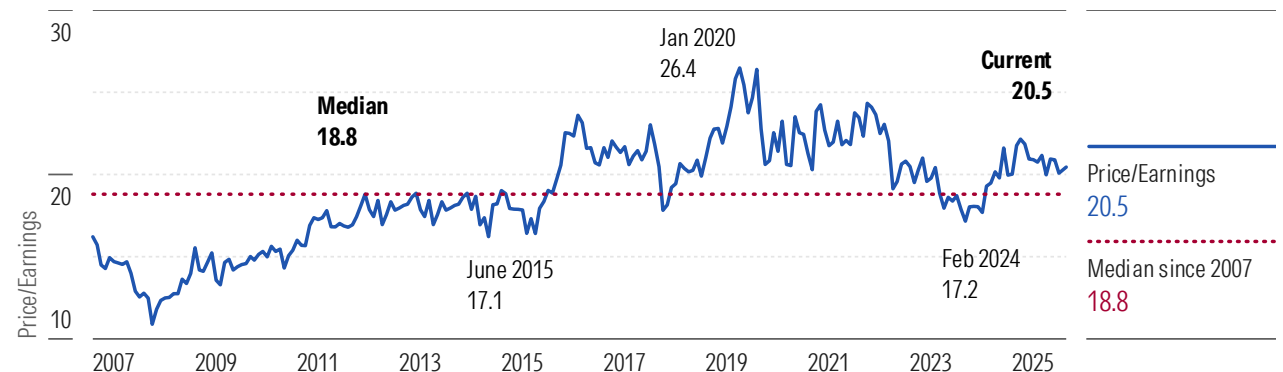
Source: Morningstar. Data as of Jan. 22, 2026.

Exhibit 3 Utilities' 2.9% Dividend Yield Is the Biggest Discount to the 10-Year Treasury Yield in 20 Years, Illustrating Investors' Focus on Growth Over Yield



Source: Morningstar. Data as of Jan. 22, 2026.

Exhibit 4 Utilities' P/E Far From 2020 Peak Despite Strong Fundamentals and Long-Term Earnings Growth Opportunities



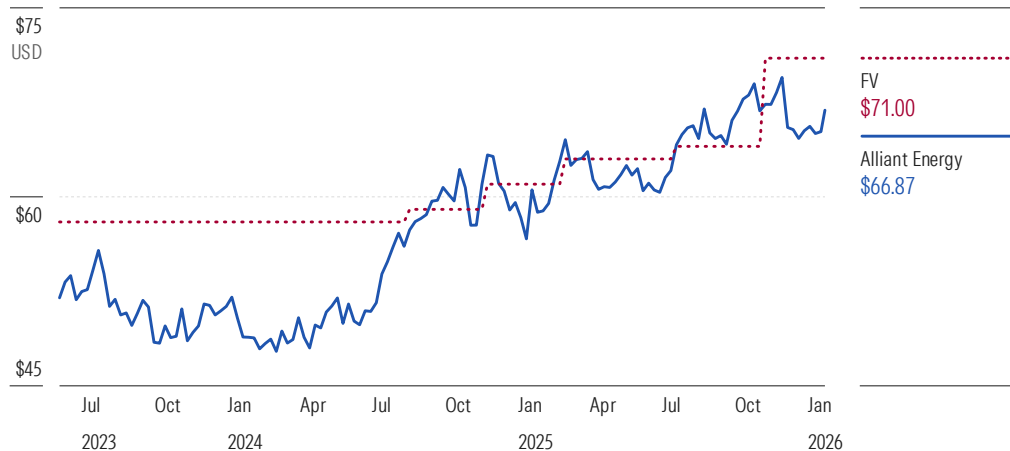
Source: Morningstar. Data as of Jan. 22, 2026.

Top Utilities Picks

Alliant Energy LNT (★★★★) Yield: 3.0%

P/FVE: 0.94 | Moat Rating: Narrow | Uncertainty: Low

Exhibit 5 Investors Not Appreciating Alliant's Data Center Upside



Source: Morningstar Direct. Data as of Jan 22, 2026.

Watch in 2026

- ▶ We expect management to continue to update and execute on the 2-4 GW of additional data center backlog in 2026. We think an announcement could come as early as this spring, based on management's disclosures, highlighting additional electric service agreements and increased capital investment.

Key Investment Considerations

- ▶ 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.
- ▶ Alliant's four-year \$13.4 billion capital investment plan is up 24% from its prior four-year plan. This investment plan is supported by constructive regulation in Iowa and Wisconsin.
- ▶ Alliant has four data center customers supporting 3 GW 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.

Duke Energy DUK (★★★★) Yield: 3.6%**P/FVE: 0.90 | Moat Rating: Narrow | Uncertainty: Low****Exhibit 6** Duke's Regulatory Environment and Growth Outlook Warrant Premium Valuation

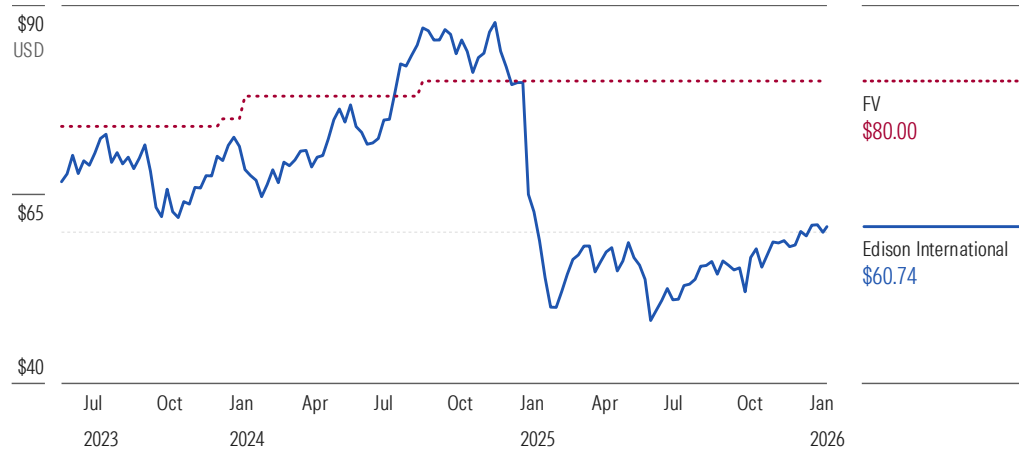
Source: Morningstar Direct. Data as of Jan 22, 2026.

Watch in 2026

- ▶ We expect Duke to update investors early this year on its \$95 billion 5-year capital investment plan, as well as the potential for \$10 billion of additional investment opportunities to support residential and commercial load growth and infrastructure upgrades.

Key Investment Considerations

- ▶ We think management will be able to execute on most of the additional capital investment opportunities, given the greater electricity demand across its high-growth North Carolina and Florida service territories.
- ▶ Duke enters 2026 with significant regulatory clarity across its subsidiaries, with most of its investment recovered through customer ratemaking mechanisms that significantly reduce regulatory lag.
- ▶ In North Carolina, Duke's most important jurisdiction, regulation has improved significantly due to legislation that allows for multiyear forward rate agreements and investment support
- ▶ Duke's 3.8% yield is above the sector median, though we expect dividend growth to lag earnings growth, given management's reduced payout range to help fund growth investments.

Edison International EIX (★★★★) Yield: 5.8%**P/FVE: 0.76 | Moat Rating: Narrow | Uncertainty: Medium****Exhibit 7** Edison's Stock Hasn't Recovered From the January 2025 Eaton Fire, but Earnings Growth Should Help

Source: Morningstar Direct. Data as of Jan 22, 2026.

