COMPASS
Collaborative Optimization & Management of Power Allocation – Surface & Subsurface strategies

Bureau of Economic Geology

Senate Bill 6: Explained Section-by-Section

Relating to the planning for, interconnection and operation of, and costs related to providing service for certain electrical loads and to the generation of electric power by a water supply or sewer service corporation.

What is SB 6?

Senate Bill 6 was signed into law in the recently concluded 89th Legislative Session of Texas. As industries like data centers, large manufacturing plants, oil & gas operators, and crypto-mining operations rapidly expand across the state, their enormous demand for power creates new challenges for grid reliability, infrastructure planning, and cost recovery. SB 6 lays down a pathway for how Texas plans for, connects, and manages very large electricity users on the ERCOT grid.

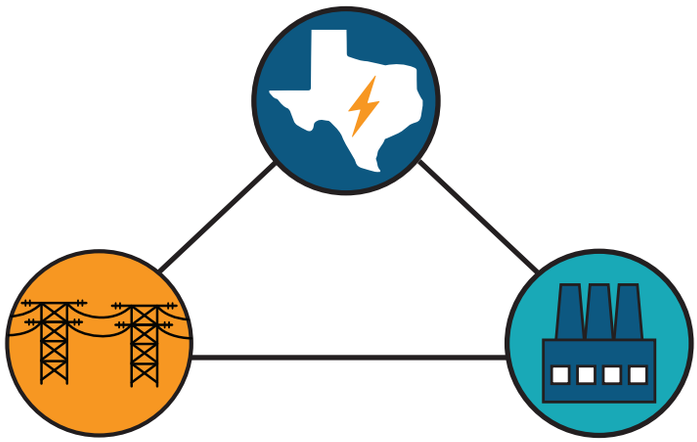
Why it Matters?

With Texas experiencing record growth in digital and industrial demand, SB 6 makes sure these new loads cover their fair share of interconnection costs, disclose key information, and participate in emergency demand management. It is aimed at protecting grid reliability and preventing costs from being shifted onto existing customers.

Who it Affects?

Primarily large electricity customers above about 75 MW, though the PUC has authority to set a lower threshold if needed. Smaller customers are not directly affected.

At its core, the bill balances three goals: encouraging economic development by supporting new industrial growth, protecting consumers from bearing the cost of expensive transmission upgrades, and maintaining a reliable grid that can withstand large energy demands even during extreme conditions. The PUC has laid out a roadmap for rulemaking for the implementation of SB 6 (**Case 58317-5 Roadmap**). Given below, is a section-by-section explanation of the bill.



Section 1: Interconnection Cost Recovery

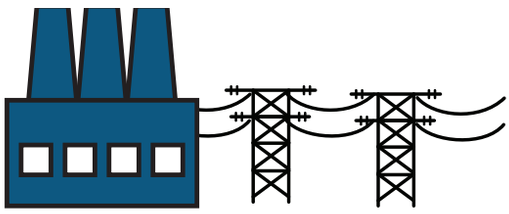
Amends Section 35.004 of the Utilities Code by adding two new subsections:

- **Subsection (c-1):**
  Requires the Public Utility Commission (PUC) to establish rules ensuring that large load customers contribute to the recovery of interconnection costs incurred by electric utilities. Applies only to new interconnection agreements, entered after the effective date of SB 6. The bill became effective immediately upon being signed by the governor on June 20, 2025.
- **Subsection (c-2):**
  Mandates that electric cooperatives and municipally owned utilities (MOU) that have not adopted customer choice must pass through reasonable interconnection costs to large load customers in a manner determined by the cooperative or municipal utility.

PUC will make sure that when a big electricity user (like data centers, large oil & gas companies, cryptocurrency mining facilities) wants to connect to the grid, that customer pays their fair share of the utility's costs for building or upgrading the infrastructure needed to serve them. This is to prevent the passing of those costs to other customers.

If a very large electricity customer is connecting to a co-op or municipal utility that hasn't opened its market to retail competition, it will be on the hook to pay for the interconnection costs. The utility decides the exact way it will bill the large load customers for those costs, but it has to be reasonable. This ensures that local residents and smaller customers aren't subsidizing big industrial users.

