



## Dotcom on Steroids: Part V

### Too big to permit

15 Apr 2026

GQG Research

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### Key Takeaways

- The rapid expansion of AI-focused mega data centers is fueling community backlash over resource consumption, leading to delays, regulatory challenges, and escalating costs that threaten AI's infrastructure growth
- Political and public resistance to data centers is intensifying nationwide, transcending partisan lines as communities grapple with rising utility bills, water scarcity, and environmental concerns
- Mounting financial risks from stalled projects, regulatory scrutiny, and investor skepticism are exposing cracks in the Generative AI investment bubble, jeopardizing its long-term profitability

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Once inconspicuously tucked into quiet commercial neighborhoods, data centers, in many instances, have now transformed into sprawling industrial giants, dominating landscapes and devouring vast quantities of water and electricity. A single hyperscaler one-gigawatt (GW) facility, often hailed by tech giants as AI's backbone, can consume enough water to fill up to 24 Olympic-size pools a day and draw enough electricity to power 2,200 homes for an entire year.<sup>1,2</sup> As a result, these data centers are increasingly perceived as voracious resource hogs, sparking fierce resistance across the US from small citizen groups that are beginning to challenge—and in many cases, triumph over—some of the world's most powerful corporations.

### RESISTANCE TO AI EXPANSION

The scale of this backlash became clear over the course of 2025. According to 451 Research, between January 2025 and February 2026, at least 78 proposed data centers faced major roadblocks, including denied permits, rezoning lawsuits, power constraints, moratoriums, and lease cancellations. More than 40% of these projects were withdrawn by developers, while the rest remained stalled. Pushback has intensified to such a degree that early 2026 brought one of the largest single victories for data center critics when officials in DeForest, Wisconsin, rejected permits for a \$12B, 1GW mega-campus proposed by Blackstone's QTS Data Centers. Market intelligence platform Sightline Climate recently estimated that up to half of the projects slated to come online in 2026 will be delayed due to power constraints, community opposition, and grid equipment shortages.<sup>3</sup>

This resistance is bipartisan, with over 65% of the affected projects located in Republican-leaning states, according to 451 Research. In our view, AI infrastructure builders are losing their "social license" to operate, which we see as a growing, underappreciated crack in the Generative AI investment bubble.

Community opposition to AI data centers reflects urgent concerns about rising costs of living and resource scarcity, forcing politicians to act during this critical election year. In response to public pressure, some state legislatures have introduced tighter regulations, adding complexity and uncertainty to the already tenuous profitability of AI infrastructure. While industry leaders insist that larger data centers are essential to AI's future, skepticism surrounding their economic and environmental impact is mounting. As we have been outlining in our [Dotcom on Steroids series](#), the AI sector appears overvalued, and the slower-than-expected returns on data-center investments may pose systemic risks. The following sections explore how the collision between investment hype and the physical and political realities of AI infrastructure threaten not only AI's path to monetization, but also the broader economic outlook.

## BREAKING POINT: THE DATA CENTER POWER CRUNCH

Mega data centers, such as Meta’s 2,250-acre Hyperion complex in Louisiana, are raising concerns that go beyond the typical NIMBYism issues like home resale values. Instead, the focus is shifting to the strain these facilities place on power grids and water supplies. Electricity prices have steadily risen since 2022, and while data centers were not initially the main cause, their rapid expansion is putting unprecedented pressure on the US grid.<sup>4</sup> Experts project data centers’ electricity consumption will double from 6% to 12% of total usage by 2028, marking the fastest growth in power demand since the 1950s, when household appliances first went mainstream.<sup>5</sup> According to 451 Research, developers have announced projects requiring an additional 105GW of power, further straining an already fragile grid.