Watch in 2026

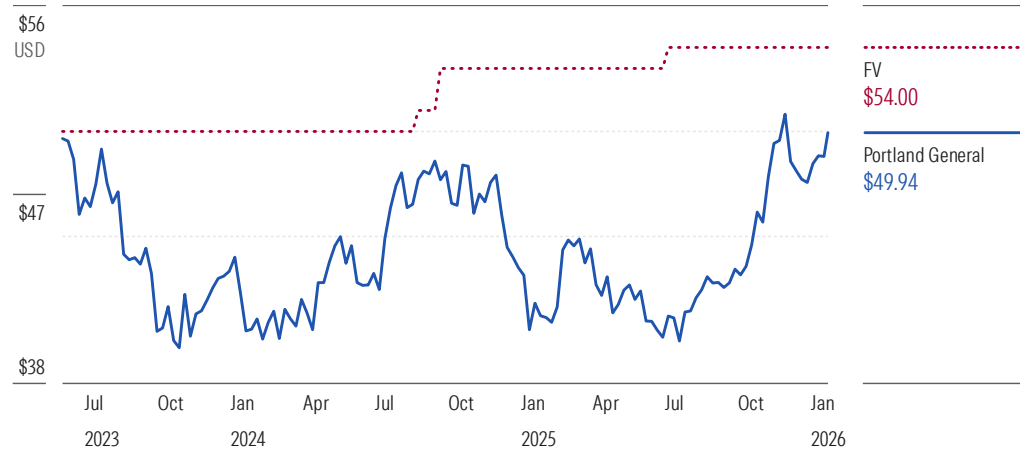
- Progress in the Eaton Fire investigation will relieve some of the uncertainty discount in the stock price. Although management has said material losses from the Eaton fire in January are "probable," we think California's AB 1054 legislation will minimize shareholder losses.

Key Investment Considerations

- We think Edison's worst-case Eaton Fire liability based on AB 1054 is \$4.4 billion, or \$8 per share after tax. However, we think Edison will qualify for AB 1054 insurance fund proceeds that cover nearly all shareholder liabilities, given that it maintains a fire mitigation plan and has met all other fire safety requirements under the law.
- 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 POR (★★★★) Yield: 4.2%
P/FVE: 0.92 | Moat Rating: Narrow | Uncertainty: Low

Exhibit 8 Portland General's Stock Has Been Volatile, but We Think Fundamentals Support Upside and Stability



Source: Morningstar Direct. Data as of Jan 22, 2026.

Watch in 2026

- ▶ Oregon's 2040 100% clean energy mandate will require substantial new investment, offering upside to management's \$6.4 billion investment plan and 5%-7% earnings growth target in 2025-29. Winning bids this year for another 4 gigawatts of projects would be incremental to PGE's current growth plan.

Key Investment Considerations

- ▶ We think investors are overestimating the impact of regulatory and policy uncertainties in Oregon. Recent constructive regulatory outcomes support long-term infrastructure growth investment.
- ▶ 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.
- ▶ Although investors might continue to focus on wildfire legislation, Portland General's wildfire risk is minimal given its urban service territory and temperate climate.

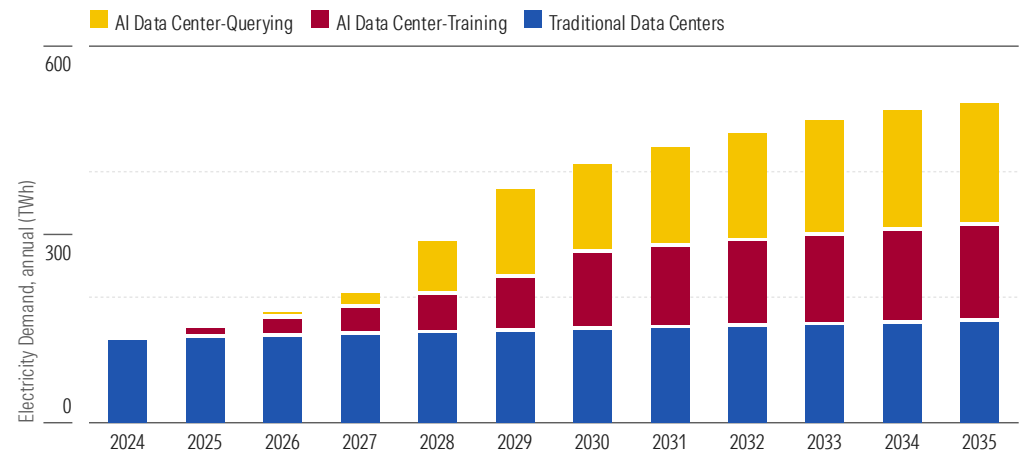
Theme 1: Data Center Boom or Bubble?

Watch in 2026

Data Center Energy Growth Outlook

We're expecting electricity demand from US data centers to triple between 2024 and 2032. We expect a lot of that growth to come in the next three years as tech companies scale up energy-intensive AI training workloads. Energy efficiency and a shift toward less-energy-intensive AI query workloads lead to much slower growth beyond 2030 in our forecast (Exhibit 9).

Exhibit 9 Morningstar Forecast: Data Center Electricity Demand to Triple by 2035



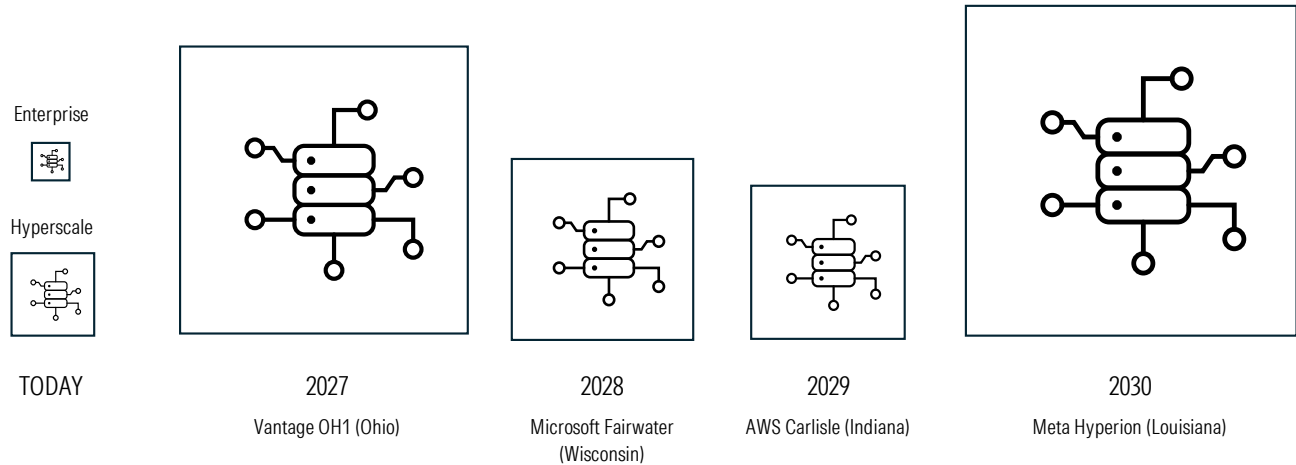
Source: Morningstar. Data as of January 2026.

