LATHAM & WATKINS LLP

The Rise in Data Centers and Energy Bills: Assessing Rate Impacts, Regulatory Trends, and the Future Landscape

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Contents

Introduction

Data centers are not new. For decades, they have served as the infrastructure behind the internet. What is new is the role data centers play as the "factories" for rapidly advancing artificial intelligence (AI).[1] As AI continues to develop, the deployment of energy-intensive computing increases, in turn raising the power demand of the data centers that house it.[2] By way of example, the AI boom has driven the development of hyperscale data centers, which are essentially massive data centers housing the computing power behind large-scale workloads.[3] In 2024, about 1.5% of global electricity consumption was attributable to data centers.[4] In the United States, data centers consumed about 183 terawatt-hours (TWh), or about 4% of the country's electricity.[5] By 2028, data center electricity consumption in the United States is projected to increase drastically, with estimates ranging from 325 TWh to 580 TWh, or up to 12% of the country's electricity.[6]

This AI-led surge in data center power consumption is often cited as a key driver behind rising residential electricity prices, a position that tends to minimize (i) evidence showing that data centers can, in some circumstances, decrease residential utility rates or offset any increases elsewhere,[7] and (ii) other contributing factors, such as the aging power infrastructure in the United States.[8] Regardless, the surge in data center power consumption has significantly strained the power grids in regions where they are located,[9] prompting policymakers and regulators to target data centers in their recent efforts to address related pricing.

This report examines (i) the role that data centers in the United States play in local price dynamics, with particular attention to arguments that data centers decrease, or have the potential to decrease, residential prices, and (ii) the current landscape of federal and state legislation and regulation affecting data centers, and how parties involved in the development and operation of data centers can mitigate future risks.

The Role of Data Centers in Local Price Dynamics

There is no doubt that data centers have recently increased demand on the power grid. What is less certain is whether this demand poses new challenges or instead highlights (and amplifies) existing strains on the grid — and whether data centers can play a constructive role in mitigating those preexisting strains.

To address these questions, it is important to understand that residential electricity bills are among the clearest indicators of grid strain. Electricity rates are primarily determined by two factors: (i) the cost of producing or generating electricity, and (ii) the cost of delivering electricity through the grid.[10] The rates are approved by state public utility commissions (PUCs), which are meant to ensure the rates fairly reflect a utility's cost for these factors.[11] A utility bill applies these approved rates and other tariffs to a consumer's metered usage over the billing period. Holding usage and all other bill elements constant, an increase in an applicable rate will raise the total bill. When demand outpaces supply due to insufficiency of either of the two factors listed above, rates tend to increase,[12] meaning consumers' bills also increase.

In practice, data centers can have two opposing effects. If a utility has spare generation and delivery capacity to meet demand, additional sales from data centers can spread costs over a larger number of sales, decreasing utility rates.[13] However, if a utility must invest in new generation or distribution upgrades to meet demand, rates will increase.[14] While evidence shows that data centers have both effects on rates, the public discourse and regulatory aims tend to focus on the latter.

Public Discourse in Support of Data Centers

The power grid's current problems predate the added strain that data centers have introduced. These problems include an aging infrastructure that needed updating before data centers were added into the mix.[15] Consider, for instance, that nearly 70% of all US power lines were built over 25 years ago, with many components dating as far back as 70 years.[16] So, while utility investments in grid infrastructure were a driver of nationwide electricity rate increases from 2019 to 2024, these investments were partially in response to aging infrastructure and a need to rebuild after natural disasters.[17]

In December 2025, a working group in Washington State tasked with investigating the impact data centers have had on the state found that "[b]ecause the power system is already constrained, any substantial new uses of electricity, regardless of purpose, challenge the state's efforts to … maintain affordable and reliable service."[18] This finding supports the argument that the problems we are seeing now were preexisting.

Moreover, data centers have the potential to decrease utility rates where there is sufficient existing infrastructure to support them.[19] In this scenario, increased demand results in increased sales and revenue, which can lead a utility to decrease rates.[20] This is illustrated by the nearly 1 cent per kilowatt-hour decrease in North Dakota's rates in nominal terms between 2019 and 2024, which is said to be at least partly attributable to the increased demand from data centers.[21] Additionally, the Washington State working group reported that, in recent years, data centers have obtained and developed many more clean energy resources than the state's utilities, reflecting their ability to commit substantial capital to improve off-grid resources.[22]

Furthermore, data centers have the potential to reduce other household finances, like property taxes. Consider Virginia's Loudoun County, noted to be "home to one of the largest concentrations of data centers in the world."[23] Data centers contribute to almost half of Loudoun County's property taxes, resulting in a nearly 40% reduction to the county's residential property tax rate.[24] Such a reduction indicates that data centers have the potential to offset household finances even in the event that they lead to higher utility bills. Certain Washington State communities have experienced similar tax rate reductions; the working group noted that additional taxes collected from data centers not only reduced residents' property taxes, but also funded upgrades to city services and facilities.[25] Potentially, this surplus could also be used to bring down electricity rates should localities opt to use it to upgrade their power infrastructure.

