

Arizona Overview

Arizona's electric sector is experiencing a period of accelerated load growth driven mostly by data centers concentrated in the Phoenix metropolitan area. As a vertically integrated, regulated market, Arizona differs fundamentally from competitive wholesale markets: utilities are responsible for long-term capacity planning and infrastructure investment, with costs recovered through regulated rates. This structure enables coordinated planning but places increased importance on how incremental costs associated with new large loads are allocated between new and existing customers.

Market Structure and Risk Allocation

Arizona's electricity system is served primarily by vertically integrated utilities, including Arizona Public Service (APS), Tucson Electric Power (TEP), and Salt River Project (SRP). The Arizona Corporation Commission (ACC) regulates the investor-owned utilities, APS and TEP, including oversight of integrated resource plans (IRPs), rate design, and cost recovery.⁸³

Under this model, utilities plan and procure resources to meet forecasted demand growth, including generation, storage, and network infrastructure. Investment risk, particularly the risk of overbuilding or underutilizing infrastructure is largely socialized through rates and can be mitigated through specific rate design or contractual mechanisms. As a result, periods of rapid and uncertain load growth increase regulatory focus on cost causation, risk mitigation and the potential for cross-subsidization.

Scale of Growth and Market Trends

Public utility disclosures indicate a material shift in load forecasts: APS has projected sustained retail sales growth of approximately 4-6% annually in the near term.⁸⁴ While data centers currently represent a modest share of total system peak, utilities have identified a substantial pipeline of prospective large load interconnections.⁸⁵

The Phoenix region has emerged as a leading North American data center market. Industry reporting indicates very low vacancy rates (approximately 2-3%) and a significant development pipeline, suggesting continued buildout and demand for electricity infrastructure.⁸⁶ Unlike more diffuse forms of load growth, data center development tends to require substantial, location-specific investments in transmission and distribution infrastructure, as well as firm capacity to meet high load factors.

Utilities have responded by accelerating procurement and infrastructure development. APS has indicated plans for significant near-term additions of generation and storage resources, including a large share of carbon-free capacity additions.⁸⁷ This reflects a broader trend in which load growth is advancing the timing of resource needs relative to historical expectations.

⁸³ Arizona Corporation Commission (ACC), *Integrated Resource Planning Workshop Highlights: How Arizona Regulated Utilities Plan to Power Arizona's Future*, 2024. <https://azcc.gov/news/home/2024/08/01/integrated-resource-planning-workshop-highlights-how-arizona-regulated-utilities-plan-to-power-arizona-s-future>

⁸⁴ Pinnacle West Capital Corporation, 2024 Full Year and Q4 Earnings Release, February 2025; APS, *statements on projected retail sales growth and capacity expansion plans*. <https://www.pinnaclewest.com/newsroom/company-news/news-release-details/2025/Pinnacle-West-Reports-2024-Full-Year-and-Fourth-Quarter-Results/default.aspx>

⁸⁵ Arizona Public Service (APS), *Data Centers: How We're Protecting Customers While Planning for Big Energy Needs*, 2025. https://www.aps.com/en/About/Our-Company/Newsroom/Articles/Data_Centers_How_Were_Protecting_Customers_While_Planning_for_Big_Energy_Needs

⁸⁶ JLL, *North America Data Center Report, 2025* (noting ~2.3% vacancy and strong Phoenix market growth). <https://www.jll.com/en-us/insights/market-dynamics/north-america-data-centers>

⁸⁷ APS 7,300 MW procurement (2024). <https://www.tdworld.com/renewables/news/55245162/aps-signs-agreements-to-add-about-7300-mw-of-renewable-power-battery-energy-storage-and-natural-gas-to-energy-mix>