BUCKEYE POLICY BRIEF

UNDERMINING OHIO'S COMPETITIVE EDGE

HOW AEP'S DATA CENTER TARIFF HARMS OHIO

BY ASWIN PRABHAKAR

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Introduction

Ohio stands at a crossroads. Data centers are the fastest-growing source of electricity demand in the country, driven by artificial intelligence, cloud computing, and digital infrastructure. Estimates vary, but Ohio could see data center demand grow from roughly 600 megawatts today to as much as 3.7 gigawatts by 2030, based on signed customer agreements.[1] The surging demand represents enormous economic opportunity, with billions of dollars in private investment, thousands of construction jobs, and a long-term tax base. But rather than welcome the potential growth, American Electric Power Ohio (AEP) risks driving it to other states.

In July 2025, the Public Utilities Commission of Ohio (PUCO) approved AEP's request for a data center tariff, which imposes an 85 percent minimum demand charge, 12-year contract terms, and steep exit penalties on any data center customer exceeding 25 MW.[2] The tariff followed a 28-month moratorium on new data center connections that AEP imposed unilaterally in March 2023 without prior PUCO approval.[3] These measures signal that Ohio's largest electric utility views its most promising customers as liabilities, not opportunities. And efficient pricing, grid reliability, and Ohio's competitive position all suffer under the current framework. The Ohio Supreme Court should reverse the tariff, and state policymakers should direct utilities to design rates that welcome large, flexible loads rather than penalize them.

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[1] Ethan Howland, **AEP Expects to Add 24 GW of Load by 2030, Mainly from Data Centers**, Utility Dive, August 1, 2025; Ethan Howland, **AEP Ohio Proposes Data Center, Crypto Financial Requirements amid 30 GW in Service Inquiries**, Utility Dive, May 15, 2024.

[2] Public Utilities Commission of Ohio, **Order in Case No. 24-508-EL-ATA**, July 9, 2025.

[3] Nick Evans, **Ohio Manufacturers' Association Challenges New Utility Billing for Data Centers**, Ohio Capital Journal, November 13, 2025.

The Failure of AEP's Pricing Model

Efficient utility pricing follows what economists call the Ramsey pricing rule: to minimize economic distortion, fixed-cost recovery should fall most heavily on customers least likely to change their behavior in response to price.[4][5] Residential ratepayers, who cannot easily relocate, are relatively price-inelastic. They are unlikely to move due to small rate increases. Data centers, by contrast, are mobile capital and very cost-conscious. A large data center builder, choosing between Ohio, Indiana, and Virginia, will locate where energy is cheapest and where they can build their own power plants off the public grid.

AEP's proposed tariff inverts the Ramsey rule. It charges the most elastic customers—data centers—the highest markups through an 85 percent take-or-pay mandate that lasts 12 years. Predictably, these customers leave or never arrive. And as they turn down large industrial customers, they still propose more energy buildouts.[6] Residential ratepayers, whom the tariff claims to protect, ultimately shoulder a larger share of the grid's expansion costs because the large loads that could have spread those costs are gone. AEP's infrastructure plans do not pause when the large-load customers walk away even though the utility justified a massive capital expansion based on projected data center demand. When the demand fails to materialize because the tariff drove it elsewhere or into self-supply, the infrastructure still gets built, and its costs still get recovered from the same residential ratepayers the tariff was designed to protect. A well-designed tariff would ensure data centers pay their share of grid costs. But the current tariff ensures they pay nothing, while other ratepayers pay everything.

A unified grid used by residential customers and large-load users enjoys economies of scale and is inherently more efficient than a patchwork of isolated generators. Utility-scale combined-cycle gas turbines and nuclear plants deliver lower levelized energy costs than smaller onsite generators.[7] A large grid balances thousands of diverse loads, while an isolated data center with no grid support must build expensive redundancy backup systems. By making grid power prohibitively expensive, AEP forces data centers toward less efficient, self-contained solutions. This is a market failure engineered by the utility itself.

Behind-the-Meter and Long-term Impacts

AEP wants to prevent cost-shifting from data centers to other ratepayers. Ironically, the tariff makes that outcome inevitable. If punitive terms push every data center to build behind-the-meter (BTM) generation, then AEP will collect zero revenue from these massive energy users. The transmission lines and power plants that AEP has already built and plans to build receive no

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[4] Frank P. Ramsey, "**A Contribution to the Theory of Taxation**," *The Economic Journal*, Volume 37, No. 145 (March 1927) p. 47–61.