Regional transmission organizations (RTOs) are struggling to keep up. Pennsylvania-New Jersey-Maryland Interconnection (PJM), the largest RTO covering 13 states and Washington DC, faces a severe capacity shortfall as coal-fired plant retirements outpace new power generation approvals. Household bills are up as much as 20% in some states.<sup>6</sup> Capacity auction clearing prices have skyrocketed from around \$30/MW-day in 2024-2025 to \$329/MW-day in the auction for power to be delivered in 2026-2027.<sup>7,8</sup> Households in PJM’s region will foot an extra \$23.1B in costs tied to existing and planned data center demand.<sup>9</sup> To blunt ratepayer anger, PJM capped prices in its most recent auction at \$325/MW-day, but the cap also limits market incentives to new power supply.<sup>10</sup>

The White House recently pressured hyperscalers into signing a non-binding pledge to fully fund new power generation, but we believe these measures are unlikely to shield ratepayers given the lack of enforcement mechanisms and the scale of energy demand. The situation is dire nationwide with nearly all RTOs forecasting power shortfalls. Regulators must act decisively; yet delays, leadership gaps, and complex stakeholder interests complicate solutions.<sup>11</sup>

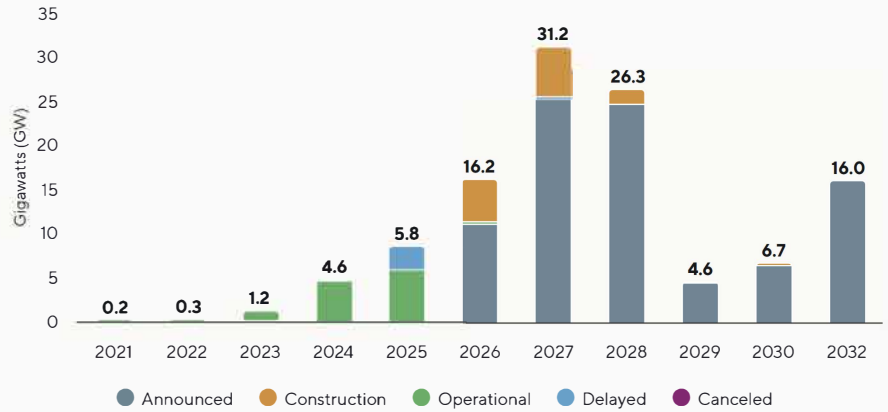
## US Electricity Prices Are Surging

### Residential hourly rates increased over 30% since 2020



Source: GQG Partners LLC (chart). U.S. Bureau of Labor Statistics via Fred® (data). Data for the period 1 January 2015 through 1 February 2026. Data unavailable during the period 1 October 2025 to 12 November 2025 due to the 43-day government shutdown.

