

## Natural Gas Demand from Data Centers: A Positive for Utilities and Power Producers

### Key Takeaways

- We see natural gas gaining greater acceptance among data center power customers, supporting utilities and industrials with exposure to power production, such as **GEV**.
- Texas appears to be one of the main hubs of data center development, and we see tailwinds for new natural gas generation across the state.
- Electric and gas utilities and power producers with exposure to Texas may benefit from these trends, including **ATO**, **CEG**, **NRG**, **SRE**, and **VST**.

#### Positive (+) or Negative (-) Implications

(+) **Atmos Energy Corporation (ATO)**

(+) **Constellation Energy Corporation (CEG)**

(+) **GE Vernova Inc. (GEV)**

(+) **NRG Energy Inc. (NRG)**

(+) **Sempra (SRE)**

(+) **Vistra Corp. (VST)**

### Fundamental Context

**Natural gas appears to be gaining popularity with data center customers.** In CFRA's "*Utilities and AI: Powerful Combination?*" thematic research published in July 2024, we highlighted the demand for low- or zero-emission electricity by U.S. data center users, including major technology firms, with many continuing to sign long-term power purchase agreements utilizing renewables and/or nuclear power. Some primary examples in recent months include Constellation Energy's (CEG) recent deals with Microsoft and the U.S. General Services Administration. While we think renewables like wind and solar will continue to expand, we do not expect a significant amount of new nuclear power to come online in the near term. Given the immense growth in expected U.S. power demand, we already see signs of natural gas gaining traction as another key resource being sought out by data center operators as they look to fuel new investments in artificial intelligence and computing infrastructure (Figure 1).

**While not a utility company, GE Vernova (GEV) stands out as a primary beneficiary of these trends, in our view.** GEV is an electrical equipment firm whose leadership in natural gas turbine production continues to drive growth. In recent months, GEV announced long-term agreements with Chevron (CVX), NextEra Energy (NEE), and NRG Energy (NRG) to support gas power plant development in support of data center and AI infrastructure. We expect GEV's Power segment, the company's primary driver of revenues, margins, and free cash flows, to primarily benefit from these partnerships. However, we think the smaller Electrification segment, which includes equipment for electric transmission and distribution, electric grid software, and power storage solutions, could also find opportunities as data center infrastructure develops.

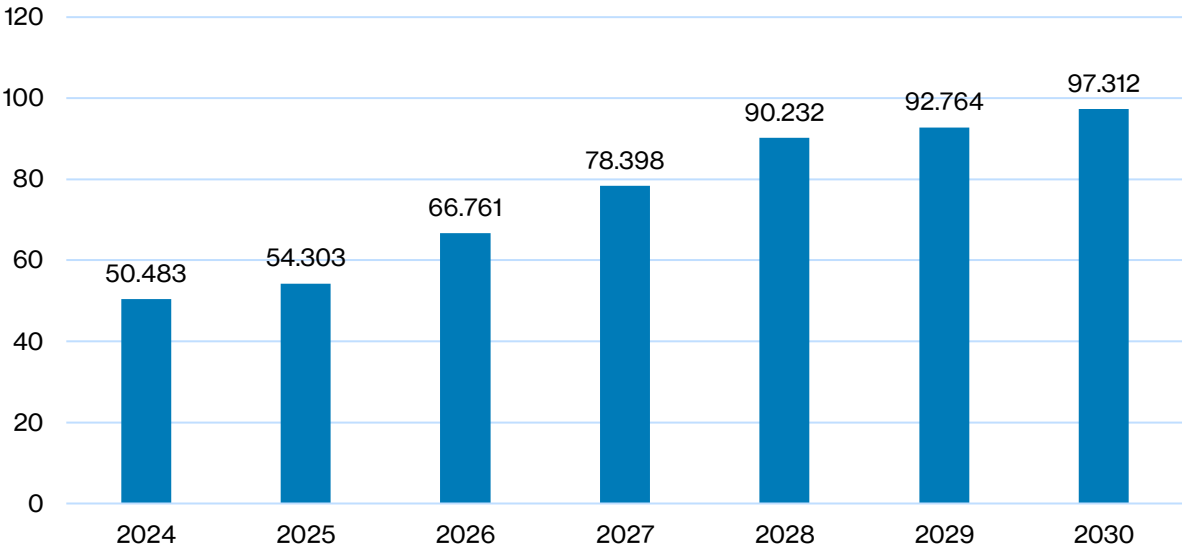
**Figure 1: Noteworthy Natural Gas – Data Center Developments in 2025**

