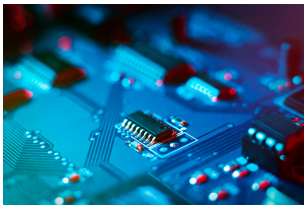

Power, Water, and Tax Breaks: Why Kentucky Is Ripe for a Data Center Boom (Part 2)

Jun 17, 2026

Categories:

Data Centers
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Tax Law Defined™ Blog

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The first article in this series provided background on data centers, specifically how these facilities are defined in a recent report by Kentucky's Energy Planning and Inventory Commission. Here, we address reasons why so many new data center developments are being advanced in Kentucky.

Most of the reasons why Kentucky has moved to the forefront of data center development of late traces to physical assets found statewide.

First and foremost is the availability of and the low relative cost associated with electricity, a data center's largest input. Kentucky offers some of the lowest industrial electricity rates in the United States, which has always been a major competitive advantage for the state; some informed professionals believe that power costs in Kentucky are 10-20% below the national average.

Grid access is also a key. Kentucky's electrical power grid is part of the Eastern Interconnection, which is balanced through the PJM interconnection, MISO, and SERC markets. This interconnected grid spans much of the eastern part of the United States. Major Kentucky transmission operators include roughly 15 distinct utilities and federal agencies (TVA).

In terms of high-speed connectivity to the internet, Kentucky is within 300 miles of multiple major metro areas such as Chicago, Nashville, Indianapolis, St. Louis and Cincinnati. It has a thriving and growing fiber network which supports connectivity and low latency, and it also results in significant access to multiple fiber routes to avoid disruption and increase enterprise-grade reliability.

Next, you need ample fresh water. Water — the Ohio River, the Tennessee River, the Mississippi River, the Cumberland River, and the Big Sandy River all touch or flow through Kentucky. Need I say more? Beyond that, Kentucky offers water resources in abundance

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statewide, which is, to state the obvious, a key component of the operation of any hyperscale data center.

You also need comfort in doing business in the locale. Historically, Kentucky has demonstrated a pro-business and business-friendly regulatory environment, and it has demonstrated over recent years a pattern of supporting large industrial and energy-related projects.

A data center also needs ample land and a good climate. Kentucky's landmass ranks 37th out of 50 states, just above Virginia, which is ranked 36th and a national leader in data center operations. Kentucky's landmass is roughly the size of the six smallest U.S. states combined — Rhode Island, Delaware, Connecticut, New Jersey, New Hampshire, and Vermont. And in terms of climate, Kentucky excels as well. Kentucky ranks 15th out of 50 states as the warmest, with an average annual temperature of approximately 55°. The national average is 54°. And again, compared to Virginia, Kentucky is roughly equivalent to Virginia's climate as well as that of Missouri and Kansas.

And finally, you need an economic boost. Kentucky's favorable tax incentives supporting hyperscale data centers rank among the best in the country. In 2024 and 2025, Kentucky's General Assembly legislated various provisions of sales and use tax incentives, creating an exemption on equipment and other tangible property used to support a data center for up to 50 years while the data center is in operation.

So, Kentucky is a great place to locate data centers for all the above reasons, and no doubt all are drivers of the recent data center push into Kentucky, subsequent to the tax incentive package first passed in 2024. Next up in our multipart series, what does a data center produce?

Please contact the author if you have questions or comments on this series. You can also visit FBT Gibbons' Tax Law Defined® Blog for more insight into the latest developments in federal, state, and local tax planning and tax administration.

Bluegrass, Big Data Series

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