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Institute for Energy Economics and Financial Analysis

Financial, economic risks of the NextEra-Dominion merger

IEEFA comments to Virginia State Corporation Commission

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Key findings

Projected data center load growth is driving the proposed NextEra-Dominion merger. The merged company will reap the profit from more data center-related infrastructure buildout, while ratepayers bear financial risks from overbuilding.

The expansion of data centers is already contributing to higher PJM capacity market prices and the need for new regional transmission infrastructure. The costs are being borne by ratepayers.

Dominion's plans to build more gas-fired generation and related infrastructure exposes ratepayers to higher fuel costs and increased price volatility as U.S. markets become more tightly linked to global liquefied natural gas markets.

Circular financing, increased debt, and speculative developments raise investor concerns about the sustainability of current AI spending levels. A sudden or even gradual decline in AI investment could leave utilities with underused or stranded power plants, transmission lines, and pipeline infrastructure.



Executive summary

The Institute for Energy Economics and Financial Analysis (IEEFA) provides the following comments as Part 2 of our submission to Docket No. PUR-2026-00112. IEEFA submitted Part 1 comments on October 8, 2026, regarding the risks of the NextEra-Dominion merger to Virginia's energy transition. Our comments here focus on the financial and economic risks that the proposed merger will impose on Dominion Energy Virginia's ratepayers by accelerating the development of data centers in Northern Virginia.

The Virginia data center industry is expanding rapidly, largely driven by increased investment in artificial intelligence (AI). The expansion is increasing electricity costs for ratepayers in Northern Virginia through higher PJM capacity market prices and the need to build new transmission infrastructure. Dominion Energy Virginia's plans to meet projected data center demand will also involve more investment in natural gas generation and associated infrastructure, exposing customers to the risk of higher fuel costs and greater price volatility.

Both Dominion Energy and NextEra Energy have acknowledged that increased data center demand is a major driver for the proposed transaction. The combined company would have increased access to capital markets, and the companies argue that NextEra's experience in generation and transmission development would allow Dominion to connect data centers more quickly and invest more aggressively in infrastructure to support them.

The continued investment boom in AI is uncertain. Major AI companies face significant profitability challenges. Circular financing, increased indebtedness, and speculative investments are clouding assessments of demand. A slowdown in investment could result in fewer data centers, reduced utilization, and stranded utility assets. A broader financial correction would magnify these effects and create risks that extend far beyond the technology sector.

IEEFA has identified four major concerns:

- **Misaligned investment incentives**. The projected data center load growth is driving the merger. The merged company will reap the profit from more data-center infrastructure buildout, while ratepayers bear the financial risks of overbuilding.
- **Higher electricity costs**. The expansion of data centers is already contributing to higher PJM capacity market prices and the need for new regional transmission infrastructure. The costs are being borne by ratepayers.
- **Exposure to natural gas prices**. Dominion's plans to build more gas-fired generation and the infrastructure to support it exposes ratepayers to higher fuel costs and increased volatility as U.S. markets become more tightly linked to global liquefied natural gas (LNG) markets.
- **AI sector instability**. Circular financing, increased debt, and speculative developments raise concerns in the investor community about the sustainability of current AI spending levels and the likelihood of a major financial correction.

In short: The merger would encourage additional data center development in Virginia at a time when both electricity prices and doubts about future AI demand are rising. IEEFA urges the State Corporation Commission to consider whether the potential benefits of a merger justify the real and additional risks to Dominion Energy Virginia's customers.

Proposed merger driven by opportunity to accelerate data center development

Northern Virginia data center growth

The region on the outskirts of the nation's capital is the epicenter of the rapidly expanding U.S. data center industry. Virginia has almost 8 gigawatts (GW) of data center load,[1] about twice the load of Dallas, the next-largest data center market.[2] The data center load for Dominion Energy Virginia has grown by approximately 20% annually since 2016.[3,4]

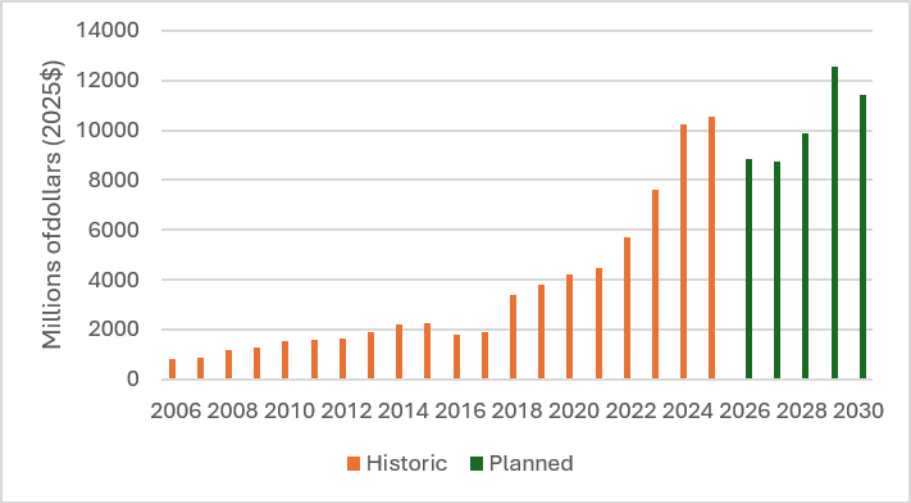
In its recent forecast submitted to regional grid operator PMJ, the utility predicts there will be 15 GW of additional data center demand by 2047.[5] Dominion expects annual additions of data center loads during 2028-32 to exceed annual additions achieved to date.[6]

