

AI Bubble Trouble?

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While some of the features of artificial intelligence are remarkable, the economics of the rapid rollout on a grand scale for the technology are questionable.

On September 24, Oracle issued a force majeure notice to Stack Infrastructure, a unit of Blue Owl Capital that owns Project Jupiter, a 1400-acre data-center campus in southern New Mexico. Project Jupiter is designed for 2.45 gigawatts of power to be provided by Bloom Energy fuel cells using natural gas. An Energy Transfer natural gas pipeline to serve the site has been delayed after regulators repeatedly denied permits. So far, the target completion date for the pipeline has been extended by 6 months. Also, a separate air quality permit for the project is still pending.

Blue Owl Capital has \$3 billion of equity in the project and \$18 billion of bank loans are being used to provide the remainder of the financial capital. Oracle says that “Project Jupiter remains on our planned schedule” and Blue Owl says the notice does not change the financial commitments. However, a valid force majeure notice would allow Oracle to delay lease payments due to any delays in the project’s completion. This is likely to raise concerns by creditors who provided financing for Project Jupiter and other similar datacenters.

Project Beehive is another large-scale proposal by Valar Atomix, a start-up company founded in 2023 and funded with an additional \$1 billion in August 2026, led by Sequoia Capital. Valar Atomix intends to develop a data-center and industrial complex near Price, Utah on 9,000 acres of BLM land and 640 acres of Utah Trust Lands. Valar Atomic has never operated a commercial nuclear reactor before but tested a small research reactor unit in 2026. It is designed to be passively safe using coated particles of enriched uranium and helium gas as its primary coolant. The proposal envisions 456 small nuclear reactors with the first reactors put in service in 2028. The project would provide 9.6 gigawatts of electricity capacity. For comparison, the entire state of Utah averages about 4 gigawatts of electricity demand but can go as high as 10 gigawatts during the summer.

Project Beehive has an extraordinary level of government support:

- Utah and four other states have sued the Nuclear Regulatory Commission to provide a faster licensing path for Valar Atomic's type of reactor.
- Uranium enrichment capacity in the US is a fraction of what would be required for Project Beehive. In the past, the US has relied on imports of enriched uranium from Russia and other countries.
- The project would involve a large tract of BLM land.
- Valar Atomic's research reactor was flown from California to Utah on a US Air Force C-17.

Although there has not been much in the news about it, the lack of skilled tradesmen is a real constraint for the US AI/data-center buildout. Electricians, pipefitters/plumbers, HVAC, and controls specialists are all in short supply. A September 2026 compilation citing Associated Builders and Contractors estimates that 349,000 net additional workers are required in 2026, and 456,000 net additional workers are required in 2027. Electricians are especially constrained because of the rapid data-center construction.

Manufacturers that supply equipment for the data-center build-out also have their own constraints. Transformers, switchgear, generators, turbines, cooling equipment, and other components are required.

There are a number of environmental concerns related to the AI data center buildout. Electricity demand and water use have received the most attention. A United Nations report in June 2026 estimates that data centers on a global basis could consume 945 TWh of electricity annually by 2030, or just over 3% of global electricity supply. Since there will be more data centers in the US, Bloomberg estimates that US data centers will consume about 12% of US electricity supply by 2030. But the percentage of use will vary by region. The Electric Power Research Institute (EPRI) estimates that data centers already account for more than 25% of electricity demand in Virginia.

Water is used to cool servers and other equipment but is also used in electricity generation. Although Project Beehive in Utah plans to use primarily helium for cooling, the nuclear reactors will heat water to create steam to turn turbines for electricity generation.

Other environmental concerns are air pollution from gas turbines and backup diesel generators. Noise is getting more attention. Project Beehive's goal is to have 456 nuclear reactors turning turbines. Indeed, it will probably sound very much like a beehive.

Oxford Economics produced a September 2026 research report regarding artificial intelligence. They had the following conclusions:

- The surge in AI-related investment (27% of US fixed investment in Q2) reflects hopes for very large returns from the new technology. AI will need to result in strong profits soon, especially with AI firms (aka hyperscalers) now showing negative free cash flow.
- Current estimates for profit growth in the sector look inconsistent with their estimates of the likely productivity gains from AI. AI firms' share price valuations are hard to justify unless productivity returns prove far higher.
- There are a number of possible triggers for a share price correction for AI-related companies which include:
 - Concerns about profitability,
 - Negative news on productivity gains or AI demand,
 - Regulatory risks, and
 - Rising interest rates that raise the cost of debt financing.

On September 29, President Trump signed an executive order “Inaugurating the Era of Super Intelligence” which directed all federal departments and agencies across the executive branch to use the term “super intelligence (or SI)” instead of “artificial Intelligence (or AI).” The change in terminology does not reflect reality.

Grok, X.com's artificial intelligence engine, says that “AI hallucination is when a language model produces an answer that is false, unsupported, or invented, while presenting it as if it were reliable.” What does it look like? Grok says, “Typical forms include invented facts, fake quotations, incorrect arithmetic or letter counts, citations to papers that do not exist, and plausible-sounding explanations of nonsense.” Grok recommends that “checking important claims against primary sources remains necessary precisely because the output can sound assured either way.” Maybe we should keep “super intelligence” out of the Department of War.

If you have any questions or comments, please contact me.

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