## Data Center Pipelines by Operational Date



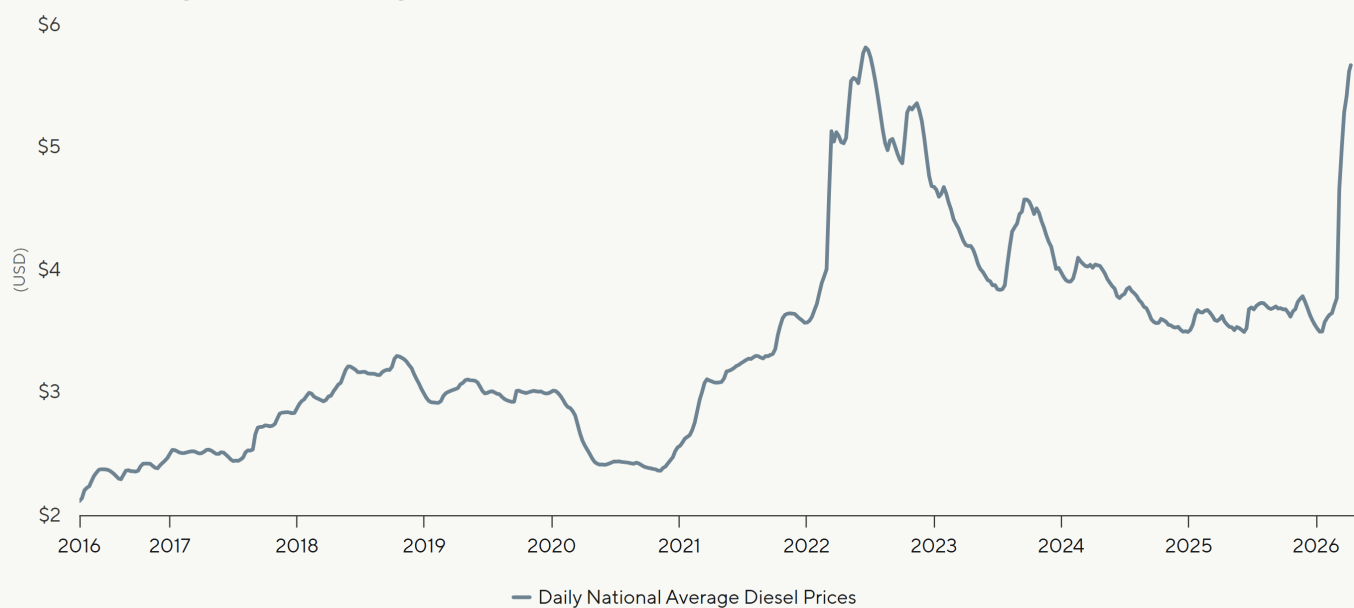
Source: GQG Partners LLC (chart). Sightline Climate (data). Sightline is tracking 190GW across 777 hyperscale (>50MW) projects announced since 2024. Numbers above the bars indicate sum of capacity slated for each year, excluding delayed and canceled projects. No data available for 2031. Data as of 31 January 2026.

Meanwhile, a handful of states are already adopting a controversial stopgap: giving regulators authority to forcibly curtail hyperscale facilities during peak energy demand. This means data centers may disconnect from the grid and run thousands of diesel backup generators, which emit pollutants likely to exceed air pollution limits established under the Clean Air Act. While regulators can choose to adopt this temporary measure, they risk eroding public trust and contributing to the deterioration of air and water quality.

The war on Iran has turned diesel from a contingency input into a material cost driver for data centers, exposing a structural vulnerability in digital infrastructure. Since late February 2026, US diesel prices have surged by roughly 33%, climbing above \$5 per gallon, while global diesel benchmarks have spiked even higher due to severe shortages of refined distillates. This price shock is disproportionately severe for data centers, which rely on diesel generators as the backbone of long-duration resiliency. With fuel typically accounting for 70% to 90% of diesel generation costs, this price surge translates almost directly into rising operational expenses.

Unlike the 2022 energy shock, today's crisis stems from nearly 2 million barrels per day of refining capacity in the Persian Gulf being shut down or impaired, compounded by years of underinvestment and refinery closures in the US and Europe. Refining capacity outside China remains constrained, leaving, in our opinion, no quick supply response to stabilize prices. Global distillate inventories are at 15-year lows, turning elevated diesel costs from a temporary disruption to a lasting structural change. As a result, data center operators are being forced to rethink fuel storage, redundancy economics, pricing models, and the rising costs of ensuring "always-on" compute in an increasingly unforgiving energy landscape.

### Diesel Prices Surge to Near 2022 Highs



Source: GQG Partners LLC (chart). Bloomberg (data). Data for the period 17 April 2016 through 10 April 2026.

### BATTLING OVER WATER

Opponents frequently highlight threats to local water supply, especially in already stressed regions like Phoenix, a major data center hub. Reports of dry wells and discolored or contaminated water from nearby residents have stoked public anger.<sup>12,13</sup> Developers and public officials who refuse to disclose water usage and wage legal campaigns to suppress watchdog reporting, only deepen mistrust.<sup>14,15</sup>

To be sure, studies have highlighted the risks of data centers but have yet to find concrete evidence of impacts on local water security.<sup>16</sup> Meanwhile, new cooling technologies in the latest designs can reduce water use by up to 70%.<sup>17</sup> Nonetheless, perception seems to have become reality, and images of dry taps and brown drinking water are embedded in the public narrative.