Section 2: Planning for and Interconnection of Large Loads



Adds Section 37.0561 to the Utilities Code, establishing comprehensive planning requirements for large loads:

- **Subsection (a):**
  A "large load customer" is anyone requesting a new interconnection above the threshold under subsection (c) (default 75 MW) and anyone who takes over that request (a successor in interest).
- **Subsection (b):**
  The PUC must create interconnection standards for large loads in ERCOT. The rules must balance:

- Supporting business development (Texas welcomes big loads like data centers and factories).
- Avoiding stranded infrastructure (don't build expensive transmission that no one uses later).
- Maintaining reliability (protect the grid).

- **Subsection (c):**
  This subsection sets the threshold at 75 megawatts but authorizes the PUC to determine a lower threshold if necessary.

- **Subsection (d):**
  Large load customers must disclose to the utility if they are also pursuing a similar interconnection elsewhere in Texas, where approval could cause them to change, delay, or cancel this request. They don't have to reveal competitively sensitive details and such information can be withheld or anonymized. Utilities are forbidden from sharing this information, except with the PUC or ERCOT under confidentiality.

- **Subsection (e):**
  Requires large load customers to disclose information about on-site backup generating facilities to their utility. The utilities must then provide the information to ERCOT.

  On-site backup generation is defined as generation that can serve at least 50 % of on-site demand but is not capable of exporting to the ERCOT.

  This section also requires ERCOT to set an emergency trigger point. When that point is hit during a grid emergency, ERCOT may direct utilities, with notice, to require large load customers to deploy backup generation or curtail load after using all other services except frequency response. That deployment must be counted as firm load shed in pricing.

  This subsection does not override state or federal environmental rules (e.g., emissions limits) and does not prohibit customers from joining the new Large Load Demand Management Service authorized by section 39.170(b).

- **Subsection (f):**
  Establishes a minimum flat study fee of $100,000 for initial transmission screening studies, with additional fees for requests for additional capacity. Any unused portions of the study fees may be applied as a credit toward future procurement or interconnection costs at the same site.

- **Subsection (g):**
  Requires standards for large load customers to demonstrate site control through ownership, lease, or other legal interest.

- **Subsection (h):**
  Requires the PUC to create uniform rules for the large load customers to demonstrate their financial commitment for the development of new transmission infrastructure needed to serve them. The idea is that a customer requesting a very large connection must be able to show their financial strength while filing a request. Proof of financial commitment include:
  - Security calculated on a dollar-per-megawatt basis,
  - Contribute directly toward construction costs,
  - Upfront payment for major equipment or services before a service agreement is finalized, or
  - Another form of commitment approved by the commission.

This is to ensure that utilities and ERCOT are not left bearing the costs of planning and building expensive transmission for projects that might never materialize.

- **Subsection (i):**
  The customer's security deposit can be fully or partly refunded once it's used to cover any outstanding costs, such as when the customer meets its growth milestones, withdraws some or all of its request, or when the reserved capacity is reassigned to another customer.
- **Subsection (j):**
  Directs the commission to adopt consistent rules to govern how and when such capacity reallocations take place, ensuring fairness and predictability across the system.
- **Subsection (k):**
  ERCOT must be able to access the information collected by utilities and municipal providers to confirm that large load interconnection standards are being met and to use that data for transmission planning analysis. To protect business interests, any customer-specific or competitively sensitive information obtained through this process is considered confidential and exempt from public disclosure.
- **Subsection (l)**:
  Preserves the authority of municipal utilities and electric cooperatives to impose additional retail service requirements for large load customers, in addition to this section.

Example: Say a new 80 MW data center wants to connect through a municipally owned utility (MOU) or an electric cooperative. The MoU might go beyond the standards established by PUC under SB 6 and impose additional requirements. For example, the utility may require the large load customer to install additional equipment or impose stricter curtailment rules. This subsection retains the authority of MOUs and co-ops to impose such requirements.

- **Subsection (m):**
  Requires the PUC to create criteria to ensure that ERCOT's planning models and resource adequacy assessments account for all forecasted large loads, regardless of size.

