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Texas Imposes New Audit Requirement for Data Center Projects, Delaying ERCOT Interconnection Reviews

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On Aug. 3, 2026, Texas Gov. Greg Abbott directed the Public Utility Commission of Texas (PUCT) and the Electric Reliability Council of Texas (ERCOT) to conduct a comprehensive verification and audit of data centers advancing through ERCOT's interconnection process. According to Gov. Abbott's directive, the audit must be completed before additional data center projects may proceed, and projects that fail to comply with PUCT and ERCOT requirements or state law must be denied connection to the Texas grid.

Gov. Abbott cited the scale of proposed development and concerns about grid reliability. ERCOT is considering requests to connect approximately 474 gigawatts to connect to the Texas grid — more than five times the system's record peak demand. According to the governor's letter, data centers account for approximately 90% of the requested new load. Gov. Abbott also cited some data centers' failure to comply with a PUCT survey regarding power and water use.

ERCOT Delays Batch Zero

Batch Zero is ERCOT's first process for evaluating a large group of proposed data centers and other major power users together. This coordinated review allows ERCOT to determine how much grid capacity can be reliably allocated among the projects and what transmission upgrades would be needed to connect them. The process replaces the state's prior practice of reviewing large connection requests individually, which led to repeated studies when new projects changed the assumptions for projects already under review.

ERCOT was scheduled to provide utilities with an initial classification of each Batch Zero project by Aug. 7, 2026. Following Gov. Abbott's directive, ERCOT postponed that step and said it would seek PUCT approval to depart from the existing schedule while the PUCT determines how to implement the new audit and its impact on Batch Zero timelines.

A Broader Project Review

Though Gov. Abbott's directive concerns ERCOT interconnection, the required audit extends beyond electricity demand and grid reliability. The PUCT and ERCOT must obtain information from data centers regarding:

- Public financial assistance, including state and local tax incentives, grants, abatements, and other public support received or expected;
- Power demand and sourcing, including projected annual and peak consumption, dependence on the ERCOT grid, on-site or procured generation, and other measures to reduce grid demand;
- Water use and cooling, including projected annual and peak consumption, water sources, reuse, and cooling technology;
- Community impacts, including noise mitigation, lighting controls, setbacks, traffic improvements, emergency-response coordination, and other community protections; and
- Ownership and control of each project.

The required information extends the audit beyond electrical interconnection to project readiness, resource use, public support, ownership, and local impacts. The governor's letter references data center projects currently under review in ERCOT's interconnection process, which suggests a focus on projects 75 MW or greater. However, it is unclear whether the PUCT's audit will include projects below that threshold.

While the PUCT and ERCOT develop the audit procedures, sponsors of proposed Texas data center projects may wish to prepare to respond to the PUCT's expected set of data requests. Project schedules and agreements may also need to account for uncertain interconnection timing. ERCOT has indicated that it will seek PUCT approval to depart from the existing Batch Zero schedule. The PUCT has scheduled an open meeting for Aug. 14, 2026, to discuss audit implementation.

This additional regulatory overlay may affect project development schedules, financing timelines, utility service agreements, land acquisitions, tax-incentive arrangements, and customer commitments. Projects with contractual milestones tied to anticipated interconnection dates may wish to evaluate whether extension rights or force majeure protections are sufficient.

Parties negotiating data center leases, build-to-suit arrangements, utility service agreements, power-purchase agreements, data center services agreements, capacity agreements, and financing documents should consider reviewing development milestones and risk-allocation provisions that assume specific energization or interconnection dates.

Though Gov. Abbott's directive applies only to Texas projects, it reflects a broader national trend of increased scrutiny of large-load interconnection requests associated with data centers and artificial intelligence infrastructure. Regulators across the United States are increasingly evaluating the effects of large-load growth on grid reliability, transmission planning, electricity costs, water resources, and local communities. Other jurisdictions may consider measures similar to those now being implemented in Texas.

Key Takeaways

- Texas has directed ERCOT and the PUCT to conduct a comprehensive audit of data center projects in the interconnection queue before projects may advance.
- The review extends beyond electrical interconnection issues and will examine project ownership, incentives, water usage, community impacts, and operational characteristics.
- The directive has already delayed ERCOT’s Batch Zero process.
- Developers, investors, utilities, lenders, and end users may see additional diligence requests and possible extensions to project timelines.
- Transaction documents, utility agreements, leases, and development milestones may need to account for increased regulatory uncertainty.