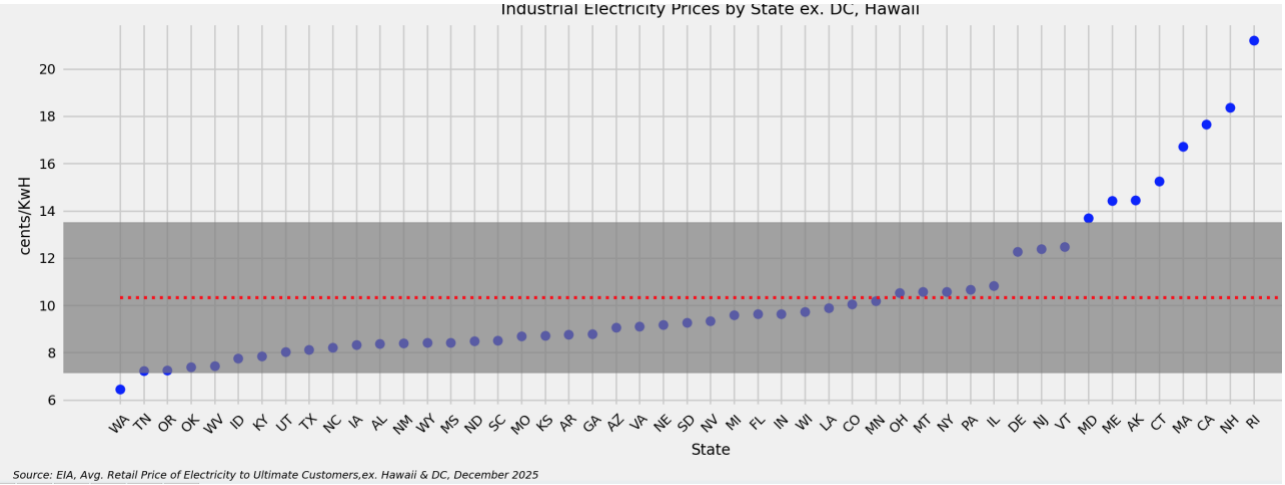
Do State Electricity Prices Really Matter in the location of US Data Centers?

Summary

In recent years, end users of electricity in the United States have endured rapidly rising prices caused by a range of factors including increased demand for power. These trends have led industry stakeholders and investors to call for greater electricity supply at more competitive rates. Simultaneously, states eager to capitalize on the economic advantages tied to data center development are working to create favorable investment environments. Yet states that succeed in drawing data center investments do not necessarily offer the lowest electricity costs to industrial users. Instead, various factors—such as geographic location, transmission infrastructure, and comprehensive state-level strategies—play crucial roles in determining where data centers are established.

Recent Trends

The upward trajectory of electricity prices in the U.S. is driven by several elements, including extreme weather events, international conflicts, and surging technology-related demand. Among the technological forces, cloud-based storage and artificial intelligence stand out as key contributors to increased demand for both data centers and electricity. As of 2023, data centers accounted for about 176 terawatt-hours of electricity use, representing 4.4% of total U.S. electricity consumption[1]. Projections suggest this demand will grow to a potential energy share of 12%, adding 460 terawatt-hours of demand between 2023 and 2030[2]. Furthermore, one-third of all U.S. data centers are concentrated in just three states: Virginia (643 centers), Texas (395), and California (319)[3]. While the cost of industrial electricity may influence the placement of new data centers, recent figures reveal that states with data center concentration do not necessarily offer below average electricity prices. Virginia's pricing is close to the national average, whereas California's rates are considerably above average.

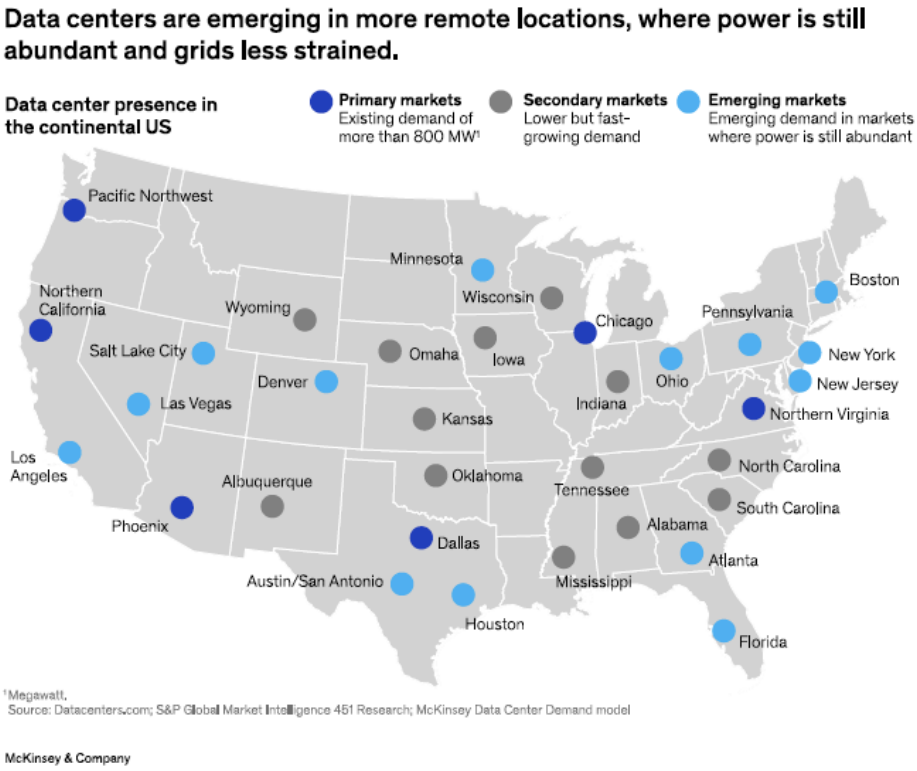


States able to attract data center projects stand to benefit from job creation, the growth of related industries, and overall GDP. States such as Virginia and Ohio have achieved significant success in building their data center

[1] Congress.Gov, January 23, 2026, https://www.congress.gov/crs-product/R48646
[2] "The data center balance: How US states can navigate the opportunities and challenges", McKinsey & Co., August 2025
[3] Pew Research, October 24, 2025, https://www.pewresearch.org/short-reads/2025/10/24/what-we-know-about-energy-use-at-us-data-centers-amid-the-ai-boom/

sectors by engaging in strategic planning and making targeted investments. It is important to note, however, that neither of these states is characterized by particularly low industrial electricity prices.

Looking ahead, several factors are expected to shape decisions about where to invest in new data centers. These include availability of energy and real estate, transmission and interstate transmission capacity, regulation and the potential environmental and economic effects of data center development. Recent research from McKinsey highlights that current data center projects are often located in areas with ample grid capacity and suitable real estate. [4]



Conclusions

Across the United States, states are actively vying for industrial development and accompanying economic growth opportunities. While differences in electricity pricing from state-to-state influence where investors and businesses choose to allocate capital and establish production facilities—including data centers—recent trends suggest that a more comprehensive approach is inherent to determining optimal locations for data center projects. Although the cost of industrial electricity remains a consideration, other elements such as grid and interstate transmission capacity, availability of real estate and energy, and strategic planning play a decisive role in guiding investment decisions within the data center sector.

[4] "The data center balance: How US states can navigate the opportunities and challenges", McKinsey & Co., August 2025