At least one major tech company has publicly acknowledged the scale of the issue. In January 2026, Microsoft launched a "Community First AI Infrastructure" initiative, pledging to pay higher electricity rates, use less water, and forgo property tax breaks on new data centers.<sup>18</sup> CEO Satya Nadella has repeatedly warned the sector risks losing its social license to operate, making him an outlier among industry peers.<sup>19</sup>

We believe Microsoft's shift is too late to repair trust. Large US tech firms alienated communities by disclosing as little as legally required, hiding identities behind anonymous LLCs, and striking opaque deals with politicians and utilities.<sup>20</sup> In 36 states, tax breaks worth billions of dollars have been offered to data center developers, but job creation promises are often vague and unenforceable.<sup>21</sup> The "thousands of jobs" touted in town halls can shrink to under one hundred permanent roles once construction ends.<sup>22</sup>

Even the marketing efforts of AI companies add fuel to the communities' fightback. Repeated claims that their technology will automate millions of jobs are turning data centers into a visible symbol of a threat to people's livelihoods. A 2025 Pew Research survey showed 50% of Americans are more concerned than excited about the growing use of AI in daily life, up from 37% in 2021.<sup>23</sup>

## POLITICS AND PUBLIC PUSHBACK

In the 2025 elections in Virginia, New Jersey, and Georgia, voters sent a clear message: cost of living matters. This theme is dominating 2026 campaigns, with gubernatorial races in 36 states, congressional midterms, Public Utility Commission (PUC) elections, and new state-level data center regulations shaping the political landscape. Voters, frustrated by rising utility bills, are rejecting nuanced explanations about inflation and fuel volatility. Politicians face pressure to balance tax incentives and investment benefits with quality-of-life concerns, as it is easier for candidates to point at the new data centers and say: "That is why your utility bills are going up."

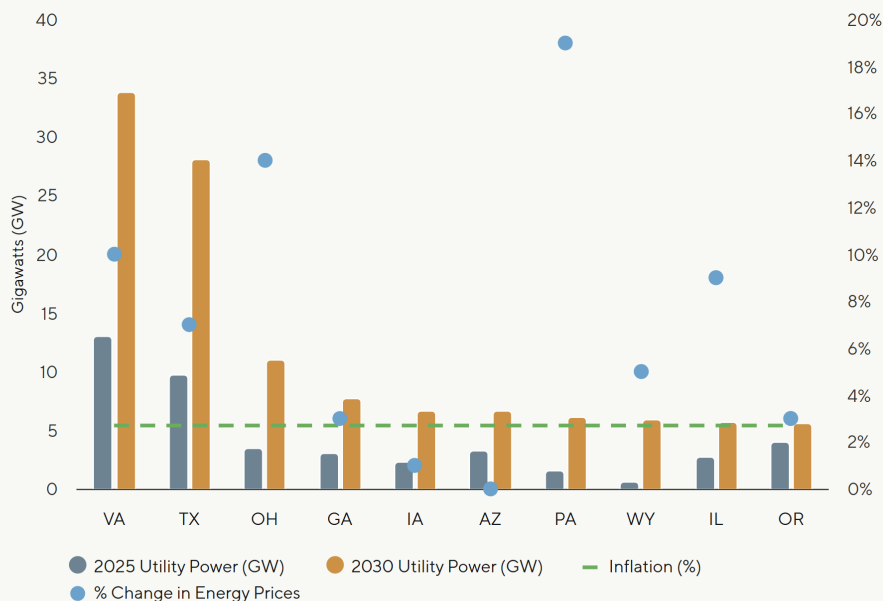
Opposition to data centers has become a rare bipartisan issue, with at least 271 local governments reviewing zoning rules since June 2024, according to data from New Project Media. These reviews allow lawmakers to scrutinize data center impacts and provide a platform for public opposition. Most communities focus on rezoning and regulation rather than outright moratoriums, often learning from neighboring towns that faced higher utility bills, congestion, and noise after permitting data centers without updated rules.