If these projections hold, Dominion will need to interconnect unprecedented amounts of new data center load. Because the time needed to secure electricity is a major factor in siting decisions, the ability to provide "speed to power" is a significant advantage for utilities in this market.[7] Already, Dominion capital expenditures have risen recently, and the utility plans to sustain or increase capex investments over the next five years (Figure 1).[8]

[1] Dominion Energy. Q4 2025 Earnings Call. February 23, 2026, p. 49.
[2] CoreSite. Top 10 U.S. Data Center Markets and Why They Are Hot.
[3] Dominion Energy, *op. cit.*, p. 22.
[4] In 2024 and 2025, the utility added 977 MW and 744 MW of data center load, respectively. See: Dominion Energy. *op. cit.,* p. 53.
[5] Dominion Energy. 20-Year Data Center Forecast. September 29, 2026, p. 6.
[6] Dominion Energy, *op. cit.*, p. 3 (historic coincident demand additions) and p. 6 (forecasted coincident demand additions).
[7] Data Center Dynamics. Data center siting: Six factors that determine success. April 17, 2026.
[8] Historical capital expenditures obtained from Dominion's Form 10-K. Planned capital expenditures from Dominion Energy. Q4 2025 Earnings Call. February 23, 2026.

Figure 1

Dominion Energy Virginia's historic and planned capital expenditures



Source: Dominion's Form 10-K and Q4 2025 Earnings Call (figures adjusted for inflation; available at https://s2.q4cdn.com/510812146/files/doc_financials/2025/q4/2026-02-23-DE-IR-4Q-2025-earnings-call-slides-vTCI.pdf).

The scale of Dominion's planned investments means that the accuracy of data center demand forecasts is critical. Adding infrastructure to the electrical grid must be planned years before it is used, and significant costs remain even if demand does not materialize.

Merger rationale closely tied to data center demand

Both Dominion and NextEra acknowledge that rising electricity demand from data centers is a major driver of the proposed merger. In their prospectus to shareholders, the companies claim that a merged entity's financial resources, operating capabilities, and supply chain would allow it to efficiently finance, develop, and operate infrastructure to meet the projected demand.[9] NextEra Chief Financial Officer Michael Dunne told the State Corporation Commission in July 2026 that "NextEra's financial capacity and access to the capital markets will provide Dominion with an enhanced platform from which to meet its substantial capital investment needs with access to required debt and equity funding."[10]

Likewise, independent analysts have identified projected data center demand as a key reason for the proposed merger. Financial services firm BTIG, a subsidiary of U.S. Bancorp, described the combination as a natural pairing of NextEra generation development experience and Dominion data center opportunities.[11] New York-based investment bank Jefferies noted that the transaction could

[9] NextEra Energy and Dominion Energy. Joint Proxy Statement/Prospectus. July 28, 2026.
[10] Testimony of Michael Dunne before the Virginia State Corporation Commission, Case No. PUR-2026-00112. July 15, 2026.
[11] BTIG. NEE Plus D: Is the Integrated Model Back? May 17, 2026.

accelerate Virginia data center interconnections by improving Dominion's ability to accommodate additional demand and decrease lengthy interconnection times.[12]

Besides creating the largest regulated utility in the United States, the proposed merger would spawn a company able to accelerate the construction of electrical infrastructure for data centers, whether ultimately needed or not.

Divergence between corporate incentives and ratepayer interests

It is highly likely that a merged company would be well-positioned to build infrastructure to serve data centers. But it is not at all certain that accelerating data center development would benefit Dominion's existing ratepayers.

Utilities such as Dominion are incentivized to invest in capital projects. They earn a regulator-approved return on investments, with costs recovered through electricity rates. The model incentivizes development even when future demand is highly uncertain since the utility's returns are linked to approved assets rather than the amount of electricity consumed by ratepayers.

If data center demand grows as expected, additional infrastructure will be required. But if demand falls short, the utility still will attempt to recover the costs of underutilized or unneeded assets. For ratepayers, this is a case of heads, you win; tails, I lose. And while regulatory efforts to protect residential, institutional, and business customers from the costs of future data center development may mitigate this problem, they are unlikely to be able to eliminate it entirely.

The State Corporation Commission should examine not only the merger's capacity to accelerate the development of data center infrastructure, but it should also consider the consequences for ratepayers if the developments exceed the system's long-term needs.

[12] Jefferies. The NEE(D) Read: Implications Across Power & Utilities. May 18, 2026.

Ratepayers already bearing major costs of data center expansion

Rising PJM capacity market prices = Rising electricity costs

PJM, the independent system operator that manages the electricity grid for 67 million U.S. households, uses capacity market auctions in an effort to ensure that generation is available to meet peak electricity demand in future years. The costs of buying capacity are borne by load-serving entities (regulated electric utilities within the PJM region), who then pass these costs along to electricity customers.

The PJM capacity market auction is based on PJM's projections of expected power demand several years in the future. Rising forecasts have caused recent PJM capacity market prices to rise sharply (Table 1).

Table 1

PJM capacity market prices in the five most recent auctions

Delivery Year	Capacity price ($/MW-day)
2024/2025	28.92
2025/2026	269.92
2026/2027	329.17*
2027/2028	333.44*
2028/2029	325*

(*) indicates that prices were capped at this level.

Source: PJM. 2028/2029 Base Residual Auction Report. July 14, 2026.