Uncertainties in 2026 that could affect electricity demand growth include the pace of AI training and data center development outside the US. A significant slowdown could have a 10%-20% negative impact on our fair value estimates and erode utilities' premium valuations.

Watch in 2026

Early Data Center Projects

Several utilities received regulatory approvals in 2025 to begin large data center-related investments. Investors, regulators, and other utilities will be watching these projects closely (Exhibit 10). Successful execution could lead to more projects and more growth. Delays or rising costs could dampen enthusiasm.

Exhibit 10 Data Centers Under Construction Are Much Larger Than Today's Data Centers and Will Require Much More Energy

Square sizes based on planned square footage. Date is planned full ramp. Source: Various. Data as of January 2026.

Entergy: Meta Hyperion

One of the world's largest data centers will reach peak construction in 2026 with plans to be online by 2030. At the northern Louisiana site, Entergy will construct two new gas power plants totaling 1.5 GW, 1.5 GW of solar and battery storage, and new transmission facilities. Regulators have signed off on a third new gas plant nearby. We estimate Entergy's total investment could top \$4 billion. Entergy also has data center-related projects in Arkansas and Mississippi that could begin this year.

WEC Energy Group: Microsoft

Microsoft recently announced plans to invest an additional \$4 billion at its southeast Wisconsin data center campus, \$1 billion more than the company's initial \$3 billion investment commitment. Construction has been underway for nearly two years, with operations at the first data center expected to begin later this year. Vantage Data Centers is looking to build four data centers in Port Washington, Wisconsin, for a potential \$15 billion investment with 3.5 GW of electricity demand, of which 1.3 GW is expected to be in service by 2030.

NiSource: Amazon, Microsoft

With Indiana regulatory approval secured for its GenCo subsidiary, NiSource management has suggested they should be able to fast-track approval for several data center developments in northern Indiana. NiSource signed its first data center agreement with Amazon late last year, representing \$6 billion-\$7 billion of investment for 2.6 GW of natural gas generation, 400 MW of battery storage, and new transmission. Microsoft's previously announced sites in LaPorte and St. Joseph counties could be next. Just the Amazon and Microsoft projects could double NiSource's peak electricity demand in the next five years.

Alliant Energy: Google, QTS

Alliant Energy is rapidly building out three data center campuses across its territory. Representing 3 GW of total demand, a 50% increase in projected demand from its 2024 base. Construction has started at both the Cedar Rapids, Iowa, and Beaver Dam, Wisconsin, data center sites. In November, Alliant announced it signed an electric service agreement for a third campus outside Madison, Wisconsin. Alliant has proven its ability to secure data center load, positioning the company well to secure an additional 2-4 GW management is negotiating.

DTE Energy: Oracle, OpenAI

In December, Michigan regulators approved DTE's plan to build infrastructure to serve a 1.4 GW data center owned by Oracle, OpenAI, and Related Digital. DTE plans to invest \$2 billion in energy storage to serve the facility. The supply contract approved by regulators is more favorable to DTE and its existing customers than most industrial customer contracts. This includes higher minimum payments, longer fixed contract terms, and interruptible service when residential demand peaks.

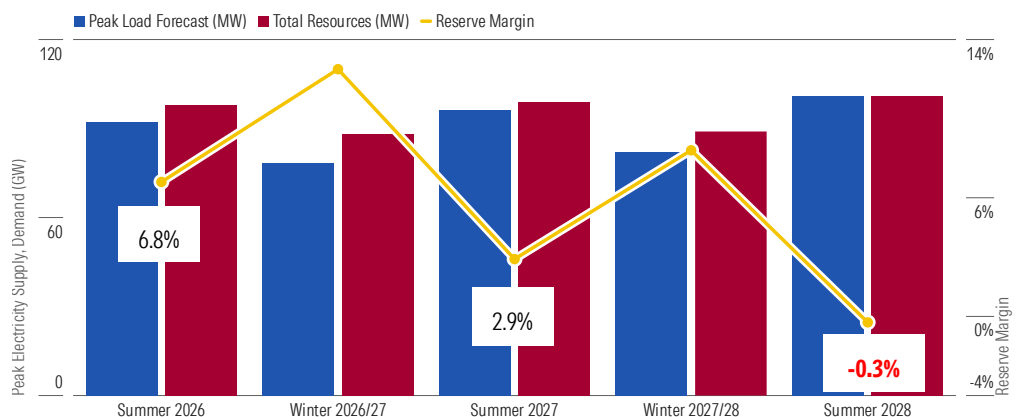
Watch in 2026

Texas: Growth For Regulated Utilities

Cheap land, low regulatory hurdles, and easy access to low-cost energy likely will make Texas the fastest-growing data center market in the US for at least the next few years.

- ▶ The US Department of Energy recently estimated 11% electricity demand growth in Texas this year, far ahead of any other state and five times the DOE's national growth forecast.
- ▶ Texas' electricity grid operator, Ercot, is forecasting 70% electricity demand growth through 2031, or 9% annually. Peak demand begins to outstrip generation by mid-2028 (Exhibit 11).
- ▶ In November, Google announced \$40 billion of AI-related investments in Texas in 2026-27, including three new data centers. This would make Texas Google's largest data center hub in the world.
- ▶ Abilene, Texas, is the first planned site of the \$500 billion Stargate Project with support from the Trump administration, Softbank, Oracle, Open AI, and other large tech companies.

Exhibit 11 Texas Grid Operator, Ercot, Is Anticipating Electricity Shortages by Summer 2028



Source: Ercot. Data as of December 2025.

Texas' hypercompetitive energy market likely will limit profits for power producers and retail suppliers. We think the biggest beneficiaries will be the regulated transmission and distribution utilities that will build the infrastructure to maintain reliability.

CenterPoint Energy (CNP)

CenterPoint Energy's Texas subsidiary, Houston Electric, will benefit from significant population growth and less data center growth, given the high population density of its service territory. Peak load is expected to double to 42 GW by 2035, driven by energy refining and exports, commercial and logistics, and transportation. CenterPoint plans to direct over 60% of its \$33 billion companywide capital investment plan to Houston. As CenterPoint sells off noncore local gas distribution companies, including the recently announced Ohio Gas LDC sale at nearly 2 times rate base, we expect nearly 70% of earnings will come from Texas by the end of our five-year forecast.

Sempra (SRE)

Sempra's 80% interest purchase of Oncor in 2017 has been a significant win for shareholders. Sempra's \$36 billion five-year base capital investment plan for Oncor is five times larger than when Sempra bought Oncor. We think management will be able to add \$12 billion of capital investment, given the high-growth region and management's continued execution and proactive stakeholder relations. Growth is driven by 2% premise growth; over 95 large commercial and industrial construction projects, including data centers; and electrification of oil fields in West Texas.

Xcel Energy (XEL), Entergy (ETR), American Electric Power (AEP)

- ▶ Less than 15% of Xcel's earnings come from Texas, but that should increase rapidly. Xcel plans to invest \$19 billion in 2026-30 at its subsidiary serving Texas and New Mexico, similar to the amount it plans to invest in each of its two much larger subsidiaries in Minnesota and Colorado. Xcel's \$60 billion companywide investment plan supports our 7% annual earnings growth forecast.
- ▶ Entergy's \$41 billion companywide investment plan in 2026-29 includes \$6.5 billion in Texas, including one of the largest gas power plants in the US expected in service this year and two other large gas plants expected in service in 2028.
- ▶ American Electric Power's Texas subsidiary is increasingly becoming a larger earnings driver for consolidated results. The subsidiary's \$2.3 billion annual capital investment will accelerate to \$4.3 billion by 2030, representing 23% of the AEP's companywide \$72 billion five-year plan. This should drive 15% rate base growth at the subsidiary, an outsized contribution to AEP's long-term 9%-plus growth rate.