Public Discourse Against Data Centers

While some see data centers as accelerating necessary infrastructure upgrades, others blame them for rising electricity rates and call for tighter regulation. At the end of the day, utilities are expanding in response to and in anticipation of significant demand from data centers.[26] And generally, when a utility builds new infrastructure to accommodate demand, the utility raises rates to recover the cost of development.[27]

In some areas, the hike in prices is steep. In the summer of 2025, for instance, regions serviced by massive grid operator PJM experienced an increase in electricity rates of up to 20%.[28] This increase partially reflected an expected increase in the demand for electricity from data centers.[29] A September 2025 Bloomberg investigation concluded that "[wholesale] electricity now costs as much as 267% more for a single month than it did five years ago in areas located near significant data center activity," a cost passed on to residential consumers.[30]

In addition, some argue that "special contracts" between utilities and data centers shift costs to other consumers.[31] Special contracts are agreements between utility providers and consumers, such as data centers, that include rates that depart from the standard, PUC-approved rates.[32]

Some states rely on their PUCs to determine whether special contracts meet the "cost causation standard,"[33] which ensures that rates "reflect to some degree the costs actually caused by the customers who must pay them."[34] However, these determinations are often contestable, as there is no agreed way to analyze whether a rate meets the standard.[35] Other states, like Kansas, allow their PUCs to approve special contracts that fail the cost-causation standard so long as the contract is in the state's best interest.[36] As of 2024, Mississippi does not require any PUC approval of special contracts between utility providers and data centers.[37]

After reviewing 40 states' PUC proceedings with special contracts, Harvard Law School's Environmental & Energy Law Program determined that PUCs often approve the contracts without much analysis.[38]

Legislative and Regulatory Outlook

Data centers were initially welcomed in many states because of the financial opportunities they promised. The approval process for data centers to set up shop was straightforward and encouraged via tax incentives.[39] As time has gone on, though, data centers have not delivered the financial gains that states expected. Unmet expectations, coupled with rising utility prices and upset residential consumers, have resulted in a shift in federal and state approaches toward data centers.

Federal Government Efforts

Currently, there is no federal regulatory framework overseeing data centers and their energy consumption. The Department of Energy has published related guidance and encouraged participation in volunteer programs,[40] but a coherent, legally binding framework remains in process.

The Clean Cloud Act of 2025 (the 2025 Act), introduced in April 2025 by Rhode Island and Pennsylvania senators[41] and again in November 2025 by a Tennessee congressman,[42] proposes some federal oversight. Specifically, the 2025 Act provides the Environmental Protection Agency and the Energy Information Administration with the authority to collect data and information on data centers' annual electricity consumption and impose an emissions standard on their electricity use.[43] The 2025 Act also requires information regarding the aggregate power consumption across all applicable facilities owned by one company to be published, enhancing public transparency.[44] While the bill has not moved beyond the introduction phase,[45] the topic is beginning to garner attention at the federal level.

Also notable is the collaboration between the governors of PJM-serviced states and the National Energy Dominance Council (the Council). In a Statement of Principles published earlier this year, the governors and Council urged PJM to file tariff revisions that reflect the Principles, which are designed to help protect residential consumers from data center-induced price increases.[46] Specifically, the Principles urge PJM to, among other things: (i) develop new capacity resources, (ii) provide 15-year price certainty by September 2026, (iii) allocate costs for new capacity provided to new data center loads that haven't obtained their own capacity, (iv) extend the current price collar to the next two Base Residual Auctions, and (v) update its forecasting methods to ensure capacity is obtained for real demand.[47]

The White House appears to be pursuing contradicting interests. In January, a senior official said the White House "[is] going to embrace data centers, but not at the price … of raising costs for consumers."[48] And President Trump wrote on social media, "I never want Americans to pay higher Electricity bills because of Data Centers."[49] To that end, the senior official further explained that the White House is working with "each of the major hyperscalers and data center operators" to figure out how they can continue expanding operations without shifting the cost to other, residential consumers. These efforts include ensuring hyperscalers "have their own generation."[50]

However, as recently as February, it was reported that federal agencies had delayed approval for renewable energy projects — at least 73,000 megawatts' worth of solar projects.[51] Given that renewable resources such as solar power are widely considered part of the solution to addressing data centers' strain on the power grid, it is unclear how the White House will proceed in its efforts to both encourage hyperscalers to rely less on the grid and scale back the development and expansion of renewable energy.