In 2025,[13] capacity prices shot up almost ten-fold, and future prices have remained high, even with caps that have been designed to protect ratepayers from sharp, sudden price increases. Monitoring Analytics, PJM's independent market monitor, estimated that that the four most recent auctions cost ratepayers $63.6 billion. If data center loads had not been present, the monitor estimates that the auctions would have only cost ratepayers $34.3 billion.[14]

It's important to note: These costs are not exclusively paid for by data centers. Because of the existing market structure, they are passed on to all electricity customers throughout the region,

[13] The "delivery year" for the PJM capacity market runs from June 1 through May 31 of the subsequent year. The 2024/2025 delivery year ended on May 31, 2025, and the 2025/2026 year began on June 1, 2025.
[14] Monitoring Analytics. Market Monitor Report. July 28, 2026.

including Dominion Energy Virginia's residential, commercial, and institutional customers. And the proposed merger would accelerate the addition of more data center load, increasing pressure on the regional capacity market and keeping costs high for ratepayers.

Transmission expansion will increase costs for electricity ratepayers

Already, Virginia is a net importer of electricity from other states—indeed, it imported 36% of its electricity in 2023, more than any other state in the nation.[15] And as data center demand grows, it will need additional transmission capacity to deliver electricity to its Northern Virginia suburbs that are at the epicenter of data center demand growth.

In 2024, Virginia's Joint Legislative Audit & Review Commission (JLARC) examined transmission requirements under two scenarios: one in which projected data center demand growth is unchecked, and another in which only half of the projected demand is met.

Under the unchecked scenario, JLARC found that Virginia would need to increase interzonal transmission capacity into the Dominion region by roughly 40%, in addition to adding new transmission infrastructure within the region.

Even under the scenario in which half of projected demand is met, the commission found that the amount of electricity Virginia would need to import would rise by more than 50%, requiring substantial new transmission investment.

To be sure, major transmission projects designed to meet demand in northern Virginia are already under consideration, including the Maryland Piedmont Reliability Project (MPRP), the Mid-Atlantic Resiliency Link (MARL), and the Valley North Transmission Line. Although the projects are driven substantially by projected data center demand,[16] their costs will not be borne entirely, or even mostly, by the data centers.

Under PJM's current tariff, baseline transmission costs are split, with half being paid by transmission zones expected to benefit from a project and half to all PJM transmission zones, based on their contributions to the total system peak load.[17] (The framework has been challenged before the Federal Energy Regulatory Commission).[18]

[15] Energy Information Administration. Virginia was the top net electricity recipient of any state in 2023. December 20, 2024.
[16] PJM Interconnection. PJM Regional Transmission Expansion Planning (RTEP) Process. December 8, 2023. Also see: PJM Transmission Expansion Advisory Committee. Reliability Analysis Update. January 7, 2025, p. 9.
[17] See PSM. Cost allocation education [slide presentation]. September 18, 2025. This is the case even if only a portion of the transmission zone is benefiting from the project.
[18] See the complaint of the Maryland Office of People's Counsel before FERC: *Md. Off. of People's Couns. v. PJM Interconnection, LLC,* Docket No. EL26-63-000.

Because the projects are expected to benefit the Dominion region, a significant portion of costs would be allocated to Dominion ratepayers. Unless the State Corporation Commission revisits its policy, all the utility's ratepayers would pay for the infrastructure, even though it is designed to benefit data centers.

This approach reflects a broader problem: Regional transmission cost allocation does not distinguish between infrastructure to serve general electricity demand and infrastructure designed to serve a specific category of new customers.

If data center forecasts continue rising, ratepayers will pay for additional regional transmission projects that would not otherwise be needed. The merger could compound the problem through its ability to provide more rapid data center interconnections, creating even more pressure for more investment in transmission infrastructure.

Natural gas reliance exposes ratepayers to higher prices, more volatility

Dominion's plans to meet projected data center demand include a substantial expansion of natural gas-fired generation. The company's 2026 Integrated Resource Plan (IRP) Update compared scenarios in which data center load growth continues and in which data center load growth stops after 2035 (Table 2).[19] If the load growth continues as projected, Dominion plans to add 4 GW more of natural gas generation than it would if growth stops after 2035.

The additional capacity would increase the role of natural gas in Dominion's electricity supply, with the costs of building and operating plants, purchasing fuel, and developing pipeline infrastructure exposing ratepayers to additional expenses.

[19] Load growth in this scenario follows Dominion's reference case until 2035, but then the scenario assumes no data center load is added after 2035. See: Dominion Energy Virginia. 2026 Integrated Resource Plan Update. October 15, 2026, p. 72.

Table 2

Comparison of Dominion's plans to build more gas generation under two scenarios set out in its 2026 IRP Update

Total MW Additions Throughout Build Plan						
	Solar	**Wind**	**Storage**	**Natural Gas**	**Nuclear**	***Totals in 2046***
Virginia Staff Directed: Data Center Load Growth Restriction	21,229	3,400	3,675	4,949	0	**33,253**
Company Preferred	21,229	3,479	3,525	8,965	2,046	**39,244**
Delta[1]	*0*	*-79*	*150*	*-4,016*	*-2,046*	*-5,991*

Source: Dominion Energy Virginia 2026 IRP update.