  This is important because large loads can have significant effects on grid reliability, and the law requires ERCOT to include them in forward-looking planning to avoid being caught unprepared for future demand growth.

Section 3: Applicability

Amends Section 39.002 of the code to simply make the co-operatives and the municipally owned utilities subject to Sections 39.169 (Co-Location of Large Load Customers with Existing Generation Resource), and Section 170 (Large Load Demand Management Service). These sections are explained below.

Section 4: Co-Location and Large Load Demand Management

Amends Chapter 39, subchapter D of the Utilities Code by adding Sections 39.169 and 39.170.

Section 39.169: Co-location of Large Load Customer with Existing Generation Resource

- **Subsection (a):**
  Requires the ERCOT to be notified if a power generation company, co-operative or MOU is planning to implement a net-metering arrangement between an operating facility registered with the independent organization as a stand-alone generation resource a new large load customer, before such arrangement is implemented.

  Example: If there is a natural gas power plant in West Texas that is already registered with ERCOT as a stand-alone generator. Now, a new 100 MW data center wants to set up right next door and connect directly to that power plant for its energy requirements behind the meter so it can use the generator's electricity instead of pulling from the grid. Such arrangement is called a "net metering" arrangement.

  Before they can move forward with the net-metering agreement, ERCOT has to be notified. This gives ERCOT a chance to study how taking that generator's output off the grid might affect overall reliability, transmission planning, and other customers.

- **Subsection (b):**
  Provides two exceptions to the above requirement:

  1. If the resource generator's registration already included a co-located load when it was energized, the new rule does not apply.
  2. If the large load customer's parent company owns a majority interest in the resource generator as of January 1, 2025, then a new notice is not required.

  These carve-outs protect arrangements that were already planned or controlled under common ownership.

- **Subsection (c):**
  The local utility serving the site has a right to object for "reasonable cause," such as violations of other laws. However, once the PUC issues a final decision on the matter, no further objections can be raised.

- **Subsection (d):**
  Lays out the formal review process as given below. lease, or other legal interest.
  - Once ERCOT receives all required information, it must study the reliability and transmission

impacts of the proposed net metering arrangement, including what happens if the generation is withdrawn.
- ERCOT has 120 days to complete this study and submit recommendations to the PUC. The PUC then has 60 days to approve, deny, or approve with conditions.
- The condition must require that if a generator was providing ERCOT with a certain amount of dispatchable capacity before entering a net metering deal with a large customer, it must still provide at least the same amount of dispatchable capacity to ERCOT afterward.
- ERCOT can call on that capacity when it expects an emergency on the grid.
- The conditions may require:
    - The behind-the-meter customer to reduce load during emergencies,
    - The generator to make capacity available during critical times, or
    - Put protections in place so that other customers are not stuck paying for transmission that becomes underutilized because of the new arrangement.

- **Subsection (e), (f), (g), (h):**
    - If the PUC does not act within 60 days, the arrangement is automatically approved.
    - Any conditions imposed must be reviewed at least once every five years to determine whether they remain necessary.
    - Participation in these proceedings is limited to the PUC, ERCOT, the local utility (whether a co-op, TDUs, or municipal), and the parties to the net metering arrangement itself.
    - The PUC must post its decisions on its website for transparency, while protecting confidential or competitively sensitive information.

In simple terms, section 39.169 ensures that when a large new customer connects behind the meter with an existing generator, ERCOT and the PUC carefully evaluate the impact on the grid. The rules are designed to prevent reliability problems, preserve dispatchable capacity, and protect other customers from additional costs, while still allowing co-location if it is handled responsibly.

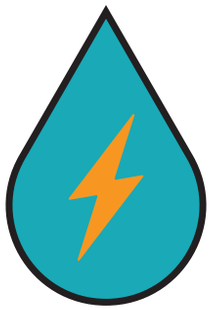
Section 39.170: Large Load Demand Management Service

- **Subsection (a):**
  Creates a new reliability requirement for very large customers that connect at transmission level.
    - ERCOT must make sure that co-ops, TDUs, and MOUs that serve a transmission voltage customer set up a protocol to curtail large loads if ERCOT orders load shed.
    - The protocol includes installing whatever equipment or technology is needed to allow load curtailment, and this has to be in place before the customer is allowed to interconnect.
    - The utility must work with the customer so that if curtailment happens, it can be done in a coordinated way rather than abruptly.
    - Only applies to new large loads that interconnect after December 31, 2025.
    - This does not apply to a critical load industrial customer (**section 17.002**) or a designated critical natural gas facility (**section 38.074**).