State Government and Local Regulator Efforts

While the federal approach continues to evolve, states and localities have begun to enact their own regulations to alter the regulatory landscape. Data centers still promise fiscal and economic benefits to host communities, and many localities and states continue to encourage investment. At the same time, legislative and regulatory sentiment is shifting toward implementing stricter oversight. While the measures summarized below focus on the latter, they do not reflect a uniform stance, nor do they imply that states are abandoning efforts to balance data center growth with residential consumer protection.

In 2025, lawmakers in more than 40 states considered 267 data center-related bills,[52] with many acknowledging potential residential rate impacts.[53] Of these bills, 126 addressed energy issues specifically,[54] and some included measures that scaled back tax benefits that were previously widely available.[55] Generally, many of these bills, as well as more local PUC efforts, focus on at least one of the following areas: (i) information gathering to enhance transparency and predictability around data center energy consumption, (ii) rate/consumer classifications that distinguish data centers from other utility consumers, and (iii) additional contractual obligations and requirements for data centers. For ease of reference, unless discussing a specific initiative, this report refers to both legislative measures and PUC actions as actions taken by the state.

Increased Transparency and Predictability via Information Gathering

A big challenge states face in overseeing data center energy consumption is uncertainty, both in (i) calculating if (and if so, by how much) other ratepayers are footing data centers' bills, and (ii) their projections of future data center power consumption.

Forecasting data center power consumption presents several issues. One issue is that the models used to create forecasts are imperfect, and different types of models yield different results.[56] While all models predict a rise in energy consumption, it is difficult to determine what that rise could be. (Notably, the Statement of Principles urged PJM to update its forecasting methodologies.) This is of particular concern when we consider that companies submit duplicative requests to build data centers, knowing most of their requests will not be authorized.[57]

Additionally, utilities and data centers alike are incentivized to exaggerate their predictions in order to attract investors.[58] The problem with over-forecasting is that it leads to overcapacity, and while overcapacity avoids risks of power shortages, it needlessly drives utility rates up to accommodate a demand that does not exist.[59]

Another area of uncertainty derives from the inherent unpredictability of the fast-paced and ever-evolving technology industry. As discussed in the introduction of this report, the AI boom has been a major driver of the rise in data center power consumption. Currently, AI is energy-intensive from its training phase (the phase in which an AI model is trained on data) to its inference phase (the phase in which an AI model draws conclusions based on its training, such as when it responds to a user-generated prompt).

This high energy demand has inspired some companies to further develop the AI technology via hardware and software improvements that could make it less energy-intensive moving forward.[60] Notably, DeepSeek has shown that relatively low energy consumption is possible.[61] However, even with the promise of more energy-efficient AI models on the horizon, the efficiency could further drive up the AI demand, continuing to contribute to the increased power consumption of data centers.[62]

While addressing these uncertainties and creating accurate projections with full confidence is a tall order, it becomes more possible with close monitoring and transparency. As such, states have taken the first step in deriving accurate projections to inform their plans by considering and implementing information-gathering tactics.

One of these tactics involves requiring data centers to report information related to their energy consumption. New York, for instance, has proposed a bill that would amend its state environmental conservation law to require data center operators to disclose projected metrics like energy use and emissions prior to construction,[63] allowing for more predictability when it comes to the data center's energy consumption. Similarly, New Jersey has introduced a bill that would require data centers to submit quarterly reports to its PUC detailing their energy and water use, among other metrics.[64] In total, about 40 bills were introduced in 2025 requiring similar disclosures, three of which were enacted as of December 2025.[65]

Another popular approach states have taken is conducting investigations into their data centers' energy use. New Jersey, for instance, introduced a bill requiring its PUC to study how data centers' electricity use affects the state's power costs and whether residential rates are proportional to residential consumption.[66] Findings from this study will be reported in October of this year. Other states have established working groups tasked with evaluating data centers' impact. For instance, Washington State's Executive Order 25-05 established a working group to evaluate data centers' impact on the state's economy, taxes, energy, and environment. The working group was also tasked with developing policy recommendations based on its findings, which were due December 1, 2025.[67] Some of those findings are discussed in the preceding section of this report.

Rate Classifications for Data Centers

One of the most popular approaches states have taken in the past year is re-evaluating their rate classifications and ensuring there are separate, appropriate rates for data centers.[68] The idea behind creating these classifications is to ensure that costs are allocated proportionally among data centers and other utility consumers, shielding residential consumers from hiked rates.