Natural gas prices are subject to significant market risks. Consider: LNG exports accounted for 14% of U.S. natural gas demand in 2025. Bloomberg forecasts that its share could rise to 24% by 2035.[20] As more U.S. gas is exported, domestic prices will become increasingly connected to global LNG markets.[21]

When global LNG prices rise, international buyers have stronger incentives to purchase U.S. gas, pushing domestic prices higher. These price increases can occur at times of peak domestic demand, i.e., during winter when households and businesses require more gas for heating and electricity generation.

Regardless of the cause, the expansion of LNG exports increases both the level and volatility of U.S. natural gas prices. IEEFA has distilled the scenario: As more U.S. LNG is exported, more price volatility is imported.

In addition to increased volatility, some analysists are predicting structurally higher natural gas prices over the next decade as growing LNG exports, coupled with growing domestic demand (particularly to power data centers), coincide with the fact that producers have increasingly tapped out the most productive drilling areas. In 2025, for example, the average (Henry Hub) price of a million British

[20] BloombergNEF. US Gas Market Outlook 2035: Demand Jumps Ahead of Supply. July 13, 2026.
[21] Institute for Energy Economics and Financial Analysis. Comments of the Institute for Energy Economics and Financial Analysis to the U.S. Department of Energy Office of Fossil Energy and Carbon Management regarding FECM Docket No. 23—109—LNG, the Southern LNG Company, L.L.C. request to increase exports by 28.25 Bcf per year, and the economic impact of such domestically. December 20, 2023. Also see: Politico EnergyWire. Trump's push for more LNG exports risks domestic price surge. April 14, 2025.

thermal units (MMBtu) was $3.50; Wood Mackenzie predicts that real prices will soar as much as 40% by 2035.[22,23]

If Dominion builds more gas-fired generation for data centers, its customers will become more exposed to global volatility, as well as paying for any additional pipeline infrastructure to supply the new gas plants feeding the data centers.[24]

The merger's potential to meet its stated goal of accelerating new data center development will create another risk. Ratepayers will be even more exposed to a fuel with an uncertain future price that is increasingly influenced by global demand.

AI sector uncertainty creates risk of stranded utility assets

AI and data center industry depends on interrelated financial commitments

The AI industry includes several interconnected companies:

- Hyperscalers, such as Amazon, Microsoft, Google, Meta, and Oracle operate cloud computing platforms and may also develop or lease data centers. Some have also provided financing for AI labs. [25]
- AI laboratories, such as OpenAI and Anthropic, develop AI models and sell access to their services.[26] They may be a direct tenant of a data center, or lease compute capacity from a tenant.

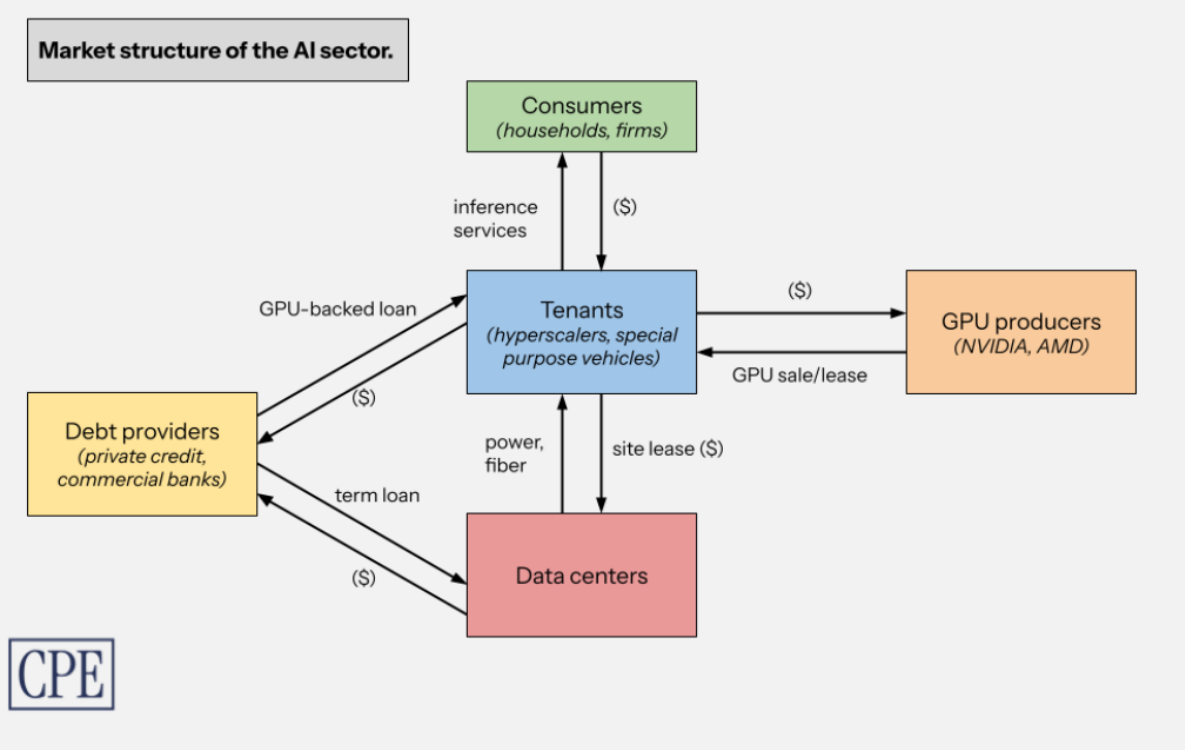
[22] Wood MacKenzie. Defying gravity: Why US Henry Hub natural gas prices are set to rise. July 2026.
[23] FERC also stated in late 2022 that "continued growth in net exports, including from liquefied natural gas (LNG) export facilities, will place additional pressure on natural gas prices." FERC. Report: 2022-2023 Winter Assessment. October 25, 2022.
[24] A natural gas pipeline company would charge Dominion to ship natural gas on the line at a rate that is set to recover the pipeline company's cost of building the line, including a FERC-approved rate of return. Dominion would pass this shipping cost through to its customers.
[25] "A hyperscaler is a large-scale cloud service provider that offers vast computing, storage, and networking resources through a distributed infrastructure of interconnected servers and software. Hyperscalers typically are able to rapidly scale their resources up or down to meet the demands of millions or even billions of users. Such companies operate at a scale far beyond traditional data centers, with multiple data centers worldwide and thousands of servers, offering highly reliable and widely available services. These entities provide robust infrastructure for massive applications and services, acting as the backbone of modern cloud computing. See: The Motley Fool. Hyperscalers: What They Are and How They Work. September 21, 2026. Also see The Motley Fool. What Is a Data Center? October 9, 2025. Also see: The Motley Fool. What Is Cloud Computing? September 11, 2025.
[26] See, *e.g.*: Business Insider. A new Kentucky AI data center will power Anthropic as part of a 20-year deal. July 6, 2026.

