Finance & economics | A load of nonsense

Americans' electricity bills are up. Don't blame AI

Were it not for data centres, prices might be even higher

The Economist

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PHOTOGRAPH: SHUTTERSTOCK

Mar 5th 2026 | ASHBURN, VIRGINIA | 4 min read

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POWER BILLS are going up in America and the people are angry. They know whom to blame—the bosses of technology firms thirsting for more juice to fuel artificial-intelligence data centres. Ashburn, a town of 45,000 in a featureless part of Virginia that has earned the nickname "Data Centre Alley", has some 150 of these. They consume roughly as much electricity as Philadelphia, a city of 1.6m. On March 4th Donald Trump convened tech leaders to sign a pledge to "build, bring or buy their own power supply...ensuring that Americans' electricity bills will not increase".

Their solemn pledges notwithstanding, the chief executives can do little to contain prices. That is not, though, because AI is unstoppable. It is because the AI boom is not chiefly to blame for the rising costs.

In the past few years retail electricity prices have indeed outpaced overall inflation (see chart 1). And data centres are gobbling up more power. Goldman Sachs, a bank, reckons that they will account for nearly half of the overall demand growth in America in the coming years.

Yet even bullish forecasts put data centres' share of total demand at only a fifth in 2030. Today it is less than a tenth. A study last year by the Lawrence Berkeley National Laboratory showed that data-centre load was not the main cause of the rate rises in the five years to 2024. It fingered grid upgrades and rising costs of power-generating equipment and raw materials such as copper. Wood Mackenzie

outstripped supply by 10%. For power transformers the gap was 30%. Manufacturers report waiting lists for essential grid-related kit stretching to 120 weeks or more, up from 50 weeks in 2021.

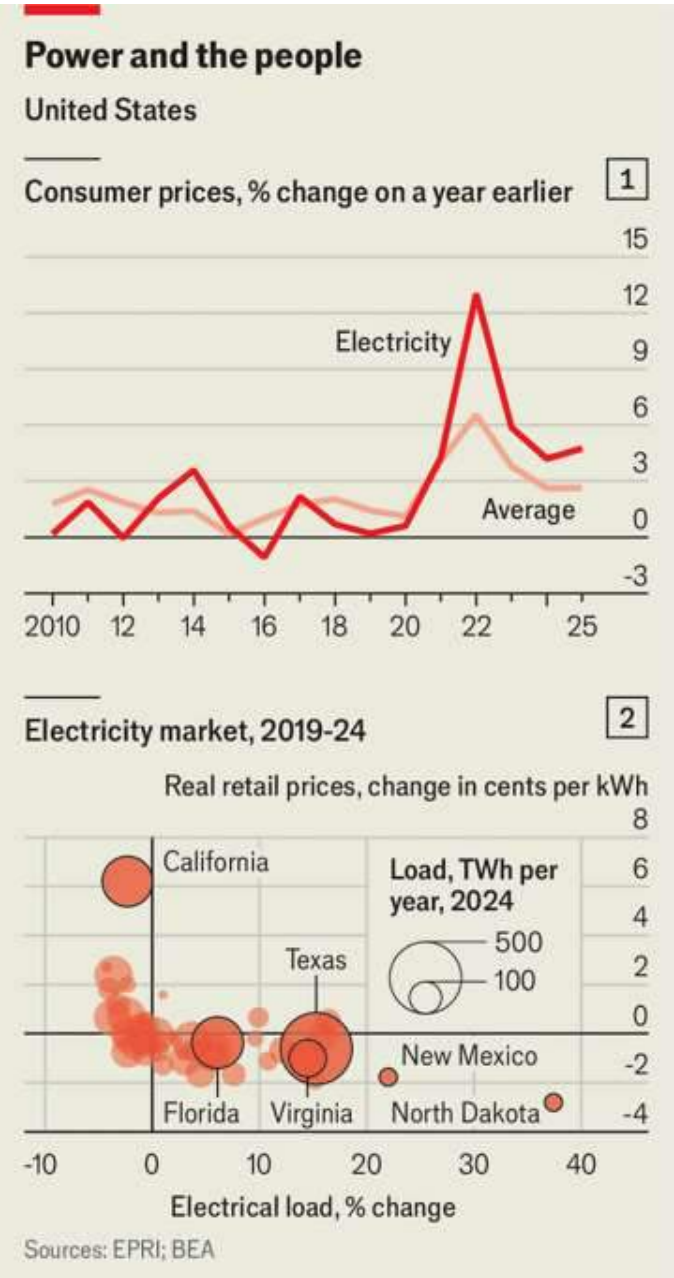

CHART: THE ECONOMIST

Many prices started going up in early 2021, nearly two years before the launch of ChatGPT ignited the AI boom. They are likely to keep rising for non-AI reasons. The Edison Electric Institute, which represents private-sector utilities, predicts its members' cumulative capital spending will reach $1.1trn between 2025 and 2029, up from $765bn in the previous five years. More than half the sum for distribution and transmission infrastructure will go on replacing ageing equipment and hardening it against extreme weather made likelier by climate change. Between 2019 and 2023 big Californian utilities spent $27bn just on mitigating wildfire risk. These investments have been neglected for years. Now, says an industry bigwig, AI provides a pretext to help win approval from regulators to pass the cost on to consumers.

caused natural-gas prices to rise, analysts were predicting that domestic buyers would be increasingly competing with foreign ones as more export terminals for liquefied natural gas come online. Mr Trump, an inveterate renewables sceptic, has not helped by impeding the growth of solar and wind capacity. Peter Fox-Penner of the Brattle Group, a consultancy, notes that as a result prices are rising needlessly for the cheapest forms of new power generation.