Watch in 2026

Utilities Face Competition

Large energy companies and startups are increasingly competing with utilities to serve data centers. If these nonutility companies provide faster, cheaper access to energy, utilities might not realize the data center-related growth they expect in the long run. For now, we think large data centers will continue to work predominantly with utilities given utilities' ability to source materials and labor at large scale. These other companies are likely to serve smaller data centers with specialized energy needs or requests that utilities don't offer.

- ▶ **Chevron** plans to make a final investment decision in early 2026 to develop a 2.5 GW data center campus in West Texas, where it has large oil and gas production operations.
- ▶ **ExxonMobil** is exploring opportunities to develop data center campuses powered by natural gas generation with carbon capture, particularly in the southeast US, where Exxon owns large carbon dioxide pipelines. Expect updates on its 1.2 GW joint project with utility NextEra Energy.
- ▶ **Williams Companies** plans to invest \$5.1 billion to develop behind-the-meter gas power generation for data centers. Management's guidance suggests these projects have very attractive returns. Midstream firms Kinder Morgan and Energy Transfer are also discussing data center energy deals.
- ▶ **Fermi Inc**, a Texas real estate venture startup, aims to develop gas and nuclear energy for data centers in the coming years. It briefly reached a \$19 billion valuation following its IPO in late 2025. The stock subsequently dropped 70%, and the company faces shareholder lawsuits alleging fraud after it announced in December that its first planned tenant had stopped making site development payments and was renegotiating lease terms under a letter of intent.

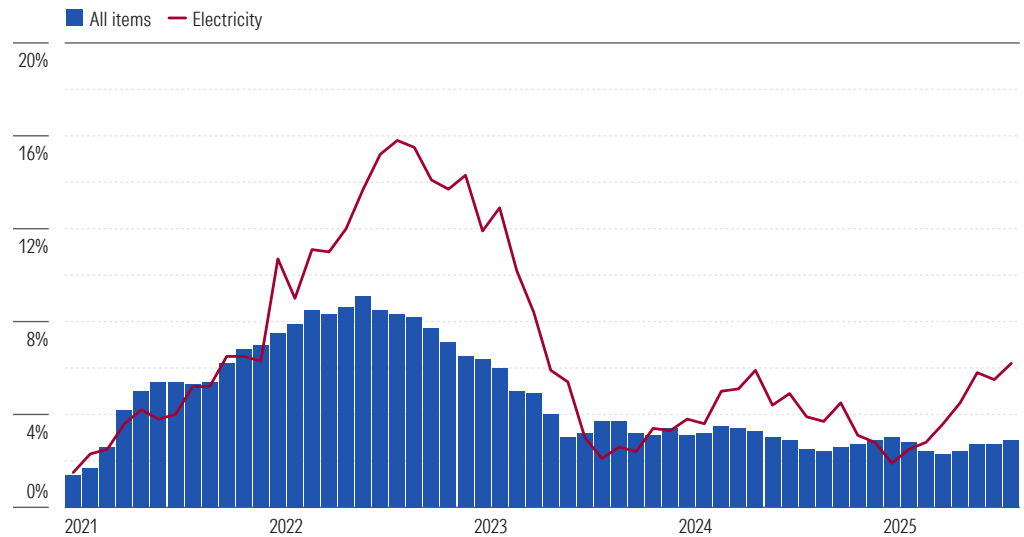
Theme 2: Customer Bill Affordability

Watch in 2026

Electricity Prices Rising Faster Than Headline Inflation

Utilities must manage rising customer bills. Electricity prices were up 6.7% year over year in the US Bureau of Labor Statistics' December inflation report. Since the beginning of 2021, year-over-year electric utility bill inflation has exceeded total inflation in 70% of months (Exhibit 12).

Exhibit 12 Electricity Bills Have Remained Above Core Inflation for Much of the Decade

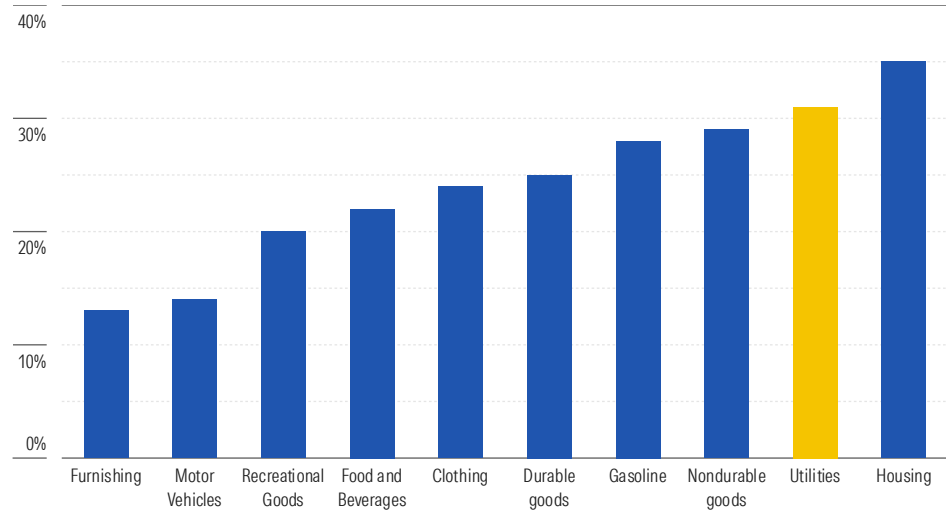


Source: US Bureau of Labor Statistics. Data as of January 2026.

Utility bills have been among the largest contributors to inflation within major personal consumption categories. Only housing costs have increased more than utility bills from 2021 to 2025 (Exhibit 13).

Higher passthrough charges, such as wholesale energy costs, taxes, and other fees, have been one reason customer bills have been climbing. Another source of bill increases is higher rates to cover utilities' capital, financing, and operating costs to invest in new infrastructure to serve growing energy demand. Utilities must work with regulators to balance all these bill impacts.

Exhibit 13 Utility Bill Price Increases Are One of the Fastest-Growing Personal Consumption Categories



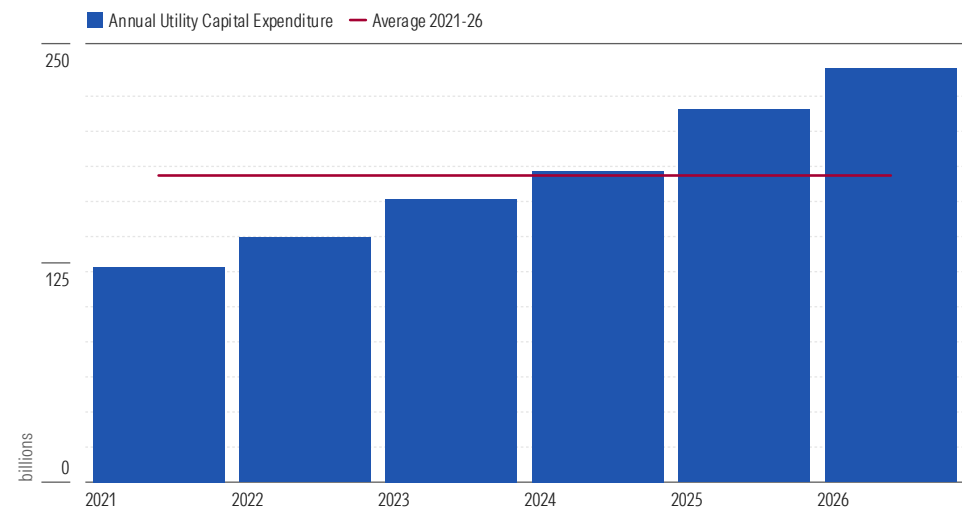
Source: Morningstar, US Bureau of Labor Statistics.

