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Seeing what sellers miss—a constructive approach to utility M&A in an age of increasing uncertainty

Mergers and acquisitions have always been an important mechanism for reshaping the electric utility sector. Consolidation offers buyers opportunities to achieve scale, diversify risk, and position themselves for future investment needs. Sellers, for their part, often see transactions as a way to unlock shareholder value or transition into new business models.

What has changed is the environment in which these transactions occur. Utility M&A has become far more challenging to evaluate because the traditional anchors of valuation—regulatory precedent, rate base growth, and operational efficiency—are increasingly influenced by factors that are both uncertain and fast-moving. As a result, due diligence in today's market is no longer just about verifying assumptions in the seller's presentation. It has become a more strategic exercise: questioning, deconstructing, and rebuilding the business case through the buyer's lens in a way that accounts for uncertainty, optionality, and long-term positioning.

The new diligence challenge

Two of the largest drivers of value in utility transactions—generation and transmission—are now defined less by what is in a company's current portfolio and more by what could be built, permitted, and financed over the next decade. These drivers are subject to forces outside the seller's control:

- **Generation uncertainty:** The timing of coal retirements, the durability of gas-fired generation as a "backbone" resource, the pace of renewable integration, and the role of emerging technologies
- **Transmission uncertainty:** The degree to which regional planning evolves under Federal Energy Regulatory Commission (FERC) Order 1920, the ability of projects to secure siting and permitting, and how regulators balance affordability with the need for major grid expansion

Layered on top are cross-cutting uncertainties: the demand from large loads, the trajectory of decarbonization policies, and the resilience of energy supply chains. These dynamics make it difficult to answer even the most fundamental diligence questions: How much will this utility be able to invest? How will regulators respond to future proposals? What role will this company play in the evolving energy landscape?

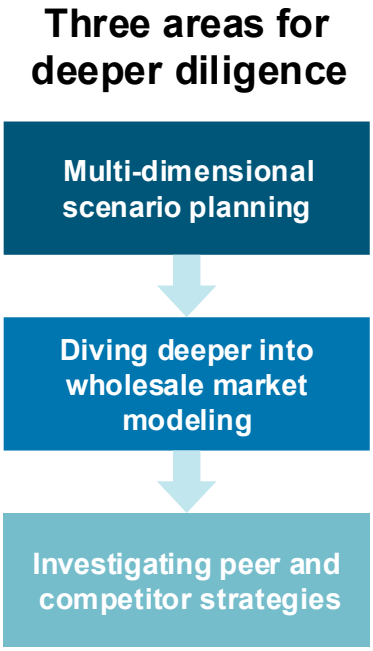
Three areas for deeper diligence in 2025

To answer these questions, diligence teams must move well beyond traditional approaches. Relying on the seller's capital plan or a static forecast is insufficient in today's market. Instead, diligence now requires:

1. Multidimensional scenario planning

The future of utilities cannot be captured by a single forecast. Demand may accelerate rapidly with data center growth and electrification or flatten if policy momentum slows. Gas infrastructure could remain a critical backbone resource or face faster-than-expected decline. Transmission buildout might be enabled by favorable regulation or stalled by permitting and cost concerns.

Effective diligence therefore requires multidimensional scenario planning, examining not just one or two "base cases," but also a range of plausible futures that reflect different combinations of policy, technology, market, and regulatory outcomes. Testing valuation across these scenarios highlights where the business case is resilient and where it is exposed. This approach surfaces both the risks that need to be managed and the optionality that could create upside for the buyer.



2. Diving deeper into wholesale market modeling

In many regions, the economics of both generation and transmission are no longer determined primarily by the physical assets themselves, but by the rules of the wholesale markets in which those assets operate. Subtle differences in market design can create large differences in value … and these rules are evolving rapidly.

- **Capacity market design:** How markets compensate for reliability is central to investment value. The existence of a forward capacity market, the rules governing accreditation of intermittent and storage resources, and the treatment of imports can materially alter the revenue stream for both new and existing plants. A change in the clearing mechanism or accreditation formula can swing hundreds of millions of dollars in expected value.
- **Balancing authority structures:** The size and configuration of balancing areas influence both system reliability and the need for new infrastructure. Consolidation of balancing authorities, for example, can reduce reserve requirements and reshape transmission economics.

- **Resource adequacy standards:** State and regional differences in how adequacy is defined, whether through deterministic reserve margins or probabilistic loss-of-load expectations, directly affect the amount of new generation and transmission a utility may be expected (or allowed) to build.
- **Cross-border trading:** Increasing interconnection across borders creates opportunities for arbitrage but also introduces exposure to neighboring policies, renewable mandates, and fuel dynamics. The feasibility and value of transmission projects are tied closely to these cross-border market interactions.

Understanding these dynamics requires more than reviewing tariffs or market reports. It requires bottom-up modeling of market outcomes under different policy and resource mixes, as well as a view of the institutional forces at play, from regional transmission organizations and system operators to state commissions and national regulators.

3. Investigating peer and competitor strategies

In electric utility M&A diligence, one of the most overlooked elements is understanding what peer utilities are doing. Regulators and stakeholders rarely evaluate a company's plans in isolation; instead, they benchmark against regional peers and broader industry trends. A capital plan or resource strategy that looks reasonable on its own may be questioned, or even reshaped, once viewed against the backdrop of neighboring utilities.

