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Texas Hits Pause on Data Center Grid Connections Amid Growing Oversight Push

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KEY POINTS

- Governor Greg Abbott directed the Public Utility Commission of Texas and ERCOT to audit all data center projects in the interconnection queue before approving any new grid connections.
- ERCOT has suspended Batch Zero Large Load classification notifications previously scheduled for August 7, 2026, and will seek a good cause exception at the PUCT's August 20 open meeting.
- Senate Bill 6, signed into law in June 2025, established disclosure and curtailment obligations for large loads of 75 MW or more, forming the regulatory foundation for the current oversight escalation.
- Real estate, infrastructure, and financing parties with project commitments tied to ERCOT interconnection timelines should assess change-in-law, force majeure, and termination provisions in their project documents.
- The 90th Texas Legislature convenes in January 2027, when PUCT is expected to seek expanded statutory authority over the data center industry.

WHAT HAPPENED

On August 3, 2026, Governor Greg Abbott issued a letter to the Public Utility Commission of Texas (PUCT) and ERCOT requiring an audit of "all data center projects currently advancing through ERCOT's interconnection process before any additional data centers are approved to move forward." According to Abbott's letter, any data center that fails to comply with the audit must be denied connection to the Texas grid.

In response, ERCOT issued Market Notice M-A080326-01, announcing that it will not deliver Batch Zero Large Load classification notifications to Transmission/Distribution Service Providers by the previously scheduled August 7, 2026, deadline. ERCOT will instead seek a "good cause exception" from the PUCT at the Commission's August 20, 2026, open meeting.

Clients who structured project milestones, financing drawdowns, or land closing schedules around the August 7 deadline should review how the impact of a suspension of each deadline impacts their project documents.

WHAT THE AUDIT REQUIRES

Prior to any interconnection approval proceeding, the governor is directing PUCT and ERCOT to require submission of detailed project information, including:

- Tax incentives received by the project.

- Power use and generation plans.
- Water use and cooling operations.
- Efforts to mitigate impacts on surrounding communities.
- Facility ownership and control.

The governor has directed that projects that fail to satisfy this verification process be denied grid connection.

HOW WE GOT HERE

This action is the latest in a series of escalating regulatory measures, not an isolated event.

The influx of interconnection requests prompted ERCOT and the PUCT to restructure the previously ad hoc interconnection request process, resulting in the “Batch Zero” framework, which imposed more rigorous front-end screening and enhanced disclosure requirements on large-load applicants before they could apply for consideration in the batch study process. Then, in June 2026, Abbott directed that data centers bear the full cost of electric infrastructure required to serve their operations, including transmission lines, substations, and grid upgrades, rather than allocating those costs to residential ratepayers.

Senate Bill 6, which took effect in 2025, laid the foundation for establishing obligations for large loads (defined as facilities with a peak demand of 75 MW or more), including disclosure of on-site backup generation to ERCOT and potential curtailment obligations during grid emergencies.

On July 17, 2026, PUCT Chair Thomas Gleeson wrote to the governor outlining steps already taken under the Commission’s existing authority and noting that additional legislative action would be required to grant PUCT the tools necessary for more comprehensive regulation of the industry.

ERCOT has confirmed it is reviewing the governor’s order and has paused the Batch Zero transmission planning study currently underway.

THE SCALE OF THE ISSUE

According to Abbott’s letter, ERCOT’s interconnection requests include over 474 GW of capacity — more than five times the grid’s all-time peak demand record. Approximately 90% of those requests are attributable to data centers. Texas is presently the second largest data center market in the U.S., behind Virginia, and had been widely expected to assume the top position. The path to that outcome is now materially less certain.

IMPLICATIONS ON PROJECTS

This development has direct implications across a range of project types and investment structures:

- Active ERCOT interconnection queue participants face a delay of indeterminate duration. Classification notifications that were anticipated by August 7 will not be issued by that date.
- Real estate investors and developers with land under contract, option agreements, or purchase commitments tied to data center development schedules should review those agreements carefully, with particular attention to change in law, force majeure provisions, milestone extension rights, and termination triggers. Whether a regulatory moratorium of this nature qualifies as a change in law or force majeure event will depend on the

specific language of each agreement.

- Technology companies and hyperscalers planning facilities or campus expansions in Texas should assess development timelines and evaluate the new disclosure and compliance requirements that will govern any future interconnection approval.
- Power generation and infrastructure investors financing transmission, generation, or grid infrastructure tied to large-load projects should assess how this suspension affects project viability, lender security interests, and committed capital deployment schedules — including counterparty termination rights.
- Lenders and financing parties with debt or equity exposure to Texas data center projects should evaluate project documents for adequacy of permitting and interconnection risk allocations in light of an extended and uncertain regulatory timeline.

WHAT COMES NEXT

The timeline for resolution remains uncertain. ERCOT will appear before the PUCT at its August 20, 2026, open meeting to seek a good cause exception and receive direction on next steps. The Batch Zero process and associated classification notifications remain suspended in the interim.

Looking further ahead, the 90th Texas Legislature is scheduled to convene in January 2027. The PUCT has indicated it will seek expanded statutory authority to regulate the data center industry, and the governor's sustained engagement with this issue over recent months suggests strong support for that effort.

Troutman Pepper Locke's Energy Team is monitoring these developments closely and will provide updates as the situation progresses. For questions regarding how this moratorium may affect your specific projects or investments, please contact Brandon Lobb, John Arnold, or Rachael Beavers of our Energy + Infrastructure Practice Group.

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