Watch in 2026

Utilities' Capital Investment Likely to Add Further Customer Bill Pressure

Policymakers' support for utilities' growth investments could wane if customer bills continue to climb. In 2024, the largest investor-owned US utilities combined invested an estimated \$177 billion. We expect utilities to spend \$212 billion in 2025 and \$235 billion in 2026 (Exhibit 14).

Exhibit 14 Increasing Capital Investment Will Continue to Pressure Utility Bills



Source: Morningstar, company filings. Data as of January 2026.

Our capital investment forecast supports our 6.8% median annual earnings growth across the sector, but could pressure customer bills as utility investments flow through customer bills. If policymakers start questioning the need for utilities' capital investments, it could pressure utilities' earnings growth. Utilities that recently increased their capital investment plans include:

- ▶ **American Electric Power (AEP)** increased its 2026-30 capital investment plan to \$72 billion, up from its previous \$54 billion plan. This was on top of a more than 30% increase in November 2024, supporting 10% rate base growth and 7%-9% annual earnings growth.
- ▶ **Alliant Energy's (LNT)** four-year \$13.4 billion capital investment plan is up 17% from its earlier plan and up 24% from its 2025-28 plan released in November 2024. This highlights the attractive data center growth in the Midwest and management's success in identifying and delivering on these opportunities.
- ▶ **Duke Energy (DUK)** management indicated they expect to announce a \$95 billion 2026-2030 capital investment plan early this year, up from its current \$87 billion plan. Duke sees \$10 billion in additional opportunities not in the base plan, which we view as achievable given the significant data center development in North Carolina.
- ▶ **WEC Energy Group (WEC)** plans to invest \$36.5 billion in 2026-30, up \$8.5 billion from its prior five-year plan. This investment supports WEC's 6%-7% annual growth projection for electric sales, as data center demand and economic development in southeastern Wisconsin remain robust.
- ▶ **Xcel Energy (XEL)** management's \$60 billion capital investment plan for 2026-30 is up \$15 billion from its previous five-year plan. Two-thirds of its investment plan will serve electricity demand growth, including new data centers, in its Midwest and Southwest service territories.

Watch in 2026

Will Data Center Tariffs Support Growth and Ease Customer Bill Concerns?

We think utilities will continue to find creative ways to keep data centers' costs off customers' bills. Thus far, utilities have successfully secured regulatory approval for separate tariffs for data centers. The contracts are typically take-or-pay and stretch 15-plus years, covering the utility's infrastructure investments and operating costs to supply the data center. Michigan regulators recently approved a DTE Energy contract that places most of the cost and risk on the data center (Exhibit 15).

Exhibit 15 DTE Energy's Contract With Oracle/OpenAI Is Stricter Than Typical Industrial Contracts

Terms	Data Center	Traditional Large-Load
Interruptible service	Yes	No
Minimum contract length	19 years	5 years
Minimum billing requirement	80% of peak use	50%-60%
Termination payment	10 years of minimum payments	None

Source: DTE Energy, company filings.

Watch in 2026**Capacity Markets in Mid-Atlantic States**

Politicians in mid-Atlantic states are pushing back on rising generation capacity costs that are starting to flow through to customer bills. Developments to watch this year include:

- ▶ A capacity price cap that Pennsylvania Governor Josh Shapiro pushed through expires with this summer's 2028-29 auction. Politicians, including President Donald Trump, are calling for extending the cap.
- ▶ Trump, on Jan. 16, called for capacity market reforms and an "emergency" capacity auction for data centers. Although a new auction is unlikely in 2026, the Trump administration could push the Federal Energy Regulatory Commission to create auction parameters this year.
- ▶ New Jersey's Public Service Enterprise Group has proposed a state-integrated resource plan process to insulate customers from the region's wholesale energy and capacity markets.

Regulated Distribution Utilities to Benefit

Continued political opposition to deregulation could boost investment opportunities for the region's transmission and distribution utilities, such as PPL, AEP, and PSEG. State lawmakers and utilities regulators could start proposing projects as soon as the second half of this year. We think it's too early to incorporate this in our near-term earnings outlooks, but this could boost growth and investment in 2028 and beyond.

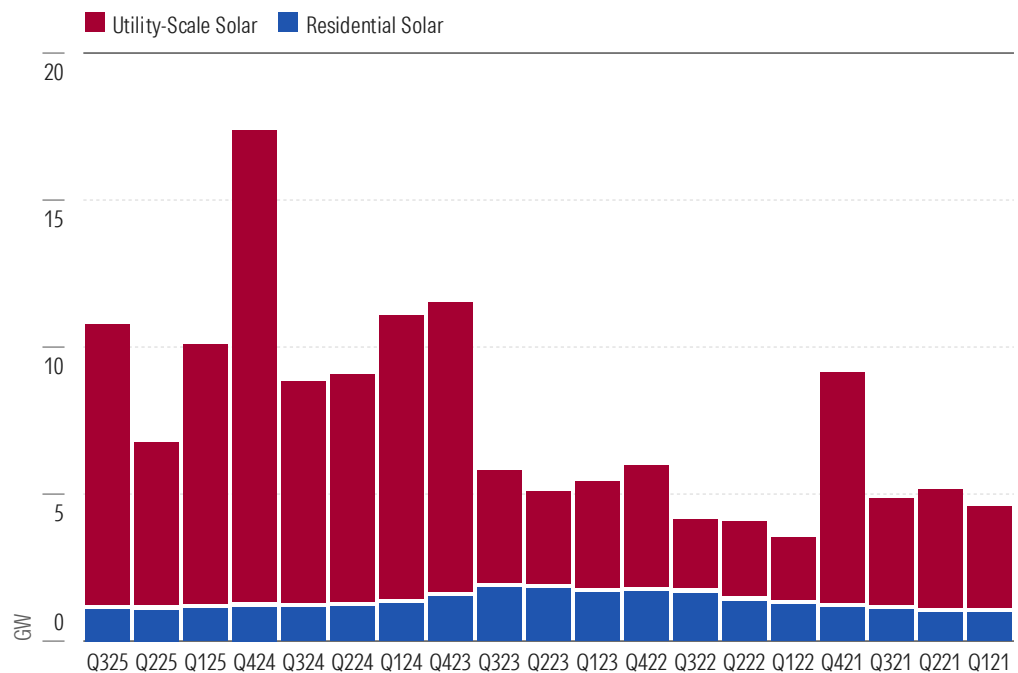
Theme 3: Renewable Energy Takes Charge

Watch in 2026

Solar and Batteries Lead the Way

The US added 11.7 GW of residential and utility-scale solar in the third quarter of 2025, the third-largest quarterly installations in history, according to Rystad (Exhibit 16). This highlights the strong near-term demand for renewable energy.