- Gas turbine manufacturer GEV, multinational oil major CVX, and activist investment firm Engine No. 1 announced a partnership to develop natural gas power plants co-located with data centers. The partnership aims to add up to 4 gigawatts (GW) of natural gas power (first project expected to be in-service by year-end 2027).
- NEE announced a four-year collaboration with GEV to identify opportunities to co-develop natural gas power generation to support data centers, manufacturing, electrification, and other drivers of higher U.S. power loads.
- GEV announced a long-term agreement with Texas-based utility and power producer NRG and private construction firm Kiewit to support AI and compute-based electricity demand by bringing over 5 GW of new natural gas-powered generation capacity online between 2029 and 2032.
- Midstream oil and gas operator Energy Transfer LP (ET) signed a long-term deal with CloudBurst Data Centers, with the potential to supply roughly 1.2 GW of power over a 10-year period beginning in the second half of 2026.
- In an interview with CNBC, Microsoft VP of Energy Bobby Hollis spoke encouragingly, in our view, about the possibility of the software giant seeking out natural gas to power its data centers in addition to nuclear, renewables, and other fuel sources.

Source: Company filings and press releases, American Public Power Association, CNBC.

**We see a significant runway for natural gas development in Texas.** According to an October 2024 report from the U.S. Energy Information Administration (EIA), Texas is the fastest-growing U.S. state for electricity consumption, which we expect will lead to greater investment in natural gas generation capacity. Supported by power demand from data centers and other “large flexible load” customers, EIA estimated approximately 5% electricity load growth in 2025 across all customers in the Electric Reliability Council of Texas (ERCOT), which encompasses 90% of the state’s power loads. Looking beyond 2025, we think peak power demand will continue to rise quickly, supported by new data centers and strong population growth trends in the state. Focusing on August energy demand (often the peak month due to summer cooling needs), ERCOT forecasts indicate a roughly 93% increase in August demand from 2024 to 2030 (Figure 2), according to the Texas Comptroller. For comparison, ERCOT records show that peak demand rose by only 23% in the six-year period from 2017 to 2023.

**Figure 2: Forecasted August Energy Demand (GWh) in ERCOT from 2024 to 2030**



Source: CFRA, Texas Comptroller, ERCOT.

**We expect Texas will remain a pivotal market for data center development.** According to CBRE’s “North America Data Center Trends H1 2024” report, the Dallas-Ft. Worth area continues to demonstrate low vacancy rates, strong pricing, and high data center demand, which can create upside for local utilities by increasing land values and supporting customer growth and higher power loads. The report indicates that Dallas/Ft. Worth was tied for second with Chicago in terms of total U.S. primary market data center inventory (11%), behind only Northern Virginia (47%), which is often dubbed the “data center capital of the world.”

**We think one motivation for CEG’s Calpine acquisition is to capitalize on Texas growth trends.** In January 2025, nuclear power plant operator CEG announced the acquisition of power generator Calpine. The combined company would position CEG as the nation’s largest power generator, complementing CEG’s significant nuclear fleet with a leading natural gas fleet and adding exposure to key markets, including California and Texas. Based on Calpine’s disclosures, we estimate that CEG stands to take ownership of approximately 9.1 GW of natural gas generation capacity in Texas, which is significantly more than CEG’s entire natural gas and oil portfolio of roughly 7.0 GW (per CEG’s 2024 10-K filing). Assuming the acquisition closes (expected in Q4 2025), we anticipate that natural gas demand from population growth and data centers will be positive for CEG’s Texas fleet over time.

**Texas’ largest natural gas distributor, Atmos Energy (ATO), is well-positioned, in our opinion.** ATO is the largest gas utility by market cap in the U.S. As of November 6, 2024, 75% of ATO’s total rate base was located in Texas, including the Mid-Tex and West Texas gas distribution operations (49%) as well as the gas pipeline and storage assets of Atmos Pipeline-Texas (APT, 26%). Over time, we think data center demand for natural gas can support a greater need for gas pipeline and storage infrastructure in the state, creating opportunities for additional capital expenditure. Underpinned by strong population and economic growth trends in Texas, ATO’s capital spending guidance implies one of the strongest rate base growth trajectories in the sector (13%-15% CAGR from 2025 to 2029), in our view.

**State government appears supportive of new natural gas generation.** In 2023, the state created the Texas Energy Fund, which initially allocated roughly \$5 billion of low-interest loans toward natural gas power generation within the state, according to the Office of the Texas Governor. State government press releases in late December 2024 highlighted initiatives to expand this funding pool to \$10 billion. In August 2024, the Public Utility Commission of Texas released its initial list of 17 projects that advanced to the due diligence round for potential Texas Energy Fund loans, including several companies highlighted in this report (Table 1). In November 2024, NRG noted six of its power plant sites in Texas where it saw potential for development of new power generation infrastructure. In February 2025, the company highlighted two of its gas power plant projects (TH Wharton and Cedar Bayou 5) that qualified for additional due diligence by the Texas Energy Fund for potential loan and grant eligibility.