AI may even be lowering prices. The tech giants are already investing in their own capacity (mostly, whisper it, in the clean variety). Microsoft has signed a long-term deal to restart a nuclear reactor at Three Mile Island to supply its data centres. Meta has backed a handful of nuclear startups. In December Google's corporate parent, Alphabet, paid $5bn for Intersect Power, a developer of utility-scale solar power and battery storage. A data centre in Ashburn belonging to Equinix, a big operator, is experimenting with fuel cells.

Besides adding its own supply, big tech is making existing capacity more flexible. Google has agreed to novel tariff arrangements with Indiana Michigan Power, a midwestern utility, whereby its data centres can reduce their consumption when other demand is high. Microsoft is going further. In one of its Irish data centres it uses backup batteries as a "grid stabiliser" that can push power back into the network or draw excess power from it at times of stress. Since grids often run well below full capacity, adding a large, flexible customer can bring in lots of revenue for utilities without requiring costly expansion. This lets the utilities lower rates for households while preserving their margins.

The Electric Power Research Institute, a think-tank, found that some states with high load growth between 2019 and 2024 reported price declines, after adjusting for inflation (see chart 2). The World Resources Institute, another think-tank, notes that in North Dakota rising demand from oil and gas extraction, cryptocurrency miners, data-centre operators and food-processors led to large price reductions for local electricity users. PG&E, a big Californian utility, estimates that adding a gigawatt of load could lower bills by up to 2%. If Americans want lower electricity bills, they should be shouting for more AI, not less. ■

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From the March 7th 2026 edition

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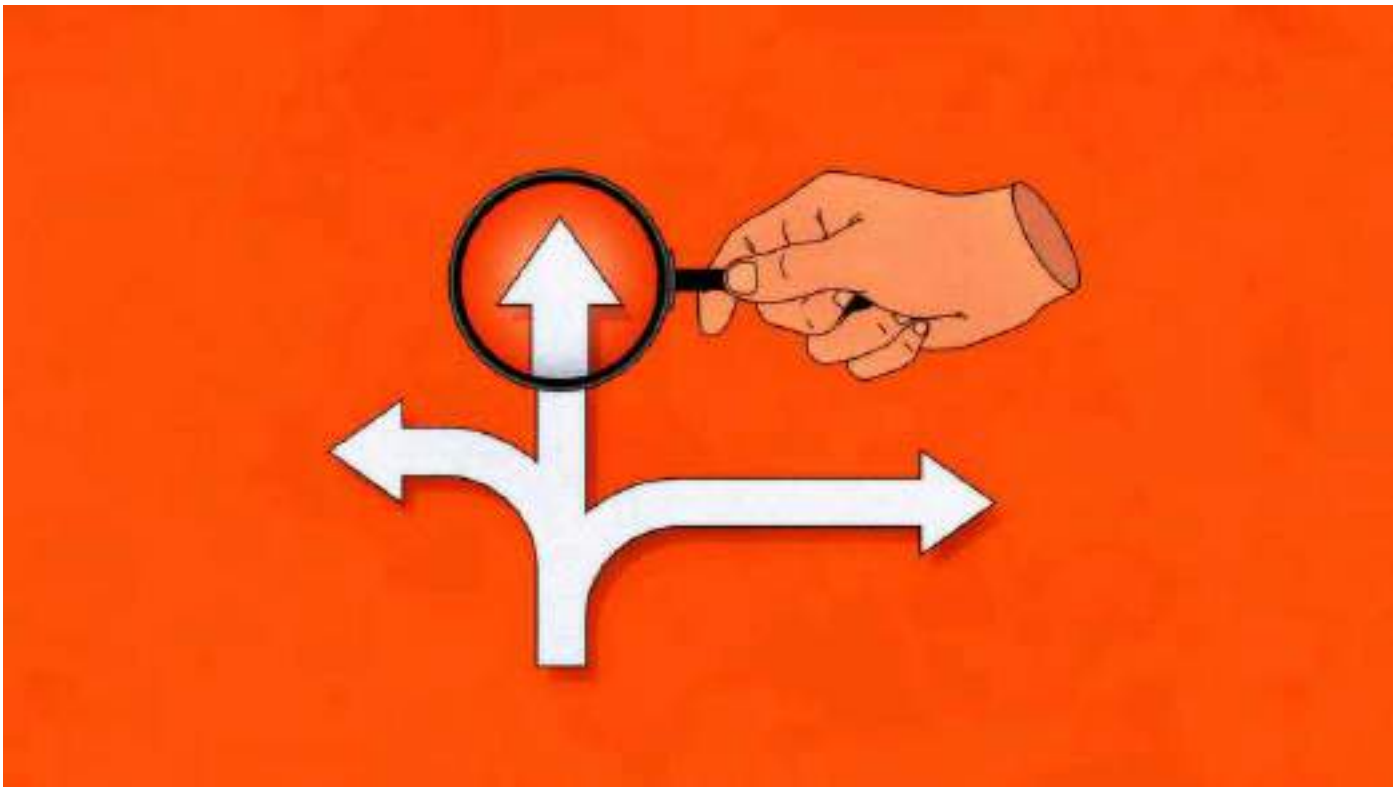

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