- Neocloud providers, such as CoreWeave and Lambda, specialize in developing computing capacity and leasing it to AI companies.[27] Sometimes they develop their own data centers, and in other cases they are tenants of independent data center developers.
- Semiconductor suppliers, such as NVIDIA, provide the chips required to run AI workloads and may also finance or guarantee investments in data center infrastructure.[28]

These companies are linked through a complex web of commercial contracts, financing arrangements, and infrastructure commitments. But the economic sustainability of the AI and data center ecosystem depends on whether consumer and business demand for its services can generate enough revenue to cover the costs of developing, operating, and upgrading the underlying infrastructure.

Figure 2

Schematic structure of money flows in the AI and data center sector



Source: Center for Public Enterprise.[29]

[27] Lambda. Lambda to build new data center in Mayes County, Oklahoma, generating half a billion dollars in tax revenue over next decade. September 27, 2026.
[28] Financial Times. Nvidia revealed as tenant for $50bn data centre that will use its chips. July 28, 2026. Also see: The Next Web (TNW). Nvidia is the mystery tenant behind Hut 8's $50bn Texas data centre. July 28, 2026.
[29] Center for Public Enterprise. Bubble or Nothing: Data Center Project Finance. November 2025.

There are significant reasons to question whether that can happen at the scale currently being contemplated.

Profitability issues raise questions about AI investment sustainability

The leading AI laboratories in the United States have not yet demonstrated sustained profitability at the scale needed to support their infrastructure commitments.

Indeed, OpenAI recorded an operating loss of $21 billion in 2025, with costs rising faster than revenue.[30] Anthropic reported operating losses of $3 billion in 2024 and $8.1 billion in 2025.[31]

Although Anthropic reported that it was profitable in the second and third quarters of 2026, the *Financial Times* reported that its results relied on significant adjustments, such as exclusions for stock-based compensation, revenue-sharing arrangements, and the costs of training its models.[32] The exclusions are important because the costs of developing computationally intensive AI models are central to the industry's business model.

It appears that neither OpenAI nor Anthropic have been able to raise prices to a point where revenues cover the high costs of training and running their models, costs that include data centers, and electricity costs.

The issue of net income is not the only concern. Anthropic, for example, disclosed potential weaknesses in its revenue base in an October 2026 filing with the U.S. Securities and Exchange Commission (SEC). The company said its five largest customers provided 25% of revenue during the first three quarters of 2026. It noted that many major customers had not signed long-term contracts or had signed contracts that were close to expiration and could reduce or even stop spending.[33]

At the same time, the company has made over $300 billion of commitments for computing capacity that are binding and cannot be cancelled.[34]

Anthropic could be in deep trouble if it cannot raise enough money to meet these spending commitments. But it's not the only company facing danger from an unsustainable buildout. Moody's has warned that OpenAI's capital commitments, external funding requirements, and ongoing losses pose risks to it, as well as to other technology companies.[35] Because OpenAI is a major customer of

[30] Marketwise. OpenAI's Losses Surge to $21 Billion: Here's What's Keeping the AI Bubble Afloat. June 18, 2026.
[31] Reuters. Anthropic's IPO prospectus shows sweeping AI vision, surging costs. September 29, 2026.
[32] Financial Times. Anthropic tells investors it will be profitable for second straight quarter. September 13, 2026.
[33] Anthropic, PBC. Form S-1: Registration Statement [proposing the company become a public corporation]. October 26, 2026, p. 56.
[34] *Ibid*, p. 170-71.
[35] Moody's Ratings. OpenAI's huge footprint is a risk for the AI value chain. December 5, 2025. Proprietary.

hyperscalers and semiconductor suppliers, financial difficulties could spread rapidly throughout the AI value chain.

Current trends do not favor the two AI laboratories. Competition is holding prices down, and many corporate clients are considering lower-cost alternatives to OpenAI's and Anthropic's models. AT&T, for example, is increasingly using open-weight models on existing computer clusters to reduce the need to purchase more expensive cloud-based services.[36]

Hyperscalers, meanwhile, do not separately disclose all AI-related revenues and expenses, making the profitability of their AI business segments difficult to assess. But their investments depend on the same fundamental question facing Anthropic and OpenAI: Will future revenues justify the costs of building and operating increasingly large computing systems?

