California Business Roundtable

January 26, 2026

The Honorable Connie Petrie-Norris
Chair, Assembly Utilities and Energy Committee
California State Assembly
State Capitol
Sacramento, CA 95814

The Honorable Rebecca Bauer-Kahan
Chair, Assembly Privacy and Consumer Protection Committee
California State Assembly
State Capitol
Sacramento, CA 95814

Dear Chairs Petrie-Norris and Bauer-Kahan:

On behalf of the California Business Roundtable, I am writing in advance of your joint hearing on artificial intelligence and energy impacts to share an important new analysis from the Center for Jobs and the Economy entitled, ***"Do Data Centers Drive Higher Electricity Prices? What the Data Actually Shows."*** We respectfully submit this report for the Committees' consideration as part of your review of AI-related energy demand and infrastructure planning.

The report's core findings are clear and data-driven:

- **Data centers are not a primary driver of California's high electricity prices.** Retail electricity costs in California are driven overwhelmingly by state policy decisions, regulatory mandates, and fixed system costs — not by incremental demand from data centers or AI infrastructure.
- **Electricity prices in California are structurally high regardless of data center growth.** Rates have increased due to transmission investments, wildfire mitigation costs, public purpose programs, renewable procurement mandates, and regulatory compliance requirements that are largely unrelated to AI or data center load.
- **Data centers represent a relatively small share of total electricity demand**, and their load growth does not correlate with the scale of retail rate increases Californians are experiencing.
- **Modern data centers are increasingly energy-efficient and grid-supportive**, often locating near existing infrastructure, investing in efficiency, and supporting grid reliability rather than destabilizing it.

In short, **the evidence does not support the narrative that AI and data centers are the cause of California's electricity affordability crisis**. That crisis is driven by policy structure, regulatory layering, and system cost design — not by innovation-driven electricity demand.

This distinction matters greatly for California's future. AI, advanced computing, and data infrastructure are now foundational to economic growth, workforce development, productivity gains, and long-term competitiveness. These investments are not only essential to job creation and innovation, but also to the state's long-term fiscal stability. California's budget and revenue base

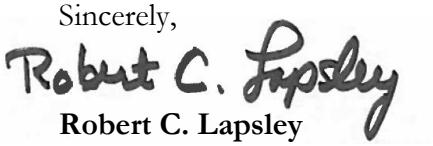
increasingly depend on technology-sector growth, capital investment, and high-wage employment tied directly to advanced computing and AI ecosystems.

Mischaracterizing AI infrastructure as an energy liability risks undermining one of the most important growth engines in the state economy — while failing to address the real drivers of electricity cost escalation facing households and businesses.

We appreciate the Committees' leadership in examining these issues seriously and welcome the opportunity to engage constructively in policy discussions that focus on **real cost drivers, grid modernization, affordability solutions, and responsible infrastructure planning**, while ensuring California remains a global leader in innovation and economic growth.

Thank you for your consideration, and for your commitment to informed, data-driven policymaking.

Sincerely,



Robert C. Lapsley
President

cc: Assembly Utilities and Energy Committee Members
Assembly Privacy and Consumer Protection Committee Members

Enclosures

California Center for Jobs & the Economy | California Business Roundtable

Do Data Centers Drive Higher Electricity Prices? What the Data Actually Shows

January 2026

Californians have faced steadily rising electricity costs for more than a decade. Today, the state has the highest average electricity rates among the contiguous United States, with residential electricity prices 96.7% higher than the national average and industrial rates 171.9% higher, making California increasingly uncompetitive for employers and more expensive for households.

As electricity prices have risen in other states as well, data centers—especially those supporting artificial intelligence and cloud computing—have become the latest target of blame. Data centers are now frequently cited as a major driver of higher electricity bills and, separately, as a strain on water supplies. While the water issue has been addressed elsewhere, this report focuses specifically on electricity prices.

The purpose of this analysis is straightforward. To look at the data and do the math and answer the question: **do data centers meaningfully increase electricity costs, or are state energy policies the primary driver?**

To answer that question, we examined how electricity prices vary across states based on: the presence and scale of data centers, and state energy policies, particularly renewable portfolio standards (RPS) and clean energy mandates.

