

Retail rate changes, including the underlying assumptions used, are reviewed, challenged, and approved through robust and formal regulatory proceedings that are designed to ensure fairness, transparency, and adherence to cost-causation principles. In both vertically integrated and restructured states, regulated utilities file detailed rate cases or cost-of-service studies with their public utility commissions. In vertically integrated states, these cases cover the full cost of providing electric service, including generation, transmission, and distribution, whereas in restructured states like New York, rate cases primarily address transmission and distribution costs,

with generation costs determined through wholesale markets and passed through to customers. These proceedings typically involve thousands of pages of testimony, data requests, financial schedules, engineering studies, and expert analysis. Multiple stakeholders participate, including state consumer advocates, industrial customer representatives, environmental organizations, independent experts, and in some cases large load customers themselves. This level of scrutiny reflects the importance of rate design decisions and underscores that questions of cost sharing and potential cost shifting are actively debated and carefully evaluated within an established regulatory framework.

Why Rates Rise (or Fall), and What Is Cost Shifting?

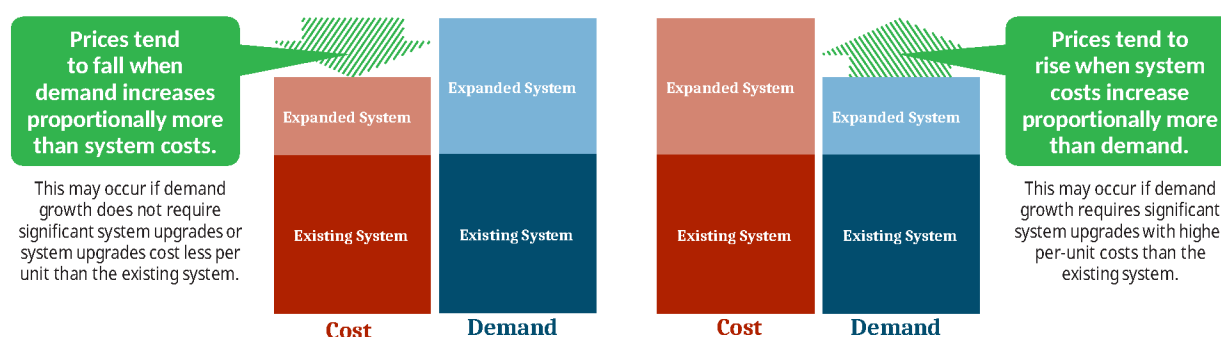
Cost shifting is when one group of customers pays more than the costs they cause and are responsible for, effectively subsidizing another group. In the context of new loads, cost shifting would occur if the costs attributable to serving that load, including both direct infrastructure costs and broader system impacts, are not fully recovered from that customer and instead are allocated to other customers through higher rates for those customers.

It is important to distinguish cost shifting from overall rate impacts. New load growth can affect total system costs and therefore rates, even when costs are allocated in a manner consistent with cost causation. At a high level, the impact of new load on average rates depends on the relationship between total system costs (i.e., the revenue requirement) and total billed sales, as illustrated in Figure 2 below. If the costs required to serve the new load increase the revenue requirement faster than total sales increase, average rates may rise. Conversely, if sales increase more rapidly than total costs, fixed system costs are spread across more kilowatt-hours, creating downward pressure on average rates. This can be a major benefit of high load factor customers such as data centers: they can improve utilization of existing, underused system capacity and support fixed cost recovery,

helping to reduce the cost burden on other customers. In fact, a 2026 study from the Brattle Group demonstrates how greater utilization of the existing electricity system could significantly improve affordability, saving more than \$100 billion in the next decade, while enabling load growth and benefitting consumers by spreading costs over a larger sales base.⁴

Importantly, these rate impacts are not, by themselves, evidence of cost shifting. Cost shifting arises only when costs are not assigned or allocated in proportion to cost causation—for example, if costs driven by a new load are not fully reflected in that customer’s cost responsibility and are instead borne by other customers. Persistent differences between revenues and cost responsibility may indicate that costs are not being allocated in proportion to cost causation, resulting in cross-subsidies between customers. However, short-term differences can also arise due to timing lags, rate design features, or market structures, and do not necessarily imply longer-term cost shifting. These outcomes emphasize the importance of updating cost allocation assessments as often as possible, particularly in the face of substantial and rapid load growth.

Figure 2: Illustrative System Rate Impact Dynamics⁵



⁴ Hledik R., Lam L., Peters, K. (2026). *The Untapped Grid: How Better Utilization of the Power System Can Improve Energy Affordability*. The Brattle Group. <https://www.brattle.com/wp-content/uploads/2026/03/The-Untapped-Grid-Mar-2026.pdf>

⁵ Wiser, R. H., Barbose, G. L., Gorman, W., O'Shaughnessy, E., Forrester, S., Donohoo-Vallett, P., Cappers, P., Deason, J., Hledik, R., & Lam, L. (2026). Retail electricity price trends and drivers: Data update—2026 edition. Lawrence Berkeley National Laboratory. https://emp.lbl.gov/sites/default/files/2026-03/Retail%20Price%20Trends_2026%20edition.pdf