Revenue required to justify AI investment may be difficult to achieve

The technology sector's projected cash flows may not support its capex plans. Three recent studies provide reasons for concern:

- An Apollo Global Management analysis highlighted the divergence between technology sector forecasts and the financial outlook for companies expected to purchase AI services. Technology analysts expect the sector's operating cash flow to more than double to $2.4 trillion by 2028; analysts covering other S&P 500 companies anticipate much more modest cash flow growth.[37]

- A Brookings Institute study estimated that AI-related capex planned through 2032 would require annual revenues of $3.7 trillion by that year to provide investors with a 10% return. That amount would represent more than 9% of projected U.S. gross domestic product.[38]

- And market intelligence firm Gartner has estimated that AI service revenues will not be sufficient to cover infrastructure costs, with more than $4 trillion in assets at risk of impairment through 2032.[39]

The studies are not proof that AI demand will collapse, but they demonstrate the scale of the revenue growth that will be required to justify the investments being made. And Anthropic itself warned in its SEC filing that its recent rapid revenue growth may not be indicative of its future performance.[40] As the market matures and early-stage adoption dynamics wane, it noted that growth could decline significantly.

[36] Financial Times. Corporate America embraces cheaper 'open' AI models. September 27, 2026.
[37] Apollo. Tech's Trillion-Dollar Internal Inconsistency. September 29, 2026.
[38] The Brookings Institution. Brookings Papers on Economic Activity: Financing the AI Buildout. September 24–25, 2026.
[39] Gartner. Gartner Says Over $3.5 Trillion of AI Infrastructure Spending Could Be Exposed to Impairment by the End of 2030. October 14, 2026.
[40] Anthropic, *op. cit.*, p. 62.

AI demand slowdown could lead to stranded assets for utilities

A slowdown in AI investment relative to current forecasts would result in fewer data centers coming online; cancelled leases; reduced electricity consumption; and underutilized computing capacity. These results have significant implications for electricity infrastructure.

Utilities typically must plan five to seven years in advance for new generation and high-voltage transmission projects. Decisions made today depend on accurate demand projections.

If data center demand fails to materialize as projected, the fallout will affect power plants, transmission lines, and gas transportation infrastructure. The costs of the now-stranded assets will not disappear because anticipated customers are no longer consuming a projected amount of electricity.

Instead, ratepayers will have to cover much of the costs of the stranded assets. The amounts will be based on the terms of customer contracts, financial conditions of data center developers, and the ability to repurpose infrastructure for other uses. Regardless, a substantial amount of the costs will fall on ratepayers who stood to gain little or nothing from the accelerated development of data centers.

Large-load tariff loopholes pose stranded asset risks to ratepayers

To its credit, Dominion proposed, and the State Corporation Commission approved, a large-load tariff to reduce the risks that ratepayers would bear the costs of infrastructure built to serve major electricity users.[41] The tariff provides important safeguards for ratepayers but does not eliminate the possibility that they will be stuck with the bill for stranded assets.

The large-load tariff requires data centers to agree to 14-year contracts. The electricity infrastructure to support them, however, will have a depreciable life of 30 to 40 years. If a data center decides against renewing its contract, significant infrastructure costs could remain after the original customer stops paying for the service.

The tariff also would allow a data center to reduce its contracted capacity by as much as 20% without a financial penalty. If the reduction occurs when other data center demand is declining, Dominion might not be able to find replacement customers for the excess capacity, leaving other customers to bear the costs.

If a data center terminates its contract early, it is required to pay a fee that includes generation costs for 60% of its contracted demand for the remainder of the contract term; Dominion assumes it could use the remaining capacity to serve other customers.[42] The assumption is reasonable if electricity

[41] Virginia State Corporation Commission. Final Order. Case No. PUR-2025-00058. November 25, 2025.
[42] Direct testimony of Stan Blackwell on behalf of Dominion Energy Virginia. Case No. PUR-2025-00058. March 31, 2025.

demand continues to grow but is much less certain if there is a broad slowdown in AI investment or even a collapse in data center development.

Even with the large-load tariff, the merger would accelerate infrastructure investment to serve data centers, leading to greater stranded cost risk for ratepayers.

Similarly, the proposal from Virginia Gov. Abigail Spanberger that base rates should be frozen for six years following the merger does not protect ratepayers from the longer-term risk of stranded asset costs.[43,44]

AI investment shows signs of a financial bubble

Circular financing obscures underlying demand

In an economic bubble, asset prices become inflated beyond their intrinsic value, generally due to excessive speculation. Prices rise rapidly before collapsing, leading to financial losses and market instability. Circular financing is one hallmark of a bubble.

Many large AI infrastructure transactions involve suppliers financing the growth of their own customers. These arrangements can make it difficult to distinguish genuine demand for AI services from demand supported by investment and financing relationships within the industry.

