

STATE AND LOCAL GOVERNMENT ADVOCACY AND PUBLIC-PRIVATE PARTNERSHIPS GROUP

AI / Data Centers Newsletter – August 2026

Overview

- The administration, Congress, political candidates, and state and local governments are continuing to grapple with accelerating data center development. Recent primary elections highlighted the growing divide over best practices to regulate the data center industry, as voters in Michigan and Kansas backed progressive candidates who called for stricter limits on data center development.
- In Michigan, Abdul El-Sayed defeated Rep. Haley Stevens in the Democratic Senate primary after endorsing local and state, but not federal moratoria, until Congress enacts nationwide protections. El-Sayed will face former Rep. Mike Rogers (R-MI) in the November general election. Rogers has supported allowing local communities to determine whether to approve data center projects, while directing any resulting tax revenue to property tax refunds.
- In the Kansas gubernatorial primaries, both Democratic and Republican candidates presented a range of approaches to regulate data centers. Democratic nominee State Sen. Cindy Holscher reversed her earlier support for data center expansion and ultimately called for a statewide moratorium. Republican candidate Sen. Ty Masterson faced criticism for backing tax incentives designed to attract data centers to Kansas, but the attacks failed to gain traction, and he advanced comfortably to the general election.
- A July 2026 POLITICO poll found that 41 percent of Americans would oppose a data center being built within three miles of where they live, up from 28 percent in POLITICO's January 2026 survey. The number of people supporting data center projects dropped during the same period, from 37 percent to 24 percent.

Administration Updates

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The Trump administration has faced growing concerns over the impact of data centers' rapidly increasing electricity demand on grid reliability and consumer energy costs. The administration previously issued an executive order, entitled [Accelerating Federal Permitting of Data Center Infrastructure](#), which directed federal agencies to streamline permitting for large data center and related energy infrastructure projects, as well as promoted the voluntary [Ratepayer Protection Pledge](#), under which leading technology companies committed to paying for the new generation, transmission, and distribution infrastructure needed to power their data centers. Recently, the Environmental Protection Agency (EPA) issued guidance, expanding opportunities for companies to develop and operate islanded power generation facilities for data centers.

- The Environmental Protection Agency (EPA) [issued](#) guidance clarifying that the Clean Air Act (CAA) Acid Rain Program (ARP) does not apply to power generation facilities that are not connected to a public electricity grid, commonly referred to as “islanded” power generation facilities. The guidance expands opportunities for companies to develop and operate islanded power generation facilities for data centers.
- This guidance intends to give developers greater flexibility in where and how quickly they can build new facilities while helping to protect the environment and reducing burdens on communities' electric grid. EPA's guidance clarifies that under the best reading of the CAA, the ARP applies to facilities that sell electricity or are required to report as a generating unit to the Department of Energy (DOE).
- Because “islanded” power generation facilities neither sell electricity nor have required reporting to DOE, EPA holds that these facilities are not subject to the ARP. If a company develops a power generation facility that is not grid connected, but at a future date the company does connect the facility to the grid, the facility may be subject to the provisions in the ARP.

Congressional Updates

Members of Congress have been introducing legislation to protect consumers from rising electricity bills caused by increased energy usage from data centers in

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communities. The debate over data centers has become increasingly tense before the midterm elections, as both parties seek to assuage voters' concerns.

- On July 21, the House Energy & Commerce Committee advanced the Ratepayer Protection Act ([H.R.9340](#)) in a 52-0 vote. This bill would ensure that any company looking to build a data center would be required to pay for the related costs of building new power generation, transmission lines, and other upgrades. State regulators would be required to consider the new large-load standard but could ultimately reject it. States with comparable policies in place could be exempt.
 - Before the committee markup, committee leaders introduced an [amendment](#) that narrows the bill to apply specifically to data centers. The legislation had previously applied to projects with a peak electricity demand of 100 megawatts or more.
 - House Energy and Commerce Ranking Member Frank Pallone (D-NJ) endorsed a national moratorium on data center construction. However, during the bill's markup, he said qualified his previous comments, saying "if Congress doesn't act to put sufficient guardrails in place, we may need a moratorium on data centers."
- Also, on August 3, the Senate Energy and Natural Resources Ranking Member Martin Heinrich (D-NM) introduced the Guarding Ratepayers from Increased Demand-costs (GRID) Savings Act of 2026 ([S.5199](#)). The legislation would create a process for large electricity users to pay for any infrastructure costs associated with increased demand for the electric grid.
 - The GRID Savings Act would give the Federal Energy Regulatory Commission (FERC) rulemaking jurisdiction over large load customers, defined as facilities demanding more than 150 megawatts (MW) of electricity. IT would also assign any costs associated with connecting large loads to the customer rather than being passed onto to ratepayers and allow data centers and other large load customers to voluntarily pay for the construction of new transmission infrastructure in exchange for access to a grid interconnection.