The investigative efforts described above are used here as well. For instance, Virginia proposed a bill requiring its PUC to investigate and determine whether the state's electricity companies are using reasonable classifications in their rates.[69] Interestingly, there is no language in the enacted law requiring specific evaluation into whether data centers are reasonably classified, while there was such language in the bill.[70] This revision perhaps illustrates the balance states are trying to strike between attracting data centers while also protecting their residential consumers.

Additional Contractual Obligations and Other Requirements

Another popular approach states have taken is to impose additional (and less favorable) contract terms on data centers, such as (i) longer contract lengths,[71] (ii) requirements to contribute to or cover costs incurred by upstream electricity generation and distribution,[72] as well as costs for necessary grid updates,[73] and (iii) minimum monthly bill demands of about 80%.[74]

By extending contract lengths and instituting minimum monthly bill demands, states are assisting efforts to improve forecasting methods by securing actual consumption commitment,[75] ensuring rates are not needlessly increased. And by demanding that data centers pay for infrastructure repairs, states are shielding residential consumers from higher rates that result from utility investment into making such repairs.

Similarly, states are encouraging, and at times requiring, data centers to incorporate other energy sources in their consumption to reduce the strain they add to the grid. This effort encourages data centers to use renewable energy or other on-site energy sources. Wisconsin, for instance, is considering a bill that would incentivize data centers to source 70% of their electricity from renewable resources to qualify for tax exemptions.[76] West Virginia allows its Division of Economic Development to certify up to two "microgrids" for new data centers, which are isolated from regulated utility consumers.[77] This effort leaves the residential consumers' rates untouched while attracting new data centers and encouraging data center expansion.

Looking Ahead

More Energy Efficiency

We already see many influential data centers and hyperscalers adopting some of the states' approaches — especially when it comes to investing in renewable and other on-site energy sources. For instance, Google's parent company, Alphabet, recently acquired a renewable energy company with the aim to generate more electricity capacity and diversify its energy supply.[78] Microsoft has been exploring on-site power generation for its data centers with hydrogen fuel and has said that it will start using fusion power by 2028.[79]

Separately, data centers may begin to pay for utility-owned grid batteries. One company recently announced its plans to fund such a battery for its upcoming data center. This approach aims to not only reduce the data center's strain on the grid, but also allow the data center to begin operating "earlier than would be possible with traditional utility upgrades."[80] Furthermore, because the battery would be owned and operated by the utility, the utility could use the battery to help manage the grid more broadly.[81] Sources indicate that other AI leaders and data centers are considering adopting a similar model.[82]

Data centers may also develop a flexible energy consumption model that shifts their most intensive energy consumption to off-peak hours or to times when other sources of energy are available. This model could be particularly helpful in the AI context, as data centers could shift certain energy-intensive tasks, such as training an AI model, to a time when the electricity consumption would cause less strain.[83] Data centers could show their commitment to these efforts by signing agreements with utilities in which the data centers could get lower rates in return for their cooperation.

Compliance With Emerging Obligations

Shifts in the regulatory landscape may result in shifts on a corporate level as data centers and AI companies begin to consider implementing measures to ensure compliance with emerging obligations. Even in states where little to no regulation has been implemented, data centers may develop the ability to readily report information related to their energy consumption. Such efforts could include building internal compliance capabilities, such as establishing dedicated compliance departments, to oversee the data collection and reporting.

Additionally, we may see third-party service providers emerge in the energy space to assist data centers with their compliance efforts, similar to how such services have emerged to assist companies with their Sarbanes-Oxley Act requirements.

With respect to rate classifications and contract negotiations, we may see data centers undertake efforts to strengthen their positions by investing heavily into becoming more energy efficient in the ways outlined above. Demonstrating lower energy demand, especially during peak hours, and contributing to grid upgrades may justify more favorable treatment when it comes to rate setting and contract negotiations. Likewise, investments that add supply can improve perceptions among state regulators and residents, particularly when those investments leave local grids in better condition than before the data center was built.

Conclusion

Data centers have become central to the modern digital economy, and their rapidly growing electricity needs are reshaping power grids, rate structures, and policy debates nationwide. While data centers strain the grid's power generation and delivery capacity — and in some regions, contribute to higher electricity prices — they can also create benefits where there is spare capacity, including lowering electricity prices, reducing tax rates, and funding local efforts to modernize the aging power grid. The emerging regulatory response reflects this duality: States are seeking more transparency, better forecasting, fairer rate classifications, and contractual terms that align costs with causation while still encouraging investment and innovation.

Against this backdrop, the most durable path forward is for companies to be proactive. We may begin to see data centers further invest in decreasing their electricity consumption, contributing to grid modernization efforts, and developing the capabilities to oversee their energy use and comply with emerging regulations. Together, these steps can help ensure that data center growth proceeds alongside residential consumer protection.

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