[5] Joseph E. Stiglitz, "**In Praise of Frank Ramsey's Contribution to the Theory of Taxation**," *The Economic Journal*, Volume 125, Issue 583 (March 2015) p. 235–268.

[6] **AEP Secures Minority Equity Interest Investment in Ohio and Indiana & Michigan Transmission Companies**, American Electric Power press release, January 9, 2025.

[7] U.S. Energy Information Administration, ***Levelized Costs of New Generation Resources in the Annual Energy Outlook 2025***, April 2025.

contribution whatsoever from them. And grid-connection delays only further encourage data centers to bypass the grid entirely. Connecting to AEP's grid through the PJM interconnection queue can take four to five years,[8] whereas an onsite gas turbine can come online in 12 to 18 months. For firms racing to deploy artificial intelligence infrastructure, that difference can justify paying more per megawatt-hour to generate their own power.

The cost gap between grid power and self-generation underscores how much the tariff distorts incentives. Utility-scale combined cycle gas plants produce electricity at roughly $39 to $56 per megawatt-hour, while smaller onsite simple cycle turbines run $67 to $112 per megawatt-hour.[9] Under normal pricing, the grid option prevails. But once the tariff's 85 percent take-or-pay clause and 12-year lock-in are factored in, the effective cost of grid power rises sharply, and the BTM premium shrinks or disappears. Data centers do not choose the more expensive option because it makes economic sense in isolation. They choose it because AEP's tariff has made the efficient option prohibitively risky.

Large-load users, such as data centers, face two distinct problems under the current framework. First, connecting to AEP's grid takes far too long for firms racing to deploy AI infrastructure. Second, even those willing to wait face one-sided, non-negotiable tariff terms imposed by a utility with no competitive pressure to offer better service. BTM generation and fully islanded consumer-regulated electricity (CRE) models, private systems that bypass Federal Energy Regulatory Commission jurisdiction and state tariffs entirely, have become the market's answer to both problems. The first problem is genuine, while the second is caused by AEP's tariff structure.

A premium paid for a faster connection via CREs and BTMs is understandable. And in the short term, such premiums help meet data center energy demands without raising residential rates. But a monopoly utility using its position to force customers into 12-year take-or-pay contracts with exit penalties when those customers have no alternative supplier is indefensible. A private business can turn away customers for any reason. A regulated utility with a government-granted monopoly cannot. When AEP imposes punitive terms, the cost falls on every Ohio ratepayer, not just data centers. If data centers exit the grid via BTM or CRE, the infrastructure costs are spread over a smaller base, and residential customers pay more for a grid that serves fewer people. That risk is not hypothetical. AEP has expanded its capital plan to $72 billion based on projected data center demand. If the tariff drives that demand elsewhere or into self-supply, the infrastructure will still be built, and Ohio ratepayers will still pay for it.[10]

Abuse of Monopoly Power

The Ohio Manufacturers' Association Energy Group (OMAEG) has challenged the tariff before the Ohio Supreme Court, arguing that AEP's conduct violates the Certified Territories Act and

[8] Lawrence Berkeley National Laboratory, ***Queued Up: Characteristics of Power Plants Seeking Transmission Interconnection As of the End of 2023***, April 2024.
[9] Lazard, ***Levelized Cost of Energy Analysis—Version 17.0***, June 2024.
[10] **AEP Reports Third-Quarter 2025 Operating Earnings, Updated Capital Plan Drives New Long-Term Growth Rate**, American Electric Power press release, October 29, 2025; Ethan Howland, **Manufacturers Say AEP Ohio Still Inflating Data Center Demand After Halving Forecast**, Utility Dive, February 6, 2026.

constitutes discriminatory pricing.[11] The legal arguments have merit, but the economic critique runs deeper. AEP imposed a two-year moratorium on new data center connections in March 2023, citing transmission constraints. But as OMAEG's appeal notes, the moratorium was not ordered or approved by PUCO before its implementation, and AEP presented insufficient evidence that data centers were the sole cause of these constraints.[12]

PJM Interconnection, the regional grid operator, already has transparent processes for identifying and approving transmission needs. AEP bypassed those processes in favor of a blanket ban. The moratorium gave AEP enormous leverage. With more than 50 data centers in queue representing more than 30,000 MW of potential demand,[13] AEP effectively told prospective customers: accept our terms or build somewhere else.