NVIDIA, for example, recently signed a 15-year lease for a data center that uses NVIDIA chips and plans to sublease the facility to companies requiring computing capacity. NVIDIA's commitment helped the data center developer find cheaper financing.[45]

In another example, the chip giant is providing a credit guarantee to OpenAI for a data center in Ohio developed by SB Energy and equipped with NVIDIA chips. NVIDIA also has invested $1.5 billion in SB Energy shares.[46]

Hyperscalers, too, have invested directly in AI laboratories that purchase their computing services. Microsoft invested in OpenAI in exchange for the AI laboratory using Microsoft's cloud infrastructure. Sales of computing capacity to OpenAI reportedly accounted for about 70% of Microsoft's AI

[43] It also does not protect against rising natural gas prices and increased natural gas price volatility, which are not a component of base rates.
[44] Direct Testimony of Richard McCann on Behalf of Governor Abigail D. Spanberger and Chief Energy Officer Josephus Allmond. Case No. PUR-2026-00112. October 19, 2026.
[45] Financial Times. Nvidia revealed as tenant for $50bn data centre that will use its chips, *op. cit*. Also see: The Next Web (TNW), *op. cit.*.
[46] Bloomberg. Nvidia Buying an Additional $1.5 Billion in SB Energy Shares Ahead of IPO. September 21, 2026.

revenues in its last fiscal year.[47] Amazon, also a hyperscaler, has invested $50 billion in OpenAI—a nearly 5% stake in the company.[48]

These arrangements create a risk that a portion of apparent AI demand simply reflects suppliers financing customers, who in turn purchase the suppliers' products and services. In such cases, the investments can sustain the reported growth of the very businesses making the investment.

The Bank for International Settlements has documented the prevalence of such relationships; "Between 2021 and 2025, 28.7% of AI investment deals by value involved a target that was also an AI firm, while 55.2% of incoming investment in AI firms came from other AI firms." Among AI-to-AI investment deals, 46.4% of deal value also "involved commercial supply-chain relationships between the investor and the target."[49]

Circular financing does not necessarily indicate that the underlying investments are not sound. But it does make it more difficult to assess the extent of organic demand for AI services and the degree to which current infrastructure spending is justified by end-user revenues.

For utilities, this uncertainty has consequences. If electricity demand forecasts depend partly on financial transactions that are divorced from the real demand for AI services, infrastructure built to meet those forecasts will be exposed to a higher risk of underutilization.

Rising indebtedness = financial vulnerability

An increasing amount of debt can be another sign of a bubble. Data centers can cost billions of dollars to build.[50] As the scale of AI investment has increased, technology companies have turned increasingly to debt markets, private capital, and off-balance-sheet financing to fund infrastructure.

Hyperscalers have traditionally financed much of their capex from retained earnings.[51] Now, however, they are relying more heavily on debt and special-purpose vehicles to finance AI projects. Moody's has warned that the rising capital intensity, leverage, and off-balance-sheet commitments threaten the credit quality of major technology companies.[52]

The scale of the financing requirements is becoming increasingly significant for the broader bond market. According to Morgan Stanley, an estimated $466 billion in AI-related debt had been issued through October 2026, up more than 300% relative to the same period last year.[53] Hyperscalers also

[47] Where's Your ED At? News: Microsoft Disclosures Suggest OpenAI Sales Account For Around 70% of FY26 AI Revenue, More Than 7% of FY26 Revenue. August 5, 2026.
[48] CNBC. OpenAI announces $110 billion funding round with backing from Amazon, Nvidia, SoftBank. February 27, 2026.
[49] Bank for International Settlements (BIS). BIS Bulletin No. 137: Circular relationships among AI firms. October 1, 2026.
[50] EY. Why there is no silver bullet for data center financing. March 11, 2025.
[51] J.P. Morgan (Asset Management). Hyperscalers: Now also a credit story. August 20, 2026.
[52] Moody's Ratings. Hyperscalers' asset-heavy model spurs borrowing, equity sales. July 22, 2026. Proprietary. Also see: Moody's Ratings. 2026 Outlook – Data Centers – Global. January 12, 2026. Proprietary.
[53] Financial Times. AI debt worries spark surge in default insurance trading. October 20, 2026.

are seeking more financing in foreign-currency debt markets.[54] The Bank of England has warned that the growing reliance on debt to finance the AI boom could destabilize the global financial system.[55]

Recent market developments provide additional reasons for concern. Bonds used to finance major data center projects, including the 5-GW Hyperion facility in Louisiana and the 1-GW Beacon Point project in Texas, are trading substantially below par. Bonds issued by neocloud provider CoreWeave also have fallen to distressed levels.[56]

Long-dated AI infrastructure debt is a particular challenge. A bond with a maturity of 10, 20, or 30 years exposes investors to uncertainty about technological change, future electricity costs, computing efficiency, and competition. New generations of chips may reduce the value of existing infrastructure while more efficient models and open-weight alternatives may reduce demand for computing capacity.

Public opposition to data centers and uncertainty surrounding permits add even more risk. A Law360 report indicated that lenders are increasingly examining community sentiment and permitting status when evaluating data center projects, and some are now requiring additional sponsor equity, liquidity reserves, and clearer allocation of project-delay risks.[57]

These developments suggest that financing conditions could become less favorable precisely when developers need more capital to complete projects and meet their obligations. If financing becomes more expensive or unavailable, developers may delay or cancel projects. Utilities that have already committed to generation and transmission investments could face infrastructure costs that are not supported by the demand used to justify them.

Speculative investments raise risks

The data center boom has attracted companies with limited experience in developing and/or operating large infrastructure projects. Companies that have never built a data center are reportedly leading almost half of the 100 largest planned data center projects in the United States.[58]

Inexperienced developers are more likely to underestimate construction costs, permitting requirements, equipment constraints, and the difficulty in securing financing and electrical service. These risks, in turn, increase the likelihood of delays and cancellations. As a result, forecasts based on planned projects may overstate the amount of data center capacity that will ultimately enter service.