**Table 1: Examples of Texas Energy Fund Loan Applications Selected for Due Diligence**

Company	MW Capacity
NRG Energy	456
GE Vernova	1,350
Calpine	460
Constellation Energy	300
Vistra	440

Source: Public Utility Commission of Texas, Office of the Texas Governor, The Texas Tribune. Data as of August 29, 2024. Note: GE Vernova application includes Competitive Power Ventures (CPV Group LP).

**Power demand in the oil-rich Permian Basin region may also benefit power producers and local utilities.** ERCOT's Reliability Plan for the Permian Basin Region (filed July 2024) indicates significant power load growth expectations in the Permian Basin, an area covering large swaths of West Texas and providing around 46% of all U.S. oil production in 2023, according to data from the Federal Reserve Bank of Dallas. Importantly, the report speaks to rising electricity demand from non-oil and gas customers, such as data centers, cryptocurrency activities, and hydrogen electrolysis. One recent example came in February, when helium exploration firm New Era Helium, which maintains a joint venture (JV) with Sharon AI, known as Texas Critical Data Centers, announced the JV's pending acquisition of a 200-acre site in the Permian region for eventual data center construction. Per New Era Helium's press release, the data center will utilize natural gas for its energy supply and aims to incorporate carbon-capture technology to support a net-zero carbon emissions operation.

Over time, we think power demand in this region could support independent power producers like Vistra Corp., which maintains approximately 11.5 GW of natural gas generation within Texas, per the company's 2024 10-K filing. In May 2024, VST announced its intention to add roughly 2.0 GW of gas-powered generation across the state, including West Texas, with plans to seek funding from the Texas Energy Fund. We also see benefits for traditional utilities like Atmos Energy as well as Sempra, the latter of which has a Texas-based electric subsidiary, Oncor, that serves the Permian region. Per company filings, 23% of Oncor's year-end 2024 active transmission points-of-interconnection requests (an indicator of customer growth) were data-center- and IT-related, while 11% were related to oil and gas activities. We think that new infrastructure in West Texas will play an important role in Oncor carrying out its \$36.1 billion capital expenditure plan from 2025 to 2029.

## Risk Factors

**Our analysis is subject to several risks.** Increases in the price of natural gas could make power customers shift to cheaper fuel alternatives. Social or economic shifts, such as a renewed focus on reducing carbon emissions, could also work against natural gas demand. Expectations for rapid growth in power demand and data center infrastructure spending could prove to be overly optimistic for a variety of reasons. Weaker economic growth or an economic recession could slow power sales by increasing unemployment, slowing manufacturing output, and pressuring capital investment in data centers and other technologies.

Weaker economic conditions in the state of Texas, relative to other states, could have a particularly damaging impact on some of the companies highlighted in this report. Unfavorable developments in the oil and gas industries, which have a large footprint in the Permian Basin region, could pose headwinds for data center construction and future capital investment opportunities by utilities and power producers.

We may overestimate the attractiveness of Texas as a location for future data center construction, and unfavorable changes in land availability, taxes, legislation, regulation, supply chains, or weather could all have negative impacts.

Theoretically, we think it is possible that significant improvements in computing efficiency could reduce aggregate power demand. While we think recent commentary from major technology firms reduced the market's broader concerns, we still think investors are cautious about the impact of Chinese AI start-up DeepSeek's surprising model performance relative to U.S. competitors. The model's performance at a similar level to peers at a fraction of the cost has some investors questioning prior expectations for a rapid increase in U.S. electricity needs and data center investments, in our view. That said, NVIDIA CEO Jensen Huang recently doubled down on comments made in late February, emphasizing that reasoning models like DeepSeek will require 100x more compute power, despite being smaller than traditional LLMs in most cases.

Broader risks facing utilities and power producers include inflation, rising interest rates, and tightening regulatory conditions.