According to 451 Research, at least 610 planned or under construction data center projects representing over 70GW of load are in states with gubernatorial races this year. Candidates in states that once courted data centers are shifting tone. Arizona Governor Katie Hobbs now seeks to undo tax breaks she once supported.<sup>24</sup> Pennsylvania Governor Josh Shapiro has moved from vocal cheerleader to a messenger of community concerns.<sup>25,26</sup> Michigan's presumptive Democratic gubernatorial nominee Jocelyn Benson pledged to block data centers that are reliant on state water or raise electricity costs, reversing her earlier stance.<sup>27</sup> New Jersey Governor Mikie Sherrill froze planned household rate hikes on her first day in office.<sup>28</sup> Even "Data Center Alley" in Loudoun County, Virginia, is likely to see new constraints. Governor Abigail Spanberger supports tighter regulations after her predecessor vetoed two bills studying data center impacts on local resources and communities.<sup>29</sup> When data centers lose political backing in the world's densest hub, support from the AI industry has clearly shifted from electoral asset to liability.

Elections are also directly impacting power prices set at local PUCs, which regulate utilities. Though only ten PUCs are elected, they drew national attention in 2025 when Georgia voters elected Democrats to the five-member board for the first time since 2000. The two newly chosen PUC commissioners won with 63% of the vote following campaigns focused on electricity affordability.<sup>30</sup> Across nine states with 2026 PUC elections, candidates are highlighting data centers' role in rising power costs.<sup>31</sup> It is likely candidates across all elections will back policies that slow data center build-out and force PUCs to apply tougher scrutiny to how much utilities can pass through to households.

### Energy prices outpace inflation for eight of the ten states with the highest forecasted 2030 data center capacity (GW)

#### States with Highest Spikes All in PJM Region



Source: GQG Partners LLC (chart, data). S&P 450 (GW data). EIA (inflation data). Data for the period 31 December 2024 through 31 December 2025.

## MORE REGULATION, MORE PROBLEMS

States used to woo data centers by offering generous tax breaks; now, lawmakers are ramping up efforts to restrict their growth and operations. In 2025, more than 200 bills aimed at regulating how data centers operate were introduced across the country—at least one in every state. This year, over 30 states have introduced 300 bills in just the first two months.<sup>32</sup> While many of these bills may fail, the rising number of proposals and the passage of several notable measures signal a shift in sentiment. Lawmakers in state capitals across the country are closely watching a bill introduced in Maine to freeze major data center construction until 2027. The legislation, which would be the first statewide ban in the US, is supported by the state's Democratic governor and could be enacted as soon as this spring.<sup>33</sup>

Lawmakers are especially focused on preventing power outages during peak demand. Texas now allows power curtailment to data centers during emergencies, threatening the 24/7 uptime that operators promise customers.<sup>34</sup> Other states are considering similar measures, prioritizing power cuts for data centers over residential customers.<sup>35</sup> Legislatures are also pushing statutes that force data centers onto special tariffs to prevent ratepayers from funding the new infrastructure. While these measures claim to protect ratepayers, utilities are incentivized to spread capital costs across millions of customers rather than a small set of corporate clients. Gaps in regulation leave households carrying a large part of the cost.

Despite formal protections, residential customers can still face higher delivery charges and fees. In 2024, a study showed utilities in seven PJM states passed \$4.3B in transmission upgrade costs from data centers onto ratepayers.<sup>36</sup> A 2025 Harvard study revealed confidential utility contracts offering discounted power to data centers, exploiting state and federal loopholes.<sup>37</sup> J.D. Power's 2025 survey showed record-low utility satisfaction scores, as households reject Big Tech's affordability narrative.<sup>38,39</sup>

