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Senate Bill 6 Reforms Interconnection and Co-Location Rules for Data Centers and Other Large Loads in ERCOT

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[Senate Bill 6](#) ("SB6"), recently signed into law in Texas and effective immediately, will significantly impact data center developers, cryptocurrency miners, advanced technology manufacturers and other large-load customers in the ERCOT region. Stakeholders pursuing new or expanded interconnection, or planning to co-locate with existing generation resources, may experience significant changes to project timeline, cost, design and operation.

Texas remains an attractive market for large-load customers due to its streamlined development and interconnection processes, business-friendly regulatory and tax environment, historically reliable and affordable power and competitive wholesale electricity market. Reflecting this trend, [ERCOT projects](#) that statewide power demand could nearly double by 2030, driven largely by increased interconnection requests from large-load customers, including data centers and Permian Basin operators electrifying their operations. In the two legislative sessions following the devastating 2021 Winter Storm Uri, the Texas Legislature has made grid reliability a central priority, advancing a range of bills aimed at strengthening system resilience and ensuring resource adequacy. SB6 is a product of this ongoing effort, aimed at addressing the challenges to the grid presented by the rapid growth in power demand from large, energy-intensive customers and the increasing prevalence of co-location arrangements.

SB6 will impact the development and operation of large-load customers in the ERCOT region in at least three significant ways. First, it directs the Public Utility Commission of Texas (the "PUCT") to establish new interconnection standards and cost-sharing requirements for large-load customers. Second, it introduces new rules governing the co-location of large loads with existing generation resources. Third, it requires the PUCT to develop both mandatory and voluntary demand management programs that can impact the operations of large-load customers before and during grid emergencies.

New Interconnection Standards and Cost Sharing

SB6 mandates that the PUCT create rules to ensure that the large-load customers in the ERCOT region contribute to the recovery of the interconnection costs of the servicing electric utility to interconnect such customers to its system. In addition, electric cooperatives and municipally owned utilities that have not adopted customer choice are now required to pass through to the large-load customers the reasonable costs to interconnect such customers.

Further, under SB6 the PUCT is required to establish new interconnection standards for large-load customers “to support business development in this state while minimizing the potential for stranded infrastructure costs and maintaining system reliability”. The standards will apply to large-load customers requesting new or expanded interconnection who expect to have a system demand over 75MW, a threshold the PUCT may lower if necessary.

The new interconnection standards will require large-load customers, as part of their interconnection request, to:

A. Disclose Duplicative Interconnection Requests

A large-load customer will need to disclose whether it is pursuing a substantially similar interconnection request elsewhere in Texas, that, if approved, would cause it to materially change, delay or withdraw its current interconnection request. It is not uncommon for data center developers and other large-load customers to submit interconnection requests for multiple prospective locations and make a final selection of the load site based on, among other factors, timing and cost of the interconnection. Such duplicative interconnection requests complicate load forecasting and infrastructure planning in Texas, as ERCOT includes these requests in its projections before such interconnection requests are finalized.

B. Pay Study Fees; Provide Financial Commitments and Evidence of Site Control

To reduce speculative interconnection requests and demonstrate commitment to the proposed load location, a large-load customer will be required to (a) demonstrate site control via fee ownership, lease or another legal interest and (b) provide proof of financial commitment for the development of transmission infrastructure needed to serve such customer, for example by providing a security on a dollar per megawatt basis. If applicable, the security will be refunded after it is applied to any outstanding amounts owed by the large-load customer in connection with such transmission infrastructure.

In addition, a large-load customer will be required to pay a minimum study fee of \$100,000 for the initial transmission screening studies, with additional fees to be paid if additional capacity is requested following the screening study. Any unused portion of such study fee will be applied as a credit toward satisfying financial obligations for procurement or interconnection agreements with such large-load customer for the applicable load site.

C. Disclose Back-Up Generation

Importantly, a large-load customer will need to disclose if it has on-site backup generation that does not export to the grid and that can serve at least 50% of its on-site demand. If so, before or during an emergency alert, and only after all available market services (other than frequency responsive services) have been deployed, ERCOT may, with reasonable notice, direct the large-load customer to either deploy its on-site backup generating facilities or curtail load.

Co-Location with Existing Generation in ERCOT

SB6 provides new rules for co-location arrangements with existing generation resources in the ERCOT region. Co-location refers to the siting of electricity generation and load at the same point on the grid. This can occur, for example, when a data center is built adjacent to an existing generation facility or when both assets are developed together. Such arrangements are attractive to large-load customers, as they help secure a dedicated power supply (in the case of existing generation – on an expedited basis) and reduce transmission-related costs. When paired with an existing generation resource, co-location may also ‘remove’ power that would otherwise be available to the grid. Some stakeholders contend that this may place added strain on resource adequacy—particularly during periods of peak system demand—by reducing the pool of resources available to support the grid.