The goal is not to explain every factor affecting electricity prices, but to test whether the current narrative blaming data centers is supported by data—and, if not, where policy attention should be focused instead.

Key Findings

The data does not support the claim that data centers are driving higher electricity prices.

After testing multiple models and specifications:

- Data center electricity use is **not associated with higher electricity rates.**
- In fact, where statistically significant, **higher data center usage is associated with *lower* average electricity rates**. The effect is small but uniformly negative.

- State energy policies—especially the more aggressive renewable mandates—are *strongly* associated with higher electricity costs.

More specifically:

- States with a Renewable Portfolio Standard (RPS) of 50% or higher have electricity rates that are about 6 cents per kWh higher for residential customers.
- States with an RPS of 100%, such as California, have rates that are another 6 cents per kWh higher.
- By contrast, data center electricity consumption at levels comparable to California's is associated with a *reduction* of about 1.1 cents per kWh.

Together, these factors explain more than 40% of the variation in electricity prices across states, indicating that policy choices—not data center growth—are the dominant cost driver.

AI and Energy Use: What the Data Shows About Data Centers and Electricity Costs Post ChatGPT

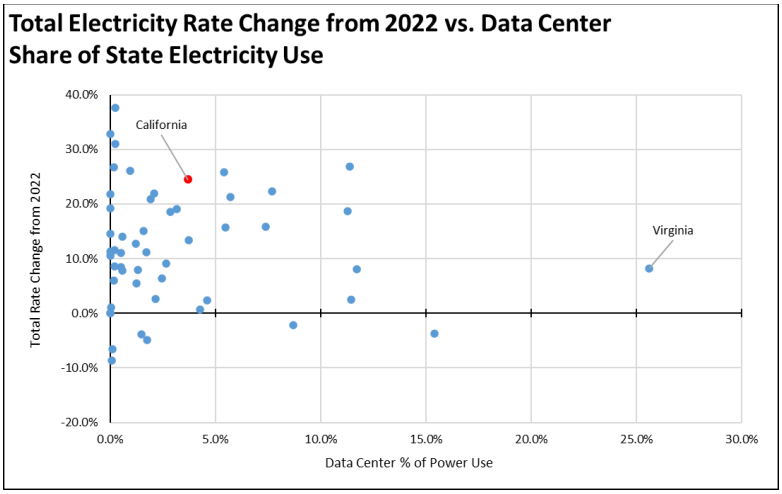
Despite recent media attention, states with the largest data center footprints have not experienced larger electricity price increases.

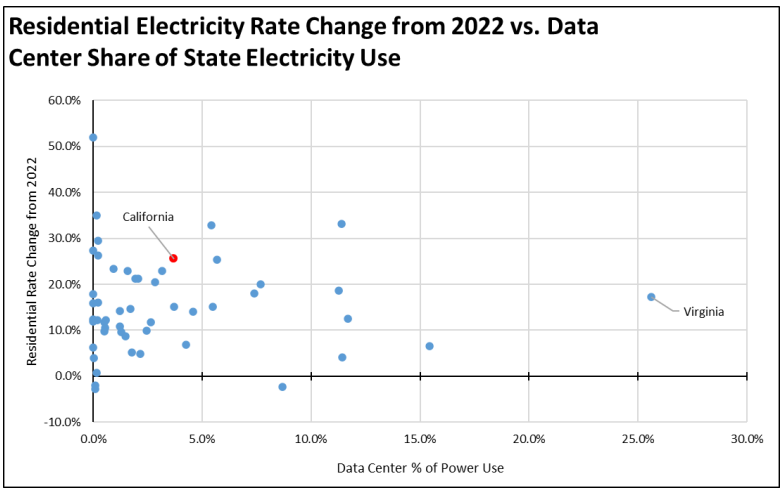
Looking at electricity price changes from **2022 (pre-ChatGPT) to 2025**:

- **California**
  - Data centers use **3.7% of total electricity**
  - Average total electricity rates increased **nearly 25%**
  - California also has among the **strictest renewable mandates in the country**
- **Virginia**
  - Data centers use **25.6% of total electricity** (the highest in the nation)
  - Average electricity rates increased by only **8%**

When states are grouped:

- States where data centers use **more than 10% of electricity** saw average total rate increases of **10.1%**





- States where data centers use **5% or less** saw higher increases, averaging **12.0%**
- Residential rates show a similar pattern, with **no meaningful difference** between high and low data-center states

There is no observable relationship between data center intensity and higher electricity prices.