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- On August 6, Senate Finance Committee Ranking Member Ron Wyden released a [proposal](#) for the taxation of data centers. The white paper argues that new streams of revenue are needed to address the impacts of data centers, including higher energy prices and workforce upheaval from the growing use of AI. The proposal argues for raising new revenue by:
 - Removing the existing investment incentives in the federal tax code as they apply to data centers, including prohibiting opportunity zone funds from investing in new data center construction, ensuring assets purchased to build and supply a new data center are not eligible for 100 percent bonus, and excluding the rents paid to REITs by new data centers from the tax-favorable REIT regime; and
 - Creating a data center public investment gross receipts tax on data center operators on their data centers in the United States to provide a consistent revenue stream.
- The data center tax, in Wyden’s proposal, would apply at a low single-digit rate and include mechanisms to properly target the tax and prevent avoidance. Also, certain types of locations would be exempt from the tax, including internet infrastructure, corporate IT departments, and small local data center operators. Senator Wyden, as ranking member of the Senate Finance Committee, is soliciting comments on the proposal which are due by August 31, 2026 and can be sent to DataCenterTax@finance.senate.gov.

Summary of Pertinent Legislation

Bill	Name	Sponsor(s)	Description
S.5199	Guarding Ratepayers from Increased Demand-costs (GRID) Savings Act of 2026	Sen. Martin Heinrich (D-NM)	Amends the Federal Power Act to clarify the jurisdiction of the Federal Energy Regulatory Commission over the interconnection of large

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			loads to the transmission system, to provide for standards and procedures for the interconnection of large loads, and for other purposes.
S.3852	Guaranteeing Rate Insulation from Data Centers (GRID) Act	Sens. Josh Hawley (R-MO) and Richard Blumenthal (D-CT)	This bill, referred to the Senate Energy and Natural Resources Committee, is one of the only bipartisan efforts aimed at keeping data center growth from raising consumer electricity costs. The bill would prohibit new data centers with power demand of 20 megawatts or more from drawing any power, including backup power, from the electric grid. Existing facilities would have ten years to migrate off-grid and could stay grid-connected in the interim.
S.4559	Energy Cost Fairness and Reliability Act of 2026	Adam Schiff (D-CA)	Requires large electricity users such as AI data centers to pay the full cost of power grid upgrades needed to support their operations.
S.3585	Decentralized Access to Technology Alternatives (DATA) Act	Sen. Tom Cotton (R-AR)	Incentivizes, rather than mandates, data center operators to build their own energy supplies by loosening federal regulations.
S.3682	Power for the People Act	Sen. Chris Van Hollen (D-MD)	Prevents data center costs from being passed on to

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			households and small businesses. It would allow data centers to remain on the grid as long as they're paying for the needed increased capacity.
S.4214	Artificial Intelligence (AI) Data Center Moratorium Act	Sen. Bernie Sanders (I-VT)	Imposes a moratorium on the construction of new data centers until legislation is enacted that safeguards the public from the dangers of artificial intelligence.
H.R.9340	Ratepayer Protection Act	Reps. Gabe Evans (R-CO-8) and Kathy Castor (D-FL-14)	Establishes a Federal standard relating to the recovery of the full, incremental costs of upgrades that serve large-load customers, and for other purposes.
H.R.8037	Protect American AI Act of 2026	Rep. Michael Baumgartner (R-WA-5)	Limits the effect of litigation on the environmental application process for data centers and associated infrastructure.
H.R.7066	Stopping Hikes in Electricity from Large Load Demands (SHIELD) Act	Rep. Mike Levin (D-CA-49)	Directs state public utilities commissions to consider new federal standards to ensure residential customers are shielded from data center power costs.
H.R.____	Data Center Community Impact Act	Rep. Bonnie Watson Coleman (D-NJ-12)	Authorizes a federal study on the environmental, economic, and public health impacts of data centers, with a focus on communities of

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			color and low-income communities.
H.R. ___	The American Leadership in AI Act	Reps. Ted Lieu (D-CA-36) and Hay Obernolte (R-CA-23)	Improves AI standards and evaluation, expands research infrastructure and R&D, modernizes federal AI adoption and risk management, and expands AI education and workforce opportunities.

Resources

- The Congressional Research Service (CRS) published a brief, entitled [Data Centers and Water: Frequently Asked Questions](#). The summary of this CRS brief is below:

“How local water resources are affected by data center water withdrawals and consumption (water consumption means water withdrawn and no longer available for reuse) depends on the water conditions and supply options available locally and/or regionally, as well as other demands for water. Currently, most operators of data centers acquire water from municipal water systems, commonly referred to as public water systems. Other potential sources include treated wastewater (commonly referred to as reclaimed water) and direct withdrawals from surface water or groundwater. Congress has generally deferred to the states' primacy in intrastate water allocation. State laws and regulations largely govern access to freshwater within a state. Despite this deference to state primacy, the federal government has invested in infrastructure to assist in the development of water resources through the U.S. Army Corps of Engineers and the Bureau of Reclamation. These facilities may store water for various purposes, which could ultimately include water used for data centers. In some instances, data centers may be using water from these sources indirectly via public water systems or communities that have agreements with such federal agencies.

Data centers may generate different types of water-related discharges (i.e., effluents), including wastewater and stormwater discharges. In addition, in some cases when land

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is developed to construct data centers, the development may include discharges of dredged or fill material into wetlands or streams. The project proponent for data center development and the owner/operator of the data center facility may need to comply with certain federal requirements, including obtaining Clean Water Act permits or approvals, which aim to prevent or minimize water quality impacts from the data center's discharges. The pollutants that may be present in data center wastewater discharges depend upon several factors, including the source and quality of the water being used for cooling, the cooling technology being used, site-specific operations, and whether the discharges are from normal operations or from construction and commissioning phases. Currently, data centers most commonly send their wastewater effluent to publicly owned treatment works.”