

## ENERGY

### APS plans to develop new natural gas plant, offer subscription model for data centers



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#### Key Points AI-assisted summary ⓘ

- Arizona Public Service Co. wants to build a new natural gas plant near Gila Bend.
  - The plant will be built in two phases. One will meet rising statewide energy demand. The other will serve power-hungry customers like data centers.
  - A proposed subscription model would allow data centers to fund the plant's second phase. Officials say that will prevent cost shifts and allow data centers to lock in long-term rates.
  - This move comes as utilities across grapple with how to meet future power needs.
  - APS has been criticized for walking back its clean energy targets and adding natural gas generation to its portfolio. Officials say the new plant will ensure reliable service for customers.
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Arizona Public Service Co. plans to develop a new natural gas plant near Gila Bend, located about 50 miles southwest of Phoenix.

The Desert Sun Power Plant will be built in two phases, according to utility officials. The first will add power to the grid amid rising energy demand statewide. The second will solely serve [power-hungry customers like data centers](#) via a new subscription model.

In total, it will be capable of producing 2,000 megawatts of energy. That's enough to power 320,000 average homes, per the utility's residential power usage metrics.

The plant will be supplied gas via a [previously announced pipeline running from the Permian Basin in Texas to the Valley](#). The state's largest utilities — APS, Salt River Project, Tucson Electric Power Co. and UniSource Electric Services — are set to benefit from that project.

The news comes as the state — and the nation — grapples with what its transition to cleaner energy sources should look like amid rising power needs, or if it should migrate to renewables at all.

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The increased demand for energy is being driven locally by [continued population growth, hotter summers, the arrival of data centers and the rise of advanced manufacturing](#).

Utilities project they will need to generate thousands more megawatts of power to keep up with future demand. That's led most to invest heavily in new infrastructure. But there's debate over what those generation sources should look like.

APS, SRP and TEP have discussed [bringing new nuclear power options to the grid](#) — but details are vague and any project appears far off.

In the interim, they are increasingly looking to natural gas to offset weaknesses of renewable energy sources. Those technologies, which include wind and solar power, are considered intermittent. That means they don't provide a steady supply of power. Solar panels can't generate new energy at night, and wind turbines don't move without a breeze.

That challenge can be mitigated with battery storage infrastructure. Still, utilities have a need for so-called "baseload" power options that can provide constant electricity.

APS recently said it would [walk back its clean energy commitments](#), although officials stressed that the utility will still build up its portfolio of clean energy resources.

Jacob Tetlow, executive vice president and chief operating officer at APS, said the utility plans to add roughly 3,000 megawatts of natural gas generation and 7,000 megawatts of solar, wind and battery storage in coming years. That includes the newly proposed power plant, which he said is key to ensuring customers have reliable electricity.

"Everything we're doing, we do it with a lens of reliability," Tetlow said, describing the utility's most recent day of record-breaking energy demand on Aug. 7. "How do I make sure, at 5:30 p.m. on Aug. 7, that I am not going to be short on power?"

But the move is likely to frustrate environmentalists. They've already criticized the utility for rolling back its previous clean energy targets and increased reliance on natural gas, which they say [will enable it to continue generating power via fossil fuels long into the future](#). Burning coal, gas and other fossil fuels to generate energy and heat is [widely considered a key driver of climate change globally](#).

### **APS in talks with data centers to pull power from plant**

Utility officials are hoping to implement a new subscription model for data centers at the new plant.

Those facilities house the physical equipment needed to power computing. They are [increasingly flocking to Arizona](#), drawn by state-level tax breaks, competitive operating costs, low natural disaster risks and strong fiber infrastructure, among other advantages. The rise of artificial intelligence and other advanced technologies is [only increasing their demand](#).

But they are widely considered energy-hungry facilities. Their computing equipment requires vast amounts of power. It also generates significant heat, which necessitates robust

cooling systems that often run on electricity. Plus, data centers run continuously — all day, every day.

Those factors have led to massive waiting lists for service at the state's largest utilities. Filings show APS and SRP [could see energy demand nearly triple](#) if every data center that wants to set up shop in their service areas came to fruition. The utilities face huge costs associated with reworking their grids to serve such customers.

As a result, APS is asking utility regulators to greenlight new charges for large, power-hungry customers in [an ongoing rate case](#). It has also begun imposing energy minimums, meaning certain customers are now charged for a minimum amount of power that they commit to using monthly, regardless of how much they actually use.

But new data center customers must still sit on the utility's waiting list. Patrick Bogle, director of data center strategy at APS, said the proposed subscription model creates an alternate path.

Large users would pay for the second phase of the project in its entirety, signing long-term contracts covering construction costs and absorbing financial risks associated with building new power generation.

Bogle said that would allow the utility to accelerate new infrastructure and serve data centers without shifting costs to residential customers. It would offer the owners and developers of such facilities an opportunity to get served faster and lock in electric rates for decades.

"Ultimately, we don't need this to serve our system today or our customers today — it's only being built to serve incremental data center customer," Bogle said. "If you're willing to commit to the costs, and all the capital that's involved in building that out, we will do it for you."

He said the utility is currently speaking with "less than a dozen" data centers about taking power from the plant. He declined to give an exact number, citing concerns about jeopardizing negotiations by sharing information about how many entities are at the table.

The company has approximately 30 data centers in its queue, requesting a combined total of 18,000 megawatts of power.

### **When will the plant be operational?**

The plant's operation hinges on the completion of the upcoming pipeline project.

Transwestern Pipeline Co., which is tasked with building and operating the natural gas conduit, anticipates finishing its construction by late 2029.

In the meantime, utility officials will contend with a variety of regulatory processes at the local, state and federal levels. APS must seek environmental reviews, complete transmission modeling and go through power line siting procedures, among other processes.

Tetlow said the utility anticipates bringing the first phase of the new power plant online by late 2030.

The timeline for the second phase of the project is less clear. Tetlow said it will be determined via the utility's negotiations with data centers and other large customers seeking energy from the facility.

"It could be 2031, 2032, 2033," he said. "It kind of depends a little bit on how the data centers want to set up that contract and that subscription model."

Officials said the plant is expected to create hundreds of construction jobs and increase tax revenue for local and state governments. Once fully operational, Tetlow said it will employ up to 100 people, plus some contractors to handle janitorial duties and other tasks.