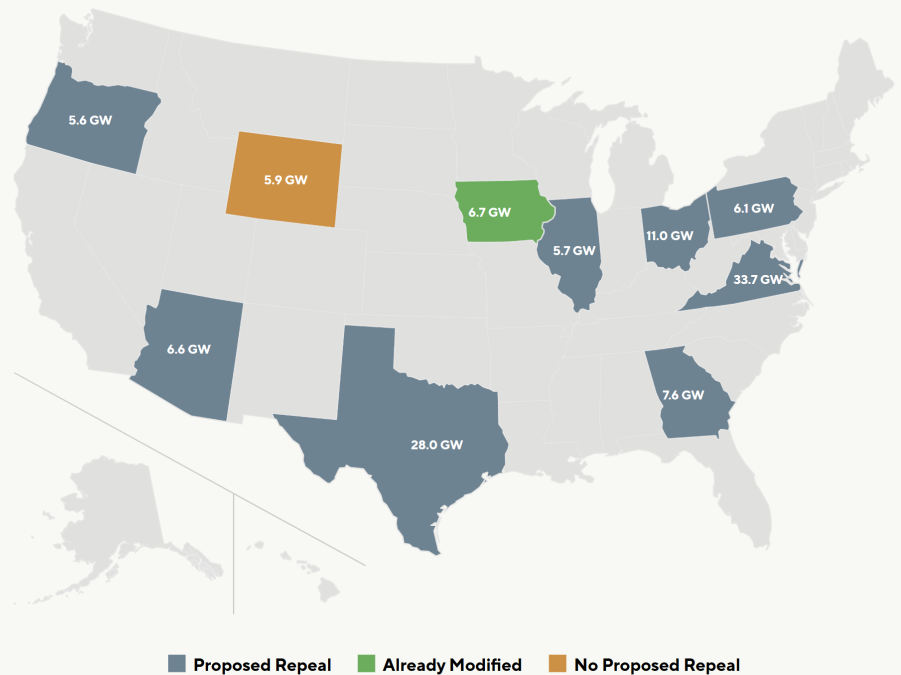
## INVESTMENT RISK SPREADS

Community resistance is slowing the build-out of computing capacity that AI companies need to train and monetize their models, while rising costs and delays give investors more time to scrutinize risks in the AI investment cycle. In our view, the race to construct ever larger data centers reflects an implicit recognition that public equity markets will tolerate only so much spending without a clear route to profitability. The longer it takes to build compute capacity, the more time investors have to consider the investment risks in this stage of the AI cycle. In December 2025, reports of Oracle delaying OpenAI data centers led to a selloff in Oracle's debt, weakened AI-linked equity indexes, and contributed to the cancellation of a \$10B, 1GW data center project in Michigan by its financier, Blue Owl Capital.<sup>40,41</sup>

Nine of the top ten states by projected capacity are pursuing or enacting data center tax pullbacks

### Current Tax Break Legislation in the Top 10 States

By projected data center capacity (GW) by 2030



Source: GQG Partners LLC (chart, data), S&P 451 Global (GW data). For the period December 2025 through December 2029. Actual results may differ from any projections illustrated above. Tax break information as of 27 March 2026. IA: Changed to make more strict but not full repeal. OR: One year moratorium already enacted.

Although we do not believe data center construction will cease, increased regulation and public pushback are driving up costs and causing delays. JPMorgan estimates data-center related entities will need to issue up to \$300B in debt by 2027 to fund new builds and refinance existing construction loans.<sup>42</sup> Pre-leasing tenants who cancel contracts due to delays further threaten lenders, as securitized debt tied to individual projects can result in broader financial losses.

While some investors see these constraints as a safeguard against overbuilding, we believe the broader economic impact could be significant. Hyperscalers alone are expected to spend \$650B in capital expenditures in 2026, and a slowdown in AI data center investments could shake US tech equities, already priced for perfection, in our view.<sup>43</sup> The US tech sector's ethos of "move fast and break things" may finally have met its match: engaged citizens who do not want a data center in their back yard.

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## DEFINITIONS

**Not in My Backyard (NIMBY)** refers to a person who objects to the siting of something perceived as unpleasant or hazardous in the area where they live, especially while raising no such objections to similar developments elsewhere.

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