## Company Implications

**Atmos Energy Corporation (ATO 149 \*\*\*\*)** is engaged in natural gas distribution and pipeline operations, delivering natural gas to over 3.3 million customers across eight states. According to ATO's 2024 10-K filing, the company operates one of the largest intrastate pipelines in Texas based on miles of pipe. We think ATO stands to benefit from rising power demand, driven by its major presence in Texas, where we see gas demand increasing due to customer growth and new data center infrastructure. ATO's capex guidance implies one of the strongest rate base growth trajectories in the sector (13%-15% from 2025-2029), supporting our expectations for an attractive 8% EPS and dividend compound annual growth from FY 25 to FY 28, in our view. Our 12-month target price of \$165 is 23x our FY 25 EPS estimate, a premium to ATO's historical forward average due to our improved fundamental outlook for gas utilities.

**Constellation Energy Corporation (CEG 222 \*\*\*\*)** operates the largest nuclear fleet in the U.S. and generates carbon-free electricity for customers in 48 U.S. states and Canada. We think CEG benefits from nuclear tax credits within the IRA and an improving environment for nuclear power generation. CEG raised its long-term EPS growth expectations following a long-term PPA with Microsoft and signed a 10-year deal to provide electricity to the federal government. CEG recently announced the acquisition of power generator Calpine for \$16.4 billion (\$29.1 billion enterprise value, including debt). The combined company would position CEG as the nation's largest power generator, complementing CEG's significant nuclear fleet with a leading natural gas fleet and adding exposure to key markets in California and Texas.

We think CEG aims to capture even more potential upside from rising power demand due to trends in data centers and AI. We anticipate that CEG's healthy free cash flow and earnings growth will help the company restore its balance sheet quickly after taking on additional debt during the acquisition. Our 12-month target of \$278 represents 30x 2025 EPS, a premium justified by industry-leading growth. While down from 40x in January, we view the valuation decline as an opportunity, given CEG's superior growth (~13% EPS CAGR, ~10% dividend CAGR) well above our expectations for the broader electric utility industry,

**GE Vernova Inc. (GEV 334 \*\*\*\*)** is a global energy solutions provider operating in the areas of power (primarily gas turbines), wind turbines, and electrification technologies. Global power demand appears to be rising, supported by trends in data centers, AI, and manufacturing. We expect growing sales and earnings growth from GEV's significant equipment and services backlog. In recent months, GEV announced long-term agreements with CVX, NEE, and NRG to support gas power plant development in support of data center and AI infrastructure. Our 12-month target price of \$410 reflects a 2025 P/E multiple of 65.8x. We feel GEV's strong growth multiple is justified based on its favorable positioning as a leading provider of gas turbines and other equipment in a period of rising power demand. Negative net debt and the recent initiation of a shareholder dividend also support our view.

**NRG Energy Inc. (NRG 101 \*\*\*\*)** is a wholesale power generation company that sells electricity, natural gas, and related home products and services across the U.S. and Canada. Our positive outlook reflects several tailwinds, including strong positioning in Texas' growing data center market, potential for favorable long-term power purchase agreements, and the commitment to the return of capital to shareholders. NRG's positioning in Texas is particularly advantageous, in our view, given strong electricity demand growth and projected data center development, with multiple long-term power purchase agreements expected in 2025. Our 12-month price target of \$132 represents 18.4x our 2025 EPS estimate, reflecting a small discount to peers but a premium to NRG's historical average. This valuation considers improved strategic clarity post-management changes, favorable Texas market positioning, and data center growth potential.