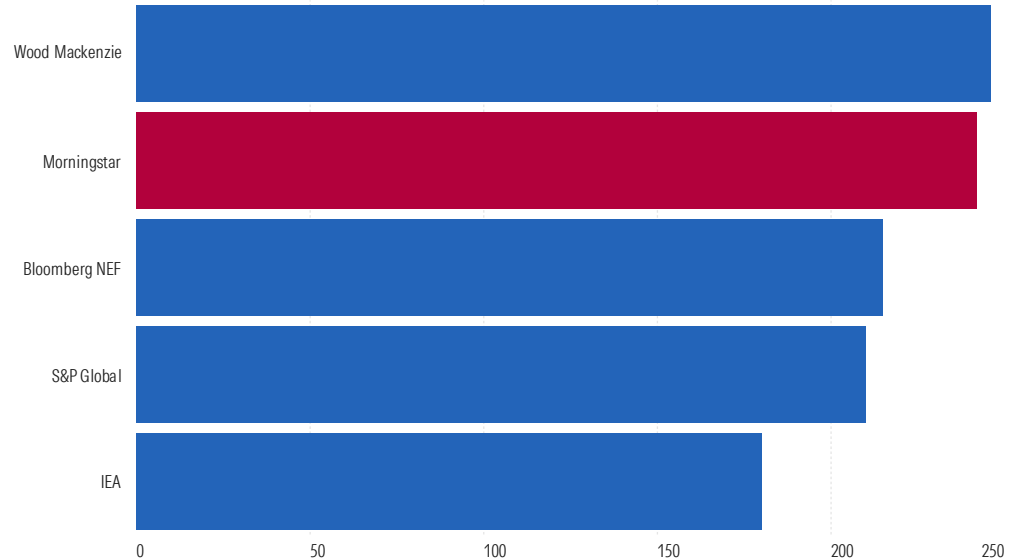
Exhibit 16 Solar Demand Remained Strong in 2025 Amid Tax Policy Uncertainty



Source: Rystad. Data as of Jan. 12, 2026.

Morningstar expects nearly 242 GW (Exhibit 17) of new utility-scale solar and wind during the next five years, compared with 150 GW during the previous five years. This remains on the high end of third-party consensus estimates between 180 GW and 250 GW, as we expect developers to rush projects into place to meet the July 4, 2026, safe harbor deadline for renewable energy credits stipulated in the 2025 One Big Beautiful Bill Act. This will allow projects to be placed into service until July 4, 2030, providing baseline demand for renewables as developers front-load projects to ensure credit eligibility.

Exhibit 17 Strong Renewable Energy Demand Expected Through 2030 Before Tax Credits Sunset

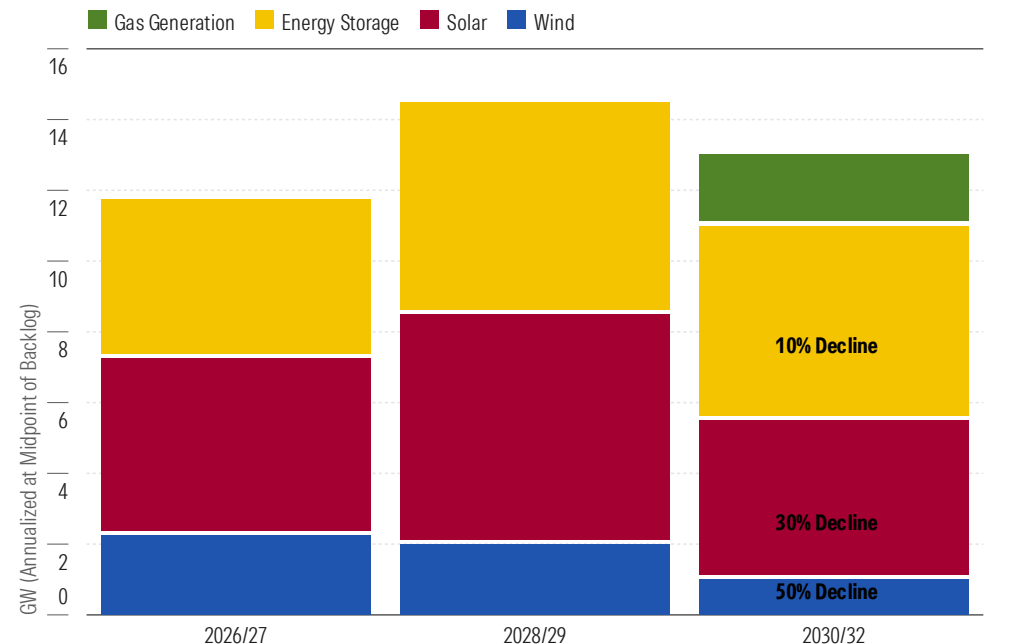


Source: Morningstar, Wood Mackenzie, Bloomberg NEF, S&P Global, IEA. Data as of Jan. 12, 2026.

NextEra Points to Challenging Renewable Energy Environment Post-2030?

Consistent with our expectations, NextEra expects strong demand for solar and energy storage through 2030. After the federal tax credit phase-out in 2030, NextEra expects wind generation development to decline by 50% and solar to decline by 30% in 2030 as demand shifts to gas generation (Exhibit 18).

Exhibit 18 Strong Renewable Energy Development Growth Until 2030 When Tax Credits Expire



Source: Morningstar, company filings. Data as of Jan. 12, 2026.

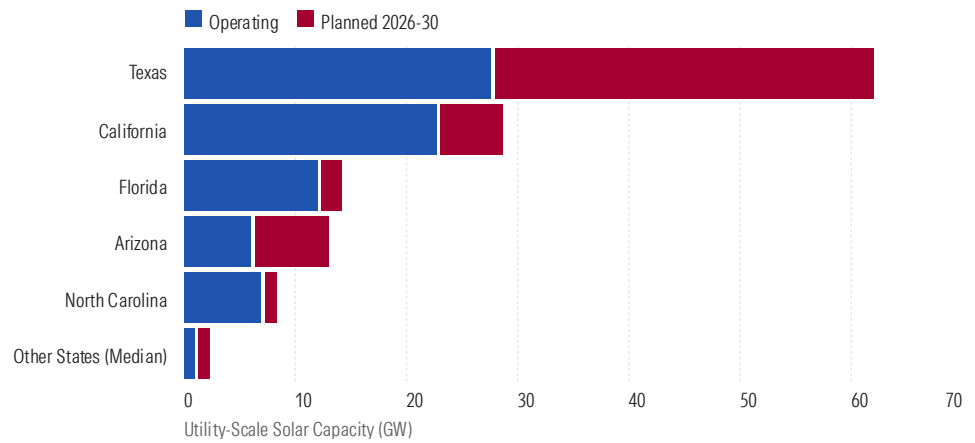
Watch in 2026

Texas Continues to Lead

No other state comes close to matching Texas for recent or planned solar growth. Texas installed 7.4 GW of new solar capacity during the first nine months of 2025, more than double the next-closest state, California, according to the Solar Energy Industries Association.

Total utility-scale solar capacity in Texas is nearly 30 GW, more than 37 states combined, according to the US Energy Information Administration. Texas is likely to retain its lead for at least the next several years, with 34.4 GW of planned projects through 2030, five times more than the next-highest state, according to EIA data (Exhibit 19).

