

Texas Pauses Data Center Interconnection Approvals: What the Abbott Audit Means for Capital

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Summary. Gov. Abbott has paused new data center interconnection approvals pending a PUCT/ERCOT audit of the 474.7 GW large-load queue (~90% data centers) vs. a 91.1 GW record peak. Non-compliant projects can be denied grid access. Texas is repricing interconnection into a capital-intensive, disclosure-heavy gate that favors integrated load-plus-generation projects and incumbent dispatchable generators.

Key Findings

- **Extreme attrition ahead.** The queue is 5x record peak; the IMM called the forecast an upper bound; only ~205 GW is Batch Zero eligible. Underwrite attrition, not the queue.
- **Capital screens alone failed.** The \$50k/MW security requirement spawned a secondary market in queue positions rather than culling speculators. Expect additional non-financial maturity criteria in Batch One.
- **Process risk sits outside developer control.** Mature, funded projects were excluded from Batch Zero due to transmission provider study delays. TSP timing is now a diligence item.
- **Firm supply cliff through 2030.** ERCOT's July GIS queue shows only ~10 GW of gas with completed studies or signed IAs, all pre-2029 COD, vs. ~100 GW of contemplated load. SB 6 curtailment bridges the gap, so expect frequent scarcity pricing; constructive for incumbent dispatchable generation.
- **Costs shifting onto large loads.** Cost-recovery rulemaking due Dec. 2026; sales-tax exemption repeal proposed. Data center TCO is structurally rising.
- **Subsidized capital flows to incumbents.** Texas Energy Fund: \$3.65B committed at 3% fixed / 20 years to ~5 GW of dispatchable capacity.
- **Timeline risk is immediate.** Batch Zero results Apr. 2027, interconnection agreements Jun. 2027, with the audit now on top. 2027-28 energization assumptions carry slip risk.

Investor Playbook: Maximizing Odds of Interconnection Success

1. Build at least 50% BTM using new-build or commonly owned generation.

Meets the SB 6 threshold and the "add capacity, not just demand" agenda. Avoid pairing with existing grid resources: PUCT precedent (Dockets 58881/59220) imposes full curtailment on every load behind the POI, bars all ancillary and demand response revenue, binds successors, and adds a 36-60 month condition reopener. New-build integrated design (Google's Meitner) avoids that docket process entirely.

2. Fund studies, readiness, and firm supply upfront.

Pre-fund engineering, dynamic models, site control, \$50k/MW security, and long-lead equipment (turbine slots are as gating as queue position post-2028). Contract firm study deadlines with the transmission provider; TSP delay, not readiness, excluded mature projects from Batch Zero.

3. Secure acreage supporting ~1.5 MW/acre rack density.

Physical plausibility is now a screen; claims above ~1.5 MW/acre flag as speculative. Size sites with margin for BTM generation, switchyards, cooling, and setbacks.

4. Design for air or closed-loop cooling and underwrite higher PUE.

Water scarcity is ending evaporative cooling in Texas; Abbott intends to mandate water-efficient designs. Dry heat rejection raises PUE, so model higher gross MW per IT MW and size interconnection requests accordingly.

5. Disclose fully and early.

Ownership, financials, water, community impact. Non-compliance triggered the audit; transparency is an allocation advantage.

Bottom line. Sponsors executing the five gates above win allocation as the 474 GW queue collapses; in securities, favor incumbent dispatchable generators.