This is not how a regulated utility should operate. The regulatory compact grants monopoly service territories in exchange for an obligation to serve. AEP's moratorium inverted that compact, using its monopoly position to extract favorable contract terms rather than investing to meet demand. AEP initially projected 30,000 MW of speculative demand, but once developers were required to make financial commitments under the new tariff, that figure fell to 5,700 MW.[14] OMAEG has since argued that even the revised forecast is inflated.[15] Whether the number is 13,000 or 30,000 MW, the appropriate response for a utility is to develop infrastructure plans, not to impose moratoriums and punitive tariffs.

Ohio's Competitive Disadvantage

While Ohio debates punitive tariffs, neighboring states are courting the same investment. In Indiana, regulators approved a modified industrial tariff for AEP's own subsidiary, Indiana Michigan Power, with an 80 percent minimum demand charge, five percentage points lower than Ohio's. Google, Microsoft, and Amazon Web Services signed settlement agreements for major data center projects in the territory.[16] Ohio's abundant natural gas supply gives it a structural cost advantage in electricity generation, one that could support rates competitive enough to attract large-load users while still recovering infrastructure costs fairly across all customer classes. A well-calibrated tariff would capture that advantage. The current tariff forfeits it.

[11] ***In the Matter of the Application of Ohio Power Company for New Tariffs Related to Data Centers and Mobile Data Centers***, Case No. 2025-1458, Supreme Court of Ohio (filed November 3, 2025).
[12] *Ibid.*
[13] Nick Evans, **Ohio Manufacturers' Association Challenges New Utility Billing for Data Centers**, Ohio Capital Journal, November 13, 2025.
[14] Nick Evans, **AEP Ohio Says New Data Center Tariff Is Working, Critics Aren't Buying It**, Ohio Capital Journal, February 20, 2026.
[15] Ethan Howland, **Manufacturers Say AEP Ohio Still Inflating Data Center Demand After Halving Forecast**, Utility Dive, February 6, 2026.
[16] ***In the Matter of the Verified Petition of Indiana Michigan Power Company***, Indiana Utility Regulatory Commission, Cause No. 46097, February 19, 2025.

Large data center builders are deploying hundreds of billions of dollars annually, an estimated $443 billion in 2025 alone, projected to reach $602 billion in 2026.[17] Ohio's share of that investment depends on whether its regulatory environment signals welcome or hostility. Virginia, already home to 665 data centers, more than three times Ohio's 217, continues to attract investment through dense fiber networks, reliable power, and streamlined permitting. Ohio's current framework signals to investors that this is a harder place to do business.

The opportunity cost extends beyond direct data center investment. Ohio could anchor PJM's high-voltage transmission expansion, attracting regional infrastructure upgrades that would benefit all ratepayers by improving reliability and enabling access to lower-cost generation. But by pushing large-load users away, Ohio loses the leverage to demand those upgrades.

Conclusion

The PUCO's approval of AEP's data center tariff was a short-term win for the utility that will produce a long-term loss for Ohio. It prioritizes AEP's desire for guaranteed risk-free returns over the state's economic competitiveness and grid efficiency.

Ohio policymakers should consider the short-term and long-term consequences of how they structure utility tariffs. Ideally, more resources should flow onto the grid to support more usage from residential customers and large industrial loads alike. That combination lowers rates for everyone: when fixed costs like transmission and plant construction are spread over a larger base, the unit cost falls. More load means more economic growth. Getting there requires more negotiation among AEP, other utilities, and large-load firms, with the PUCO acting as a neutral arbiter. The commission should defer to existing rules for large-load connections and demand detailed justification from AEP before approving any rule deviation. Large-load customers seeking connections should have the right to challenge utility-imposed restrictions.

If Ohio persists in treating data centers as threats instead of opportunities, the market will respond. Data centers will still be built, still create hi-tech jobs, and still generate tax revenue—just not here.

[17] Jordan Chalfin and Michael Pugh, ***Technology: Hyperscaler Capex 2026 Estimates***, CreditSights, November 10, 2025.

About the Author

Aswin Prabhakar is an economic research analyst at The Buckeye Institute, where he conducts original research on Ohio's energy, innovation, and tax policies and their impact on the state's economy.

THE BUCKEYE INSTITUTE
88 East Broad Street, Suite 1300
Columbus, Ohio 43215
(614) 224-4422
BuckeyeInstitute.org

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