Exhibit 19 Texas' Current Solar Capacity and Planned Additions Far Exceed Any Other State



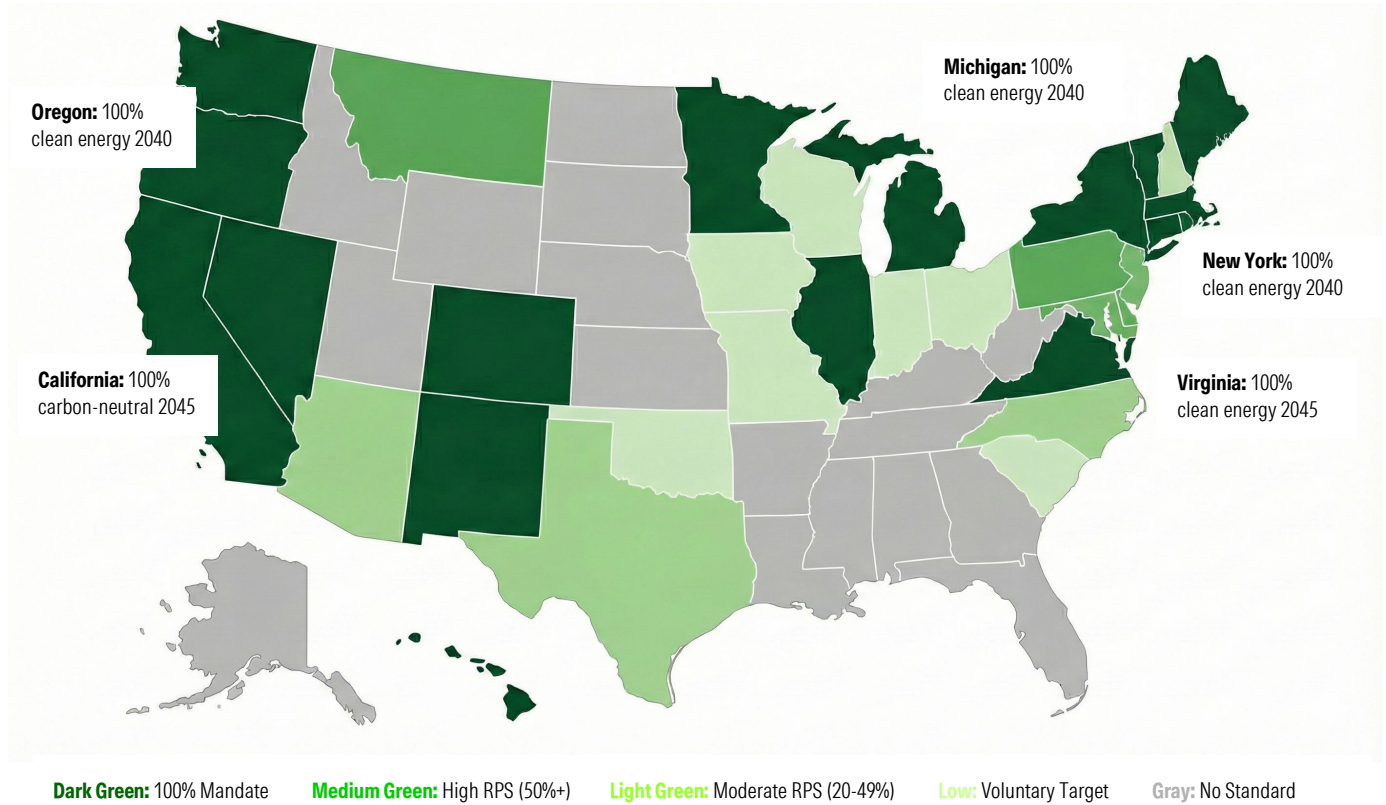
Source: Energy Information Administration. Data as of January 21, 2026.

Watch in 2026

State Renewable Energy Policies

This is a critical planning year for utilities in states with fast-approaching clean energy mandates (Exhibit 20). We don't expect any significant pullback in state-level requirements regardless of what happens in Washington, DC, this year. Key states to watch are:

- ▶ California — 100% carbon neutral by 2045
- ▶ Michigan — 100% clean energy by 2040
- ▶ New York — 100% clean energy by 2040
- ▶ Oregon — 100% clean energy by 2040
- ▶ Virginia — 100% clean energy by 2045

Exhibit 20 Utilities in Some States Will Have to Make Large Clean Energy Investments During the Next Decade

Source: Clean Energy States Alliance, NC Clean Energy Technology Center. Data as of January 2026.

Watch in 2026**Corporate Demand**

Corporate demand for clean energy should also support renewable energy growth regardless of tax policy. Most corporates net third-party investments or supply contracts against their physical energy consumption. For example, a data center in Virginia might finance a solar project in Texas and boast carbon neutrality even though its physical energy consumption is from a largely fossil fuel-powered centralized grid. Utilities in areas with low-cost renewable energy should continue to benefit.

Watch in 2026**New Nuclear**

US utilities have no interest in building large-scale nuclear plants, even though they are likely the best solution for powering data centers' around-the-clock energy demand. Recent cost estimates and project delays during the last decade in the US and Europe have shut down any interest.

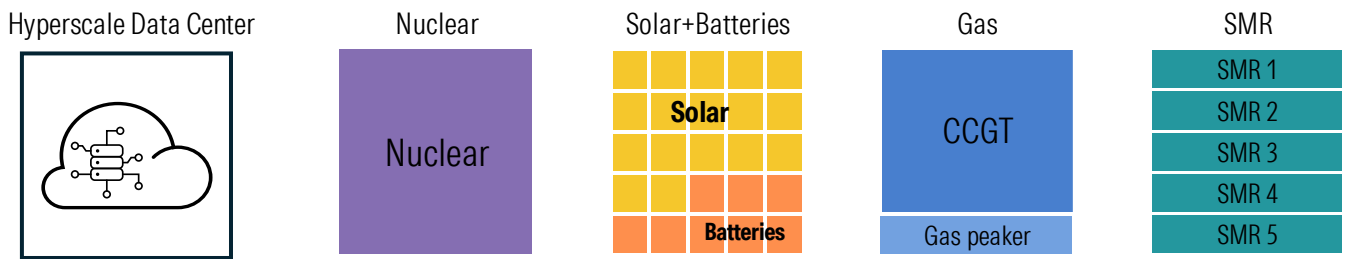
Small Modular Reactors Lack Scale, Cost Advantage

Nuclear SMRs are at least a decade away from being viable in the US. There are only two operational SMRs in the world and only a few under construction. Kairos Power's SMR nuclear project in Tennessee

is the only one under construction in the US. TerraPower is building the non-nuclear infrastructure for a project in Wyoming as it awaits final approval from the US Nuclear Regulatory Commission, expected later this year or in 2027.

Size and scale are two constraints for SMR. One hyperscale data center could require five or more SMR compared with only one or two utility-scale nuclear or gas plants (Exhibit 21).

