UPDATE—SENATE BILL 6: A TEXAS BILL IMPACTING LARGE LOAD DEVELOPMENT IN ERCOT

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US Energy, Infrastructure, and Resources Alert

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As previously reported, Senator Phil King and Senator Charles Schwertner introduced Texas Senate Bill 6 (SB6) in February 2025. After various amendments and updates, the bill has passed the Texas House and Senate and is now before Governor Greg Abbott for his approval. If not vetoed, this bill will directly impact large load customers (specifically, electricity consumers of more than 75 megawatts (MW), unless the Texas Public Utility Commission (the PUCT) determines that a lower threshold is necessary) and entities currently in or contemplating a co-location arrangement in the Electric Reliability Council of Texas (ERCOT) region.

The legislative purpose of SB6 is to ensure large load customers contribute to the recovery of interconnection costs, establish grid reliability protection measures, bring transparency and credibility to load forecasting, and protect customers from outages by requiring large loads to share the load shed obligation during times of shortage.

INTERCONNECTING LARGE LOADS

SB6 requires the PUCT to adopt standards for interconnecting large load customers in ERCOT "in a manner designed to support business development in [Texas] while minimizing the potential for stranded infrastructure costs and maintaining system reliability." SB6 further provides that the standards apply "to customers requesting a new or expanded interconnection where the total load at a single site would exceed a demand threshold established by the [PUCT] based on the size of loads that significantly impact transmission needs" in ERCOT.

The PUCT's standards must require (i) the large load customer to disclose to the interconnecting utility whether the customer is pursuing substantially similar requests that would result in a material change, delay, or withdrawal of the interconnection request; (ii) the large load customer to disclose to the interconnecting utility information about the customer's on-site backup generation facilities (facilities not capable of exporting energy to ERCOT and that serve at least 50% of on-site demand); (iii) a flat study fee of at least US$100,000 to be paid to the interconnecting utility for initial transmission screening; (iv) a method for a large load customer to demonstrate site control for the proposed load location; (v) uniform financial commitment requirements for the development of transmission infrastructure needed to serve a large load customer—the standard must provide that satisfactory proof of financial commitment may include (a) security provided on a dollar per MW basis, (b) contribution in aid of construction, (c) security provided under an agreement that requires a large load customer to pay for significant equipment or services in advance of signing an agreement to establish electric delivery service, or (d) another form of financial commitment acceptable to the PUCT; (vi) uniform requirements for determining when capacity

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that is subject to an outstanding financial commitment may be reallocated; and (vii) procedures to allow ERCOT to access any information collected by the interconnecting utility to ensure compliance with the standards for transmission planning analysis.

The purpose of many of these requirements is to provide ERCOT and the interconnecting utility with a better sense of which large load will move forward in the interconnection queue versus those that are duplicative or do not have the requisite site control or financial backing to move forward. The Texas Legislature recognized that these large loads are impacting ERCOT's forecasting capabilities and that it is essential for ERCOT to have a better understanding of which large loads will and will not be built.

SB6 provides that, during an energy emergency alert, ERCOT may issue reasonable notice that large load customers with on-site backup generating facilities may be directed to either curtail load or deploy the customer's on-site backup generation.

SB6 also directs the PUCT to establish criteria by which ERCOT includes forecasted large load of any peak demand in resource adequacy and transmission planning models and reports.

CO-LOCATION

In addition to the interconnection standards addressed above, SB6 creates standards and requirements for the co-location of large load customers with existing generation resources. A co-location arrangement is an arrangement where generation and load are located near each other and the generation serves the load before the point of interconnection and without using the grid.

Under SB6, a power generation company, electric cooperative, or municipally owned utility must submit a notice to ERCOT before implementing a net metering arrangement between an operating stand-alone generation resource registered in ERCOT as of 1 September 2025 and a new large load customer. The provisions in this new Public Utility Regulatory Act section do not apply to a generation resource (i) that registered with a co-located large load customer at the time of energization (even if the load is energized at a later date), or (ii) where a majority interest is owned directly or indirectly as of 1 January 2025 by a parent company of the net metering customer.

ERCOT must study the system impacts of a proposed net metering arrangement and removal of the generation on the system. ERCOT must complete the study and submit the results to the PUCT with a recommendation by the 120th day after ERCOT received the request and associated information regarding the arrangement. The PUCT then would have 60 days from the date it receives the study results to approve, deny, or impose reasonable conditions on the proposed net metering arrangement (as necessary) to maintain system reliability. Such conditions may include (i) requiring customers to be held harmless for stranded or underutilized transmission assets resulting from the behind-the-meter operation, (ii) requiring the retail customer who is served behind-the-meter to reduce load during certain events, or (iii) requiring the generation resource to make capacity available to ERCOT during certain events. The PUCT is also permitted, if the conditions are not limited to a specific period, to review the conditions at least every five years to determine if they should be extended or rescinded. If the PUCT does not approve, deny, or impose conditions on the proposed net metering arrangement before the expiration of the 60-day deadline, then the arrangement is deemed approved.

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DEMAND MANAGEMENT

In addition to interconnection and co-location requirements, SB6 requires ERCOT to ensure that each transmission and distribution utility, electric cooperative, and municipally owned utility serving a transmission-voltage customer interconnected after 31 December 2025 develops a protocol, including the installation of necessary equipment or technology before the customer is interconnected, to allow the load to be curtailed during firm load shed, unless it is a “critical load industrial customer” or the load is designated as a “critical natural gas facility.” ERCOT will also develop a reliability service to competitively procure demand reductions from large load customers subject to the new rules established by the PUCT.

TRANSMISSION COST ALLOCATION METHODS ASSESSED

Finally, SB 6 requires the PUCT, by 31 December 2026, to evaluate whether the existing methodology used to charge wholesale transmission costs continues to appropriately assign costs for transmission investment. As part of this analysis, the PUCT must evaluate (i) whether the current four coincident peak method ensures that all loads appropriately contribute to the recovery of transmission costs, (ii) whether alternative methods to calculate wholesale transmission rates would more appropriately assign costs, and (iii) what portion of the costs related to access to and wholesale service from the transmission system should be nonbypassable. The PUCT is charged with evaluating whether the PUCT's retail ratemaking practice ensures transmission cost recovery appropriately charges system costs to each customer class that causes those costs. The PUCT must begin this evaluation within 90 days of the earlier of either the governor's signing of SB6 or 22 June 2025. After the PUCT completes its evaluation process, and no later than 31 December 2026, the PUCT must amend its rules to ensure wholesale transmission charges appropriately assign costs for transmission investment.

While SB6 has passed both Texas chambers and is projected to not be vetoed by the Governor, the PUCT will still have a lot of work ahead of it to implement the various provisions in the statute. This will give interested parties an additional opportunity to have their voices heard during the process to implement this legislation. Our Energy, Infrastructure, and Resources lawyers are available to answer any questions you may have when considering how to participate in any PUCT or ERCOT proceeding to implement SB6.

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