

MARCH 13, 2026 | PUBLICATION

## Client Alert: New Federal Policy Could Unlock Alternative Water Supplies for Data Centers

The **Bureau of Land Management (BLM)** is directing field offices to work with oil and gas companies to identify new uses for oilfield wastewater—commonly known as “produced water”—rather than relying primarily on permanent underground injection.

While the policy shift has implications across several sectors, it may be particularly significant for data centers, which face growing scrutiny and operational challenges related to water consumption for cooling systems. By encouraging recycling and reuse of produced water, the federal government may be opening the door to a new alternative water supply for large-scale computing infrastructure in water-stressed regions.

### What Is Changing

In a recent internal memo, BLM leadership instructed field and state offices to collaborate with the industry to promote recycling and reuse of produced water and help identify practical applications beyond disposal. The memo also directs BLM personnel to assist companies by addressing regulatory or logistical barriers that may limit reuse.

Produced water is the wastewater generated during oil and gas extraction. It is brought to the surface alongside hydrocarbons at well sites and is typically significantly saltier than seawater. The fluid may also contain chemicals used during drilling and hydraulic fracturing, along with naturally occurring radioactive materials.

Historically, most produced water—billions of gallons annually—has been disposed of through deep underground injection wells. However, decades of reliance on this method have raised environmental and geological concerns, including induced earthquakes, geyser-like well blowouts, and ground swelling. Water managers in some regions have also warned that continued injection at current levels could threaten groundwater resources.

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The policy shift also comes as the U.S. Environmental Protection Agency (EPA) is reportedly developing regulations that could make it easier for companies to treat and reuse produced water.

### **Why This Matters for Data Centers**

Data centers require significant amounts of water for cooling, particularly for facilities using evaporative cooling systems. As hyperscale and AI-driven data infrastructure expands across the United States, many operators are encountering water availability constraints, regulatory scrutiny, and community concerns about water use.

Encouraging the reuse of produced water could create a new non-traditional water source for data center cooling operations, particularly in energy-producing regions where both industries coexist.

#### **Potential benefits include:**

- Alternative water supply in regions facing drought or groundwater restrictions
- Reduced pressure on municipal water systems
- Operational resilience for large-scale data infrastructure
- Opportunities for co-location of energy production and computing infrastructure

Industry analysts and researchers have already identified data center cooling as one of the potential uses for treated produced water, alongside agricultural irrigation and industrial processes.

### **Key Considerations and Risks**

While the policy shift may create opportunities, several issues remain unresolved:

**Water Treatment Requirements:** Produced water can contain high salinity, heavy metals, hydrocarbons, and naturally occurring radioactive materials. Significant treatment may be required before it can be safely used for industrial cooling.

**Regulatory Frameworks:** Reuse will likely require coordination among federal agencies, state environmental regulators, and local water authorities.

**Public and Environmental Concerns:** Environmental organizations and some local leaders have expressed concerns that insufficiently treated produced water could pose risks to soil, waterways, or public health if reused improperly.

**Infrastructure Investment:** Transporting and treating produced water at scale may require new pipelines, treatment facilities, and monitoring systems.

### **Strategic Implications**

For companies involved in data center development, infrastructure investment, and digital infrastructure planning, the BLM directive may signal an emerging opportunity to explore non-traditional water sourcing strategies.

#### **The policy could be particularly relevant for:**

- Hyperscale and AI data center operators
- Energy companies exploring co-located infrastructure

- Water technology and treatment providers
- Developers planning data center campuses in energy-producing regions

As federal agencies continue to explore policies encouraging produced water reuse, companies evaluating new data center sites may begin to assess produced water as part of long-term water supply strategies.

### **The Bottom Line**

The BLM directive signals a potential shift in how oilfield wastewater is managed in the United States, with implications that extend beyond the energy sector. For the rapidly growing data center industry, the push toward recycling and reuse could eventually create new water supply options for cooling infrastructure, particularly in regions where water availability has become a key development constraint.

However, regulatory frameworks, environmental safeguards, and treatment technologies will play a critical role in determining whether produced water becomes a viable solution for data center operations.

### **How Shumaker Advisors' Federal Team Can Help**

The Shumaker Advisors Federal Team, working alongside Shumaker's environmental attorneys, is closely tracking federal policy developments affecting water resources, energy production, and digital infrastructure development.

#### **Our team can assist organizations with:**

- Monitoring evolving federal and state policies on produced water reuse
- Evaluating water sourcing strategies for data center development
- Navigating environmental permitting and regulatory compliance
- Engaging with federal agencies and policymakers as regulatory frameworks evolve

If your organization is developing or operating data centers—or exploring alternative water sources for cooling infrastructure—Shumaker Advisors' Federal Team can help you understand the opportunities and regulatory landscape emerging from this policy shift.