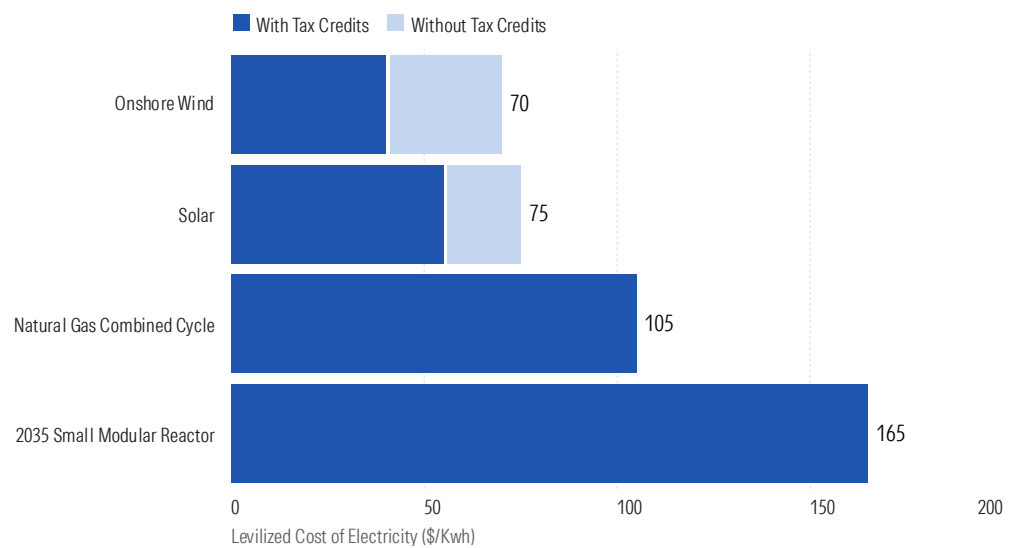
Exhibit 21 Powering a Hyperscale Data Complex Would Require One Utility-Scale Nuclear Plant or Five SMR



Source: Morningstar. Data as of January 2026.

Costs are another issue for large-scale SMR development. Large generators can spread capital costs over more capacity and energy. Estimates for the levelized cost of electricity of an SMR in 2035 remain well above estimates for natural gas combined cycle, solar, and onshore wind (Exhibit 22), likely requiring significant cost reductions for widespread adoption. ○

Exhibit 22 SMR Costs Must Come Down to Compete With Other Generation Types in the US



Source: EIA, company filings. Data as of January 2026.

US Utilities Coverage

Appendix Morningstar Utilities Coverage List

Company (Ticker)	Market Cap (Billions)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	P/E	Yield	1-Year Return
Edison International (EIX)	23 USD	Narrow	Medium	60.74	80.00	★★★★	0.76	9.8x	5.8%	+11.9%
PG&E (PCG)	33 USD	None	Medium	15.10	19.50	★★★★	0.77	9.3x	1.3%	-6.2%
Duke Energy (DUK)	92 USD	Narrow	Low	117.71	131.00	★★★★	0.90	17.6x	3.6%	+11.5%
American Electric Power Company (AEP)	63 USD	Narrow	Low	117.18	127.00	★★★★	0.92	18.6x	3.2%	+24.1%
Portland General Electric (POR)	6 USD	Narrow	Low	49.94	54.00	★★★★	0.92	14.7x	4.2%	+26.9%
American Water Works Company (AWK)	26 USD	Narrow	Low	182.14	140.00	★★★★	0.94	21.5x	2.5%	+10.7%
Alliant Energy (LNT)	17 USD	Narrow	Low	66.87	71.00	★★★★	0.94	19.6x	3.0%	+17.4%
Essential Utilities (WTRG)	11 USD	Narrow	Low	39.60	42.00	★★★★	0.94	17.7x	3.5%	+21.8%
New Jersey Resources (NJR)	5 USD	Narrow	Low	48.33	51.00	★★★★	0.95	15.4x	3.9%	+7.5%
Mge Energy (MGEE)	3 USD	Narrow	Low	79.92	83.00	★★★	0.96	20.0x	2.3%	-6.2%
Eversource Energy (ES)	26 USD	None	Low	70.45	73.00	★★★★	0.97	14.2x	4.3%	+30.6%
DTE Energy (NYS:DTE)	28 USD	Narrow	Low	135.19	139.00	★★★	0.97	17.5x	3.3%	+16.8%
Evergy (EVRG)	18 USD	Narrow	Low	105.54	78.00	★★★	0.98	17.8x	3.6%	+25.2%
FirstEnergy (FE)	27 USD	Narrow	Low	47.05	48.00	★★★	0.98	17.3x	3.8%	+25.1%
Sempra (SRE)	56 USD	Narrow	Medium	85.75	87.00	★★★	0.99	16.7x	3.0%	+6.7%
Exelon (EXC)	45 USD	Narrow	Low	44.60	45.00	★★★	0.99	15.7x	3.6%	+17.7%
WEC Energy Group (WEC)	36 USD	Narrow	Low	109.35	110.00	★★★	0.99	19.5x	3.5%	+16.0%
Atmos Energy (NYS:ATO)	27 USD	Narrow	Low	165.40	165.00	★★★	1.00	20.2x	2.4%	+21.1%
CenterPoint Energy (CNP)	25 USD	Narrow	Low	38.87	38.00	★★★	1.02	20.4x	2.4%	+22.5%
Ameren (AEE)	28 USD	Narrow	Low	102.90	98.00	★★★	1.05	19.2x	2.8%	+13.3%
Fortis (Electric Utility) (TSE:FTS)	36 CAD	Narrow	Low	52.07	68.00	★★★	1.06	20.1x	3.4%	+27.7%
NiSource (NI)	21 USD	Narrow	Low	43.52	41.00	★★★	1.06	21.3x	2.6%	+18.7%
CMS Energy (CMS)	22 USD	Narrow	Low	70.97	66.00	★★	1.08	18.4x	3.1%	+11.1%
PPL (Allentown) (NYS:PPL)	27 USD	Narrow	Low	36.63	34.00	★★	1.08	18.8x	3.0%	+15.2%
OGE Energy (OGE)	9 USD	Narrow	Low	43.18	40.00	★★	1.08	17.8x	3.9%	+4.1%
Southern Company (SO)	96 USD	Narrow	Low	87.51	81.00	★★	1.08	19.2x	3.4%	+10.0%
Consolidated Edison (ED)	37 USD	None	Low	103.18	95.00	★★	1.09	17.1x	3.3%	+17.4%
Public Service Enterprise Group (PEG)	40 USD	Narrow	Low	79.40	73.00	★★	1.09	18.0x	3.2%	-7.1%
Entergy (ETR)	42 USD	Narrow	Low	93.54	86.00	★★	1.09	21.3x	2.7%	+17.2%
NextEra Energy (NEE)	177 USD	Narrow	Medium	85.07	77.00	★★★	1.10	21.2x	2.7%	+26.2%
Dominion Energy (D)	51 USD	Narrow	Medium	59.93	54.00	★★	1.11	16.6x	4.5%	+17.6%
Pinnacle West Capital (PNW)	11 USD	None	Low	127.95	83.00	★★	1.11	19.8x	3.9%	+12.5%
Xcel Energy (XEL)	45 USD	Narrow	Low	75.86	65.00	★★	1.17	18.4x	3.0%	+18.3%
Emera (TSE:EMA)	21 CAD	Narrow	Low	49.44	58.00	★★	1.18	19.5x	4.2%	+36.8%
Hydro One Networks (TSE:H)	32 CAD	None	Low	38.38	45.00	★★	1.18	23.9x	2.5%	+27.4%
AES (Arlington) (AES)	10 USD	None	High	14.61	12.00	★★	1.22	6.3x	4.8%	+32.8%
Hawaiian Electric Industries (HE)	3 USD	None	High	15.03	10.50	★★	1.43	15.7x	0.0%	+65.3%
NRG Energy (NRG)	29 USD	None	High	151.09	96.00	★	1.57	16.6x	1.2%	+38.3%
Vistra (Irving) (VST)	54 USD	None	High	160.36	97.00	★	1.65	18.3x	0.6%	-16.0%
Utilities (Median)							1.05	18.3x	3.2%	

Source: Morningstar. Data as of Jan. 12, 2026.

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.

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+1 312 696-6000

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