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Unraveling the Data Center Paradigm Sharpens Public Power Investment.

Thesis: Data center development may have consequential implications for the public power sector. The capital-intensive nature of data center buildout — with associated load concentrations — could fundamentally change a utility's capital structure, rate-setting flexibility and overall risk profile. There is likely to be a reallocation of risk, and it is up to the municipal bond market to appropriately measure the long-term viability of this risk reallocation.

Observation: Historically, public power credit analysis focused on stable to moderate load growth, predictable generation costs, adequacy of fuel mix diversification, rate-setting flexibility, financial metrics, capital plans, customer diversification and the regulatory environment. The credit shift for utilities may not necessarily be positive, as outcomes will rely heavily on appropriate cost allocations across individual data centers, the utility and existing ratepayers.

The question is whether a disproportionate burden will fall upon ratepayers, utilities, taxpayers or even bondholders, particularly if demand is overestimated with commensurate overinvestment, and actual load growth falls short of expectations. Political risk represents a top credit risk, and if the climate is not properly interpreted, the impact may find its way onto a utility's balance sheet. A clear objective of data center growth is to strengthen a utility's balance sheet, not just grow it.

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by Jeff Lipton

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