



Insights - Alert

Texas Halts Data Center Permitting Pending State Audits: What Developers, Investors and Energy Users Need To Know

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Key Takeaways

- **State regulatory permits are on hold.** Texas has suspended all data center permitting by state agencies while the PUCT, ERCOT and TWDB assess grid and water impacts.
- **The rules are changing.** New power and water requirements, along with increased oversight for large-load data center projects, are likely in the future.
- **Now is the time to evaluate exposure.** Companies with Texas data center or power infrastructure projects should assess potential impacts on schedules, budgets and regulatory strategy.

In a significant development for the rapidly expanding Texas data center market, Gov. Greg Abbott has directed the Texas Commission on Environmental Quality (TCEQ) to halt permitting for data center projects until ongoing state audits evaluating impacts on electric reliability and water resources are completed. According to the governor's Sept. 21 announcement, no state agency should move forward with regulatory approvals related to

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data center development until data necessary for those audits has been obtained and reviewed. The directive follows recent actions requiring audits by the Public Utility Commission of Texas (PUCT), Electric Reliability Council of Texas (ERCOT) and Texas Water Development Board (TWDB).

What Happened?

Abbott stated that “Texans must come first” and directed TCEQ to issue no permits sought by data center projects while ERCOT and TWDB evaluate the industry’s impact on grid reliability, security, water usage and infrastructure costs. The governor also emphasized that data centers should bear their own infrastructure costs, comply with electricity and water reporting requirements and avoid adverse impacts on local communities. The administration has further indicated that it will pursue legislation to eliminate financial incentives for data centers during the next legislative session.

As Abbott indicated in his [letter](#) to TCEQ to halt permitting, “[b]ecause the information sought by the PUC, ERCOT, and TWDB is necessary to make informed decisions by each of those agencies, no other state agency shall move forward with regulatory approvals related to data centers until this information is acquired.” Accordingly, the permitting halt extends to all state agency approvals required for data center developments.

Why This Matters

Texas has emerged as one of the nation’s leading data center markets due to abundant land, favorable business conditions and access to significant electric generation resources. The state’s increasing scrutiny of large-load facilities reflects growing concerns regarding:

- Grid reliability and resource adequacy as large energy users seek expedited interconnection
- Water availability and reporting obligations for facilities with substantial cooling requirements
- Cost allocation for transmission, generation and other infrastructure needed to serve hyperscale loads
- Community impacts, including siting, land use, environmental permitting and local opposition



- Potential legislative and regulatory changes affecting project economics and development timelines

The governor's directive creates uncertainty for projects currently in development and may result in delays for permitting, financing, site selection, interconnection planning, construction schedules and related transactions.

Potential Impacts on Businesses

The directive extends beyond traditional data center developers. Potentially affected stakeholders include:

- Hyperscale and AI data center operators
- Real estate developers and infrastructure funds
- Energy companies developing dedicated generation or behind-the-meter power solutions
- Utilities, electric cooperatives and transmission providers
- Industrial and manufacturing companies evaluating large-load projects
- Investors, lenders and joint venture participants involved in Texas digital infrastructure projects

Companies pursuing Texas projects should closely monitor evolving requirements from ERCOT, PUCT, TWDB and TCEQ, as well as anticipated legislative proposals that could alter siting, permitting, water-use, reporting, incentive and infrastructure cost-recovery frameworks.

How BakerHostetler Can Help

BakerHostetler's national [Data Center Project Development team](#) regularly advises clients on complex data center development matters, including permitting and environmental compliance, ERCOT and utility regulatory issues, power supply arrangements, transmission and interconnection matters, water-use considerations, tax incentives, real estate acquisition and development, project financing, government affairs and litigation risk. Our multidisciplinary team is actively tracking Texas regulatory and legislative developments and can help clients assess project impacts, manage permitting risks,



engage with regulators and position projects for successful development in an increasingly complex regulatory environment.

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