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S&P Sustainability Insights: Affordability Concerns Drive Credit Risks In U.S. Data Center Expansion

Key Takeaways

- Data center expansion is not currently the predominant driver of increased electricity prices in U.S. states, but even perceived linkages between the two pose potential credit risks for utilities, local governments, and data center issuers.
- The effects of data center demand on electricity prices may yet materialize as new rate cases progress and regional grid capacities become increasingly strained.
- Local community concerns are prompting U.S. state and local policy responses that could limit utilities' ratemaking flexibility and ultimately curtail data center expansion.

Rising electricity prices across the U.S. are prompting concerns about the impact of rapid data center development on energy affordability. Retail rates have risen by 38% over the last five years and by as much as 96% in the District of Columbia, according to the U.S. Energy Information Administration. These price increases have largely been driven by inflationary costs and increased capital spending on safety, reliability, and decarbonization, as well as electrification trends, higher capacity prices, and rising costs for wildfire mitigation in some cases. Data center expansion may have been a contributing factor to increased prices, particularly in some states, but it has so far not been the primary driver. However, even the perception of a link between data center expansion and rising electricity prices could contribute to further local resistance and policy responses, creating potential credit risks for utilities, local governments, and data center developers. These dynamics will be important to watch from a credit perspective, particularly in a midterm election year with 36 U.S. state gubernatorial contests, in S&P Global Ratings' view.

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