



Data Centers Poised to Enter Long-Term Power Contracts

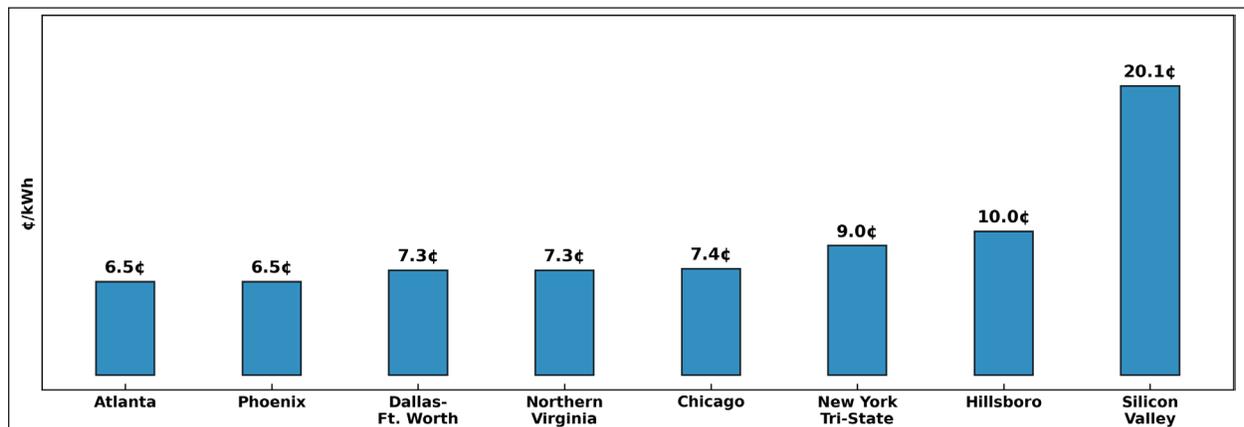
Long term power contracts that data center operators are poised to sign with grid operators and utilities could weed out speculative projects and make property cashflows more predictable. PJM, the largest US grid operator, may hold an auction for 15-year power generation contracts at the urging of the Trump administration and several state governors. Separately, we expect data centers increasingly will negotiate unique rate structures with utilities. The data centers also will pay for the power they commit to, whether they use the electricity or not. Major hyperscalers and power companies signed this month at the White House a “Ratepayer Protection Pledge”, which includes such commitments. The commitments echo arrangements that already are taking place in states such as Michigan and [Ohio](#).¹

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PJM-style, long term power contracts for data centers should shift investor focus to underwrite such agreements, rather than regional power costs. Deal documents and presales of data center transactions currently emphasize low-cost markets as significant credit positive. For example, the \$450 million GSMS 2025-800D deal notes Chicago’s low power costs compared to other top data center markets, according to deal documents (Figure 1). QTS 2026-1/2/3/4/5/6 mentions the “relatively inexpensive” power in Arizona. The QTS master trust is backed by two data centers in Phoenix, AZ. In SWCH 2025-DATA, the underlying properties in Las Vegas and Reno, NV, benefit from “favorable” power rates in the Mountain region. Still, the specialized data center-specific power rate arrangements that the flurry of recent Federal and state initiatives could bring may make generic regional power rates, and their impact on property expenses, less relevant.

Figure 1. Top U.S. Data Center Regions Power Costs



Source: Deal documents and Academy Securities

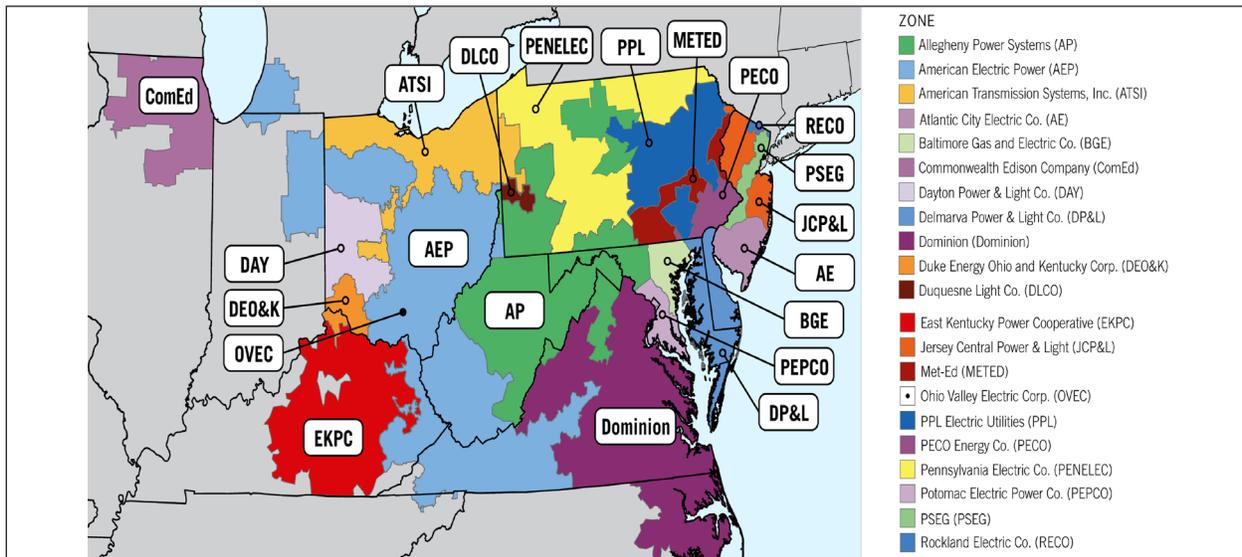
¹ “Power Costs: Data Centers and Recovery Bonds Poised for More Predictability,” Securitized Products Special Topics, Academy Securities, March 10, 2025