Under the new co-location rules, an ERCOT study and PUCT approval will be required for any new net-metering arrangement between an existing (as of September 1, 2025) stand-alone grid facing generation resource and a new large-load customer with load of 75MW or more (which threshold may be lowered by PUCT if necessary). Specifically, a power generating company, municipally owned utility or electric cooperative must submit a notice to ERCOT before implementing any such new net-metering arrangement. ERCOT will have 120 days from such notice to study the system impacts of the proposed net-metering arrangement, including the resulting removal of generation, and submit to the PUCT the results of such study along with any associated recommendations.

The PUCT will have 60 days to approve, deny or impose reasonable conditions on such proposed arrangement, as necessary to maintain grid reliability. Reasonable conditions may include requiring the retail customer to reduce load during certain events, requiring the existing generation resource to make capacity available to ERCOT during certain events or requiring customers to be held harmless from stranded or underutilized transmission assets resulting from the behind-the-meter operation. If the PUCT fails to act within such 60-day period, it is deemed to have approved the net-metering arrangement.

Importantly, the PUCT must also require an existing generation resource that makes dispatchable capacity (i.e. not wind or solar) available to ERCOT before the implementation of a co-location arrangement to continue to make the same amount of dispatchable capacity available at the direction of ERCOT in advance of anticipated emergency conditions.

There are two key exemptions from the new co-location rules. First, the rules do not apply if the existing generation resource was majority-owned by the parent company of the new large-load customer as of January 1, 2025. Second, an exemption applies if the generator’s registration with ERCOT included a co-located large-load customer at the time the generation resource was energized, even if the load itself was energized at a later date. Large-load customers seeking to rely on either exemption should conduct a careful legal and regulatory analysis to confirm eligibility.

Mandatory and Voluntary Curtailment of Large-Load Customers

Under SB6, the PUCT is required to develop two large-load demand management programs to improve reliability during times of high demand on the grid:

A. Mandatory Curtailment

For any new large-load customers that interconnect in the ERCOT region after December 31, 2025, the PUCT will require transmission service providers, electric cooperatives and municipally owned utilities to develop curtailment protocols to allow such load to be curtailed during firm load shed. These protocols may include the installation of necessary equipment and technology prior to interconnection

to facilitate remote curtailment. This effective “kill switch” mechanism will allow the grid operator to isolate new large-load customers—but only during grid emergencies that necessitate firm load shed. These mandatory curtailment protocols will not apply to large loads that are designated as “critical load industrial customer” (where service interruption may pose a danger to life or safety on the premises) or critical natural gas facilities. Where feasible, the electric cooperative, transmission and distribution utility or municipally owned utility, as applicable, must work with the customer to shed load in a coordinated manner.

B. Voluntary Demand Reduction

The PUCT will require ERCOT to develop a reliability service to competitively procure demand reductions from large-load customers with demand over 75MW to be deployed during certain periods of the year in anticipation of emergency grid conditions. Participants in this voluntary program will receive at least 24 hours’ notice prior to a potential load-shedding event. Large-load customers that curtail solely in response to wholesale electricity prices will not be eligible to participate. This program will allow ERCOT to gauge market interest and better understand the terms under which large-load customers are willing to voluntarily curtail their loads or switch to on-site generation.

Review of Existing Methodology on Transmission Costs Allocation

Separately, SB6 directs the PUCT to evaluate whether the current four coincident peak (4CP) methodology used to calculate wholesale transmission charges ensures that all loads—from typical retail customers to large-energy users such as data centers—appropriately contribute to the recovery of transmission costs incurred by utilities and electric cooperatives. As part of this review, the PUCT will consider whether alternative cost allocation methods, such as those based on multiple seasonable peak demands, or peak energy intervals, would more accurately reflect usage and cost responsibility. The PUCT is required to complete its review and amend its rules as necessary by December 31, 2026, to ensure that wholesale transmission charges appropriately assign costs for transmission investment.

Conclusion

SB6 marks a significant shift in the regulatory framework governing large-load development in the ERCOT region. The legislation establishes a foundation for more structured and transparent integration of large energy users into the ERCOT market—users who may now face interconnection delays, increased costs, and potential periods of involuntary downtime. The PUCT has broad discretion to implement and enforce SB6 and is expected to act promptly, with implementation efforts already underway through [Project No. 58317](#). Stakeholders will be closely monitoring the rulemaking process, as the forthcoming rules and standards may influence decisions related to load siting and design, the deployment of on-site backup generation and co-location with existing generation.

Provisions in SB6 authorizing mandatory curtailment of large-energy users during firm load shed or curtailment or dispatch of behind-the-meter private use network load and generation under defined emergency conditions raise particular concerns for large-load customers. This includes data centers and other industrial users that rely on continuous, reliable power. In response, the legislation may spur increased investment in resiliency strategies such as microgrids, battery energy storage systems and on-site generation, which can increase reliability and mitigate operational risks during grid emergencies.

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