[54] Financial Times. The multiplying risks of financing data centres. August 26, 2026.
[55] Financial Times. AI debt surge raises risk of sharp market correction, warns Bank of England. September 20, 2026.
[56] Financial Times. Investors dump data centre bonds as AI borrowers face 'Darwin moment.' October 15, 2026.
[57] Law 360. Data Center Backlash Fogs Finance Picture For New Projects. August 14, 2026. The expert quoted was Mona Dajani, co-chair of Cooley LLP's infrastructure, energy and real estate practice.
[58] BloombergNEF. Six Things to Know About BNEF's New US Data Center Capacity Outlook. July 29, 2026.

The willingness of investors to finance developers without established track records also raises questions about whether the risks of individual projects are adequately evaluated. For electricity projects, the distinction between planned demand and actual demand is critical. If utilities make long-term investment decisions on the assumption that speculative projects will succeed, ratepayers could be left paying for infrastructure that is never fully used.

Bust poses risk of economic contagion

The AI investment boom has become increasingly important to the U.S. economy.

In October 2026, the market capitalization of the "Magnificent Seven"—Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla—made up roughly 35% of the S&P 500's total market capitalization.[59] Technology and AI-related companies have also become increasingly prominent in bond markets.

The Bank for International Settlements has warned that an AI bubble could lead to a prolonged downturn with consequences for the entire global economy.[60]

Circular financing further complicates the assessment of financial exposure.[61] Institutional investors may hold debt issued by an apparently creditworthy company without fully understanding its dependence on less-creditworthy businesses elsewhere in the AI value chain.

A broad AI investment downturn could affect not only technology companies and investors, but also infrastructure developers, lenders, equipment manufacturers, and the broader economy. The consequences could be especially severe for the electricity sector. A downturn in both data center investment and demand for data center services could leave utilities with substantial generation and transmission capacity that no longer has a customer base to support it.

Virginia's extensive investment in electricity infrastructure to accommodate the AI boom makes the risk particularly relevant to Dominion ratepayers.

[59] S&P 500 Index. Data: Quick Facts. September 30, 2026.
[60] Financial Times. AI 'exuberance' risks ending in lengthy investment bust, BIS warns. June 28, 2026.
[61] Financial Times. AI hyperscalers are transforming debt. September 27, 2026.

Implications for the Commission

The evidence presented here raises several questions relevant for the Commission's assessment of the proposed merger:

- The Commission should consider whether the potential benefits of faster infrastructure development justify the additional risks to electricity customers. Both Dominion and NextEra have identified the opportunity to serve large-load customers as a significant reason for the merger. Already, the data center buildout is contributing to higher capacity market prices, new transmission requirements, and more dependence on natural gas. Accelerating the buildout will intensify those pressures.
- The Commission should assess whether the risk of stranded utility assets has been adequately addressed. While Dominion's large-load tariff offers some protection against the costs of infrastructure built for individual data center customers, its effectiveness will be limited if the AI sector experiences a broad slowdown.
- The Commission should consider the uncertainty inherent in the data center demand forecasts. Financial interdependence, rising debt, and speculative development make it especially important to consider the risk that current demand forecasts may be overstated.

These issues are interconnected. A merger that facilitates faster data center development could increase capital investment and short-term economic activity while increasing the amount of infrastructure that must be financed by electricity customers. If demand falls short of projections, the same infrastructure could become a source of long-term financial risk and higher costs for other ratepayers.

The Commission's review should consider not simply whether the merged company would be able to build more infrastructure faster, but whether it would serve the long-term interests of Virginians under a range of plausible demand scenarios.

Conclusion

The proposed NextEra-Dominion merger is based on opportunities to serve the rapidly expanding market for data centers, especially in Virginia. The merger would give NextEra access to Dominion's substantial data center customer pipeline and create a combined company with greater financial resources and infrastructure development capabilities. The new company could interconnect data centers more rapidly and accelerate the construction of the generation and transmission infrastructure needed to serve them.

The current pace of data center development, however, is already placing substantial costs on ratepayers. Rising data center demand has contributed to higher PJM capacity market prices and new transmission projects whose costs are distributed among ratepayers. Dominion's plans to

accommodate projected demand also entail additional natural gas generation and associated infrastructure, exposing customers to higher fuel costs and greater price volatility.

Meanwhile, the sustainability of the AI investment boom is uncertain. Major AI laboratories face profitability challenges. Circular financing, rising levels of debt, and speculative development make it difficult if not impossible to assess underlying demand. A slowdown in AI investment could leave utilities with underutilized or stranded assets. A broader financial downturn could magnify those risks, with consequences for financial markets and the global economy.

The environmental implications of the merger are also significant. Accelerated data center demand will increase reliance on backup diesel generators, worsening local air pollution, and deepen Dominion's dependence on natural gas generation (see IEEFA's Part 1 comments). Virginia's statutory climate goals will be more difficult to meet.

The merger would not create all these risks; many are already evident in Virginia's electricity system and the broader AI industry. But it could exacerbate them by accelerating infrastructure investment for an industry whose long-term demand is highly uncertain.

The imbalance between the potential benefits to the merged company and the risks for its customers should be a central issue for the Commission in considering the merger. While the company could profit from additional investment opportunities, ratepayers are exposed to more costs and risks. The Commission should also evaluate whether existing protections against stranded costs are adequate and consider the merger's implications for electricity affordability, infrastructure planning, and state climate objectives.

Ultimately, the Commission will need to decide whether accelerating the data center industry's growth will produce durable benefits for Virginia electricity customers that justify the additional costs and risks they will be required to bear.

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The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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