PJM Auctions: Weeding Out Spec Data Center Construction

Track PJM and Other Regional Transmission Organizations Deal Exposures

PJM’s 15-year data center contract auctions could affect several large data center hubs, including the biggest one in Northern Virginia. PJM is one of six regional transmission organizations (RTOs) and independent system operators (ISOs) in the US. It centrally dispatches generation and coordinates the movement of wholesale electricity in all or part of 13 states in the Mid-Atlantic and Midwest regions (Figure 2).² PJM works with over 20 major utilities across a wide region. Many of the companies are vertically integrated utilities, such as AEP and Dominion Energy. Others are transmission-only companies.³

Figure 2. PJM Service Area



Source: PJM Interconnection and Academy Securities

Data center deal documents do not make direct references to the PJM grid and its service areas. Rather, disclosures typically refer to the electric utility company that is serving the data center location. For example, ComEd appears to be serving 800 Devon in Elk Grove Village, IL, the data center backing GSMS 2025-800D. ComEd is the primary electric utility company in Illinois. It is part of the PJM service area. As PJM, and potentially other RTOs and ISOs, more directly interact with and provide power to data centers, we expect to see disclosures around such arrangements. In another context, grid operators may now be reconsidering previously approved data center projects. For example, ERCOT, which is an ISO operating in Texas, proposed to subject roughly 8.2 gigawatts of power consumption to new [reviews](#).⁴

² Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, and West Virginia—and the District of Columbia

³ Ongoing consolidation and M&A activity in the utility sector may change the precise composition of the utilities and parent companies PJM is working with. We see some divergence across different sources in the list of PJM’s utilities. We directly sourced the visualization in Figure 2 from PJM, but even that may be somewhat dated. Please reach out to the authors if you’re interested in a deeper dive into PJM mechanics and its service area

⁴ “Stranded Assets: Intertwining Power Plants and Data Centers Performance,” Securitized Products Special Topics, Academy Securities, February 5, 2026

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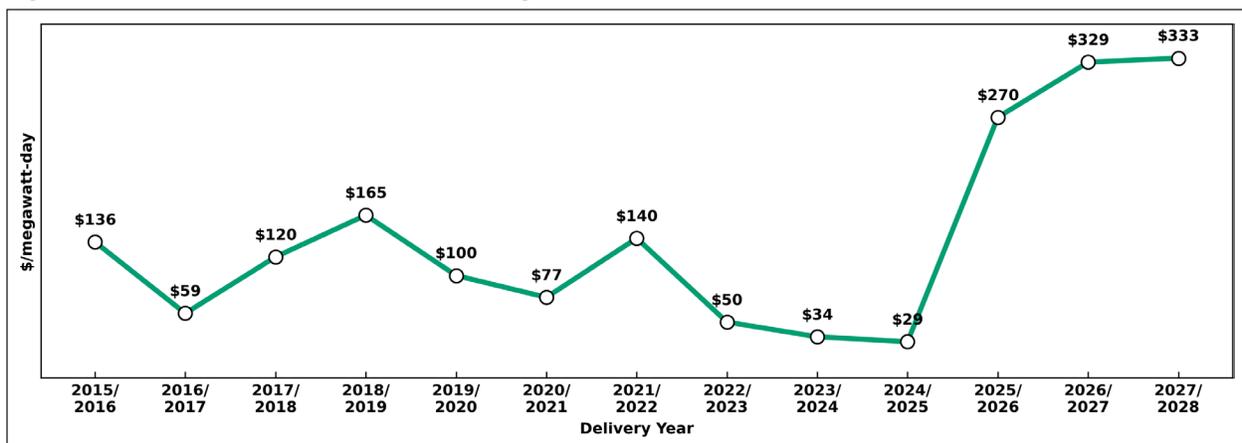
Long-Term Power Commitments to Alleviate Any Over-Building

Long-term data center commitments to utilities and RTOs/ISOs could potentially help stymie any over-building in the sector. The trend could also identify the strongest, most sophisticated developers/operators. Data center construction has been furious. Anecdotally, there has not been a single day in 15 years when a data center was not under construction in Loudoun County, VA, the so-called “data center capital of the world”, according to county officials’ white paper. To be sure, demand supported the construction pace. And the pace now may be subsiding. Data center construction pipeline in the primary markets declined in 2025 by 5.6% YoY, to 5.9GW, according to CBRE.

Still, some data center planning practices may cloud construction projections. Firms put in multiple applications for data centers in different locations, hoping for a good deal, with no intention of actually constructing all of these projects, according to a Federal Reserve Bank of Dallas analysis. Investors justifiably may be concerned over any whiff of over-building, especially in sectors that have not gone through full real estate cycles. While experiencing different market dynamics compared to data centers, other property sectors did see over-building and the entry of unsophisticated/crossover landlords/developers. Life science is one key [example](#).⁵

The administration and state governors urged PJM to ensure that it offers power capacity only for “real and verifiable demand”. PJM holds so-called base residual auctions on an annual basis, offering 12-month contracts. These auctions saw sharp price increases in recent years (Figure 3). PJM may hold the data center-focused auction, with 15-year contracts, via a separate process called reliability backstop auction. The initiative could be used as a model for other parts of the country, according to press reports quoting White House officials. All told, any proliferation of specialized RTO/ISO arrangements could impact the dynamics of power sources in the data center sector.

Figure 3. PJM Base Residual Auction Clearing Prices



Source: PJM Base Residual Auction Report and Academy Securities

⁵ “Life Sciences: Surveil Your Exposure as Distress Percolates,” Securitized Products Special Topics, Academy Securities, April 7, 2025

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