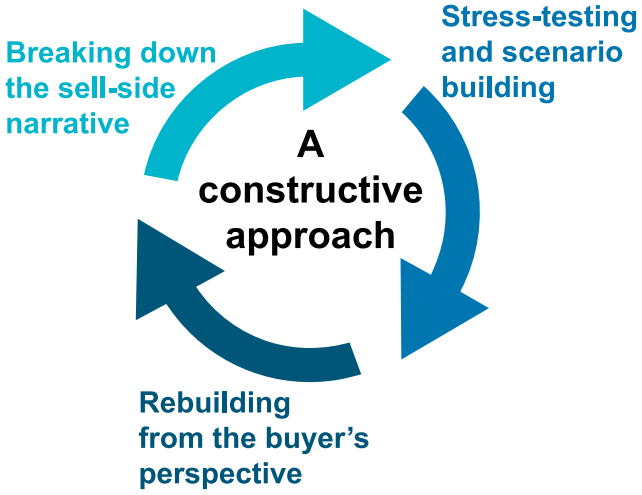
- **Transmission expansion:** Transmission is a central feature of today's electric utility landscape. If peer utilities in a region are pursuing major buildouts in response to FERC mandates, renewable integration, or regional reliability concerns, regulators may expect others to follow suit. A target utility without a comparable transmission road map may be viewed as underinvesting, while one proposing an outsized build could face affordability and execution pushback.
- **Generation transition:** Coal retirements, gas reliance, and renewable additions are not judged in isolation. When peers are accelerating toward decarbonization, a utility holding on to legacy coal or leaning heavily into gas may be challenged. Conversely, if peers are signaling caution about renewable integration or storage reliability, an aggressive clean energy plan could be scrutinized for feasibility.
- **Load growth assumptions:** Electrification, electric vehicle adoption, and especially data center demand are reshaping system planning. A utility that projects flat or modest growth while peers are planning for rapid increases may be seen as underestimating needs and risk being forced into reactive, higher-cost investment. On the other hand, overly bullish demand forecasts relative to peers could be discounted by regulators or investors.
- **Regulatory precedent:** Commissions often cite peer cases in their decisions. For example, if a neighboring utility secures approval for advanced metering, grid hardening, or performance-based regulation, regulators may expect similar initiatives from the target. At the same time, disallowances or cost recovery pushback in a peer's case can set a precedent that shapes the target's prospects.

- **Investor sentiment and valuation:** Investors increasingly compare utilities based on the credibility of their energy transition pathways. A utility whose capital plan diverges sharply from its peers', whether more aggressive or more conservative, can attract either a valuation premium or a discount depending on how markets perceive risk, execution, and alignment with policy.

For diligence, this context is critical. The credibility of an electric utility's capital plan, the risks in its generation mix, and the upside in its transmission portfolio cannot be assessed in a vacuum. Benchmarking against peer strategies and regulatory outcomes helps separate seller optimism from genuine opportunity, while also highlighting where hidden value or exposure may lie.

A constructive approach

While today's uncertainties make diligence more complex, they also open the door to opportunity. The seller's information package will typically emphasize stability and downplay risk, but it often overlooks value sources that emerge precisely from the areas of greatest uncertainty. The task of the buyer is not simply to validate or challenge what is presented, but also to deconstruct the narrative, examine it from multiple angles, and rebuild a more complete picture through the buyer's own strategic lens.



A constructive diligence process has three dimensions:

1. Breaking down the sell-side narrative

Sellers tend to present linear growth trajectories and assume favorable regulatory treatment. A constructive approach begins by systematically testing those assumptions: How sensitive are load forecasts to changes in policy or technology adoption? What if regulators apply a stricter standard of affordability or disallow part of a capital plan? Where does the narrative rely on precedent that may not hold in today's environment?

2. Stress-testing and scenario building

By stress-testing assumptions against multiple policy, technology, and market scenarios, buyers can distinguish between risks that are structural and those that are temporary or manageable. For instance, a coal-heavy generation fleet may appear to be a liability, but under certain scenarios, such as slower-than-expected renewable deployment or accelerated reliability concerns, those assets could retain more value than assumed.

3. Rebuilding from the buyer's perspective

The final step is to reconstruct the business case with the buyer's strategy in mind. This involves reframing the company not only in terms of its stand-alone prospects, but also in terms of synergies, adjacencies, and strategic alignment. For example:

- **Regulatory positioning:** A utility with a history of constructive commission relationships may have greater capital deployment headroom than its plan indicates.
- **Transmission expansion potential:** A modest pipeline of projects may mask significant opportunity if the utility is well situated for regional transmission growth under evolving market rules.
- **Portfolio synergies:** Acquisitions may unlock efficiencies through overlapping service territories, complementary generation portfolios, or shared operations and maintenance practices.
- **Optionality:** Even when a utility faces downside risk in one scenario, the presence of credible upside in another, such as favorable demand growth from electrification, can create value if the buyer is positioned to capture it.

Taken together, this constructive approach reframes diligence as more than a defensive exercise of identifying risks. It becomes a forward-looking process of discovering where hidden value lies, how risks can be mitigated, and how the target can be positioned to contribute to the buyer's long-term growth strategy.

The bigger picture

Utility M&A is entering a period when uncertainty is the defining feature. Consolidation is likely to continue as private capital flows into the sector and utilities seek partners to navigate the energy transition. But the diligence process cannot be approached as it once was.

Whereas in the past diligence could focus on validating a seller's plan, today it must take a broader and more forward-looking perspective. It requires:

- Deep understanding of wholesale market transitions.
- Robust scenario planning and modeling.
- Comparisons across peers to anticipate regulatory expectations.

The stakes are high. Valuations hinge not only on avoiding downside but also on recognizing opportunities that sellers may overlook. In this environment, diligence is not just a defensive exercise. It is a strategic tool to position buyers for long-term success in an energy sector defined by transition and uncertainty.

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