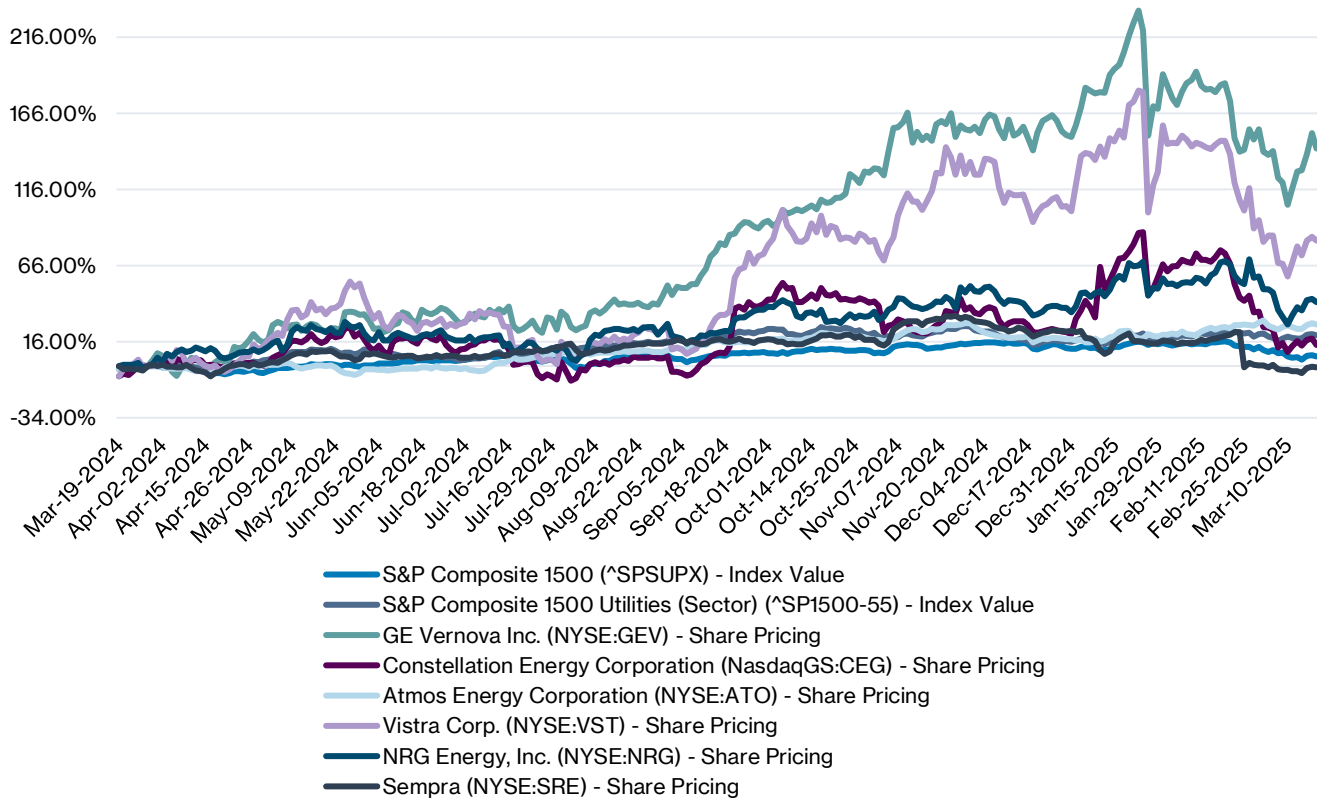
**Sempra (SRE 70 \*\*\*)** is a utility holding company with operations in the U.S. and Mexico. Given higher operating costs in Texas, regulatory headwinds in California, and project delays for Infrastructure, SRE effectively reset its financial guidance in Q4 earnings and offered 2025-2026 EPS targets well below prior expectations. Looking ahead, SRE stressed its high-growth potential, particularly in Texas, while offering confidence in reaching the high-end of (or exceeding) its 7%-9% long-term earnings growth target (using the

2025 base). In the near term, we think the shares could face an overhang as SRE spends 2025-2026 regaining investor confidence in reaching financial expectations. Longer-term, however, we think SRE maintains a strong position in attractive markets for regulated utility operations within California and Texas.

We think SRE's Texas-based electric subsidiary Oncor, which serves the Permian region, could be poised for growth due to rising power demand in the region. Per company filings, 23% of Oncor's year-end 2024 active transmission point-of-interconnection requests (an indicator of customer growth) were data-center- and IT-related, while 11% were related to oil and gas activities. We think that new infrastructure in West Texas will play an important role in Oncor carrying out its \$36.1 billion capital expenditure plan from 2025 to 2029. Our 12-month price target of \$78 is 17.3x our 2025 EPS estimate, a discount to peers to reflect weaker near-term EPS growth following the recent guidance cut. We also note somewhat higher earnings risk from SRE's Infrastructure segment and international operations.

**Vistra Corp. (VST 131 \*\*\*\*)** engages in the electricity business in the U.S. The company retails electricity, natural gas, and other services to around 5 million residential, commercial, and industrial customers across 18 states and Washington, D.C. As of its 2024 10-K filing, VST also claims to be one of the largest competitive power generators in the U.S. based on megawatt-hours (MWh). Our positive view reflects VST's strong positioning in nuclear and gas power generation amid surging demand from AI, data centers, manufacturing and EVs. The company's Texas presence and bipartisan support for nuclear power, including production tax credits, also provide advantages, in our view. Our 12-month target of \$160 represents 24.5x our 2025 EPS estimate, warranting a premium to regulated utilities' typical 19x-22x multiples given VST's superior growth profile and our favorable nuclear outlook. While power price volatility exists, we believe strong demand trends justify the higher multiple.

## Relative Performance



Source: S&P Global Market Intelligence.

## Implications\*

Positive implications: CFRA sees an improvement in company fundamentals, which could include (but are not limited to) improved pricing, strengthening backlog, market share gains, cost improvements, a more favorable regulatory environment, or improving demographic trends, over the next 12 months.

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