Why Data Centers May Lower Costs, Not Raise Them

The negative relationship between data centers and electricity prices may seem counterintuitive, but several factors may help explain it:

- Data centers improve base-load demand, allowing utilities to spread fixed grid costs across more consistent usage
- They make better use of renewable generation when it is available
- They are often positioned to absorb excess renewable power that would otherwise be curtailed and sold at very low prices
- Many data centers maintain on-site backup power, improving grid resilience during shortages
- Large projects increasingly self-supply electricity, reducing strain on the grid rather than adding to it

Alternatively, states with large data center industries may simply manage electricity systems more carefully, prioritizing cost control and reliability—unlike California, where renewable mandates are often pursued without sufficient attention to cost impacts.

Where Cost *Does* Correlate: State Energy Policy

State energy policies were evaluated using a binary framework based on the Lawrence Berkeley National Laboratory's State Electricity Resource Standards database.

Policies analyzed include:

- Any Renewable Portfolio Standard (RPS)
- RPS requiring 50% or more renewables
- RPS requiring 100% renewables
- Clean Energy Standards (CES)

Key results:

- RPS policies at 50% or higher are consistently associated with higher electricity prices, increasing prices by **5.1 cents/kWh** in the final specification
- RPS at 100% (California's standard) adds even more cost, increasing prices by **6.8 cents/kWh**
- Clean Energy Standards were not statistically significant

What This Means for Cost-of-Living Policy Decisions

Blaming data centers for rising electricity prices misdirects attention from the real drivers of higher costs. The evidence shows that policy choices—particularly rigid renewable mandates adopted without cost discipline—are the primary contributors.

Data centers remain critical to California's economy, supporting high-wage employment, Silicon Valley's global competitiveness, and the industry that produces a growing share of state tax revenues.

Ironically, California's electricity policies, which have shown to drive up the cost of electricity, increasingly push these investments to other states, exporting growth while forcing residents and businesses to absorb higher costs at home.

The data is clear. If policymakers want to address electricity affordability and the broader cost-of-living crisis, the focus must be on energy policy design—not scapegoating data centers.

Methods & Data

Methodology

The analysis uses **linear regression models** to estimate how much electricity prices are associated with:

- Data center electricity use, and
- State energy policies.

The models focus on:

- **Average residential electricity rates**
- **Average total electricity rates**

Prices are measured as **12-month averages ending with the latest data from October 2025**, with comparisons to:

- October 2020 (start of recent price acceleration)
- October 2022 (pre-ChatGPT)

Data Sources

All data is publicly available and reproducible:

- **Electricity prices**: U.S. Energy Information Administration (EIA)
- **Data center electricity share**: 2024 Electric Power Research Institute (EPRI)

- **Energy policy classifications**: Lawrence Berkeley National Laboratory
- **Data center inventories**: Cross-checked across multiple public sources (Aterio, Data Center Map, Business Insider), acknowledging variation in coverage and definitions

Regression Results

- The final selected models explain **41–46% of state-level electricity price variation**
- Data center variables were statistically significant only in limited cases—and **always with negative coefficients**
- Energy policy variables were consistently significant and positive at higher mandate levels

Regression Results

Variable	*Coefficient*
Dependent: Average Residential Rate	
Intercept	16.44*
	(0.95)
Data Center Share of State Consumption	-30.66***
	(14.25)
RPS 50% +	6.17*
	(1.63)
RPS 100%	5.94*
	(2.88)
Adj. R^2	0.4149
Observations	51
Dependent: Average Total Rate	
Intercept	13.31*
	(0.88)
Data Center Share of State Consumption	-30.21**
	(13.17)
RPS 50% +	5.05*
	(1.51)
RPS 100%	6.80**
	(2.66)
Adj. R^2	0.4588
Observations	51

Standard errors in parentheses
**99% significance, **95% significance, ***90% significance*