- **Subsection (b) and (c):**
  Requires PUC to require ERCOT to create a reliability program to pay large load customers with a demand of at least 75 MW to reduce demand during emergencies. The program rules must:

- Define when it can be used, mainly in extreme weather emergencies.
- Require ERCOT to give at least 24 hours' notice, and the load must stay reduced until the emergency ends or it's safe to restart.
- Prevent customers from joining this program if they are already reducing their load in any other demand response program. This is to prevent them from benefitting from two programs.
- ERCOT must include such deployment in price adjustment calculation for reliability deployments.

Section 5: Water Corporations' Ability to Generate Electric Power

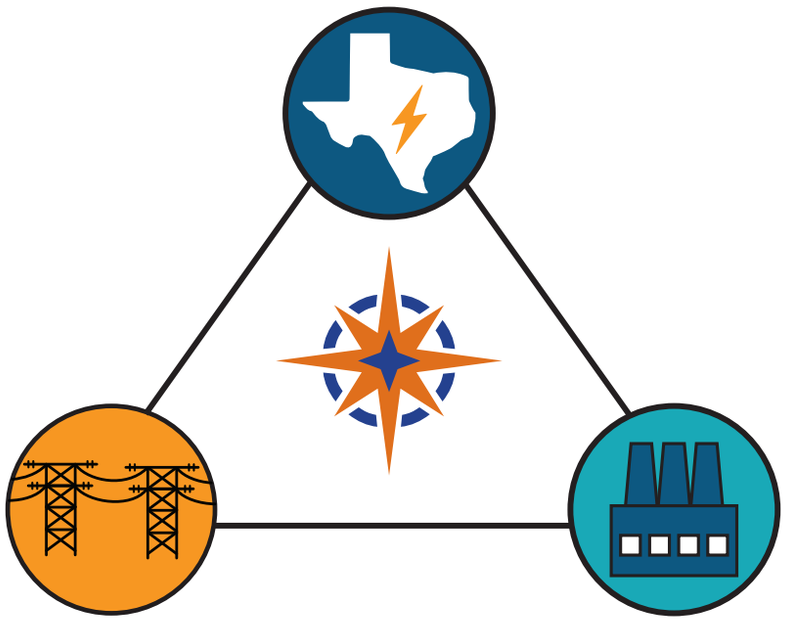


Amends Chapter 67, subchapter A of Water Code to add section 67.0115.

Section 67.0115: Electric Generation

- **Subsection (a):**
  Allows water supply or sewer corporations to generate electricity to run their own operations. The operations are limited to:
  - Powering water pumps, treatment plants, and other equipment for the production, treatment, and transportation of raw water.
  - Delivery of potable drinking water
- **Subsection (b):**
  If the corporation is only a wholesale water or sewer provider and is located in a county with fewer than 350,000 people;
  - It may also generate extra electricity and sell it into ERCOT.
  - But it can only do this if the main purpose of the generation is still to power water operations, and the corporation registers as a power generation company.
- **Subsection (c):**
  Any money made from selling excess electricity must be used only to cover the costs of producing that power (like staff, equipment, fuel, or maintenance) or for other lawful purposes of the water or sewer corporation.

Section 6: Evaluation of the Existing 4CP Methodology



- Requires the PUC to review how transmission costs are currently shared across the grid. Right now, these costs are charged using the four coincident peak (4CP) method, which bases charges on each customer's demand during the system's four highest summer peaks.
- The review will check if 4CP is still fair or if alternatives like seasonal peaks or daily peak intervals would work better. It will also decide which parts of transmission costs should always be paid by all customers (nonbypassable), so no group avoids paying their share.
- The PUC must also check whether retail ratemaking practices make sure each customer group (residential, commercial, industrial, etc.) is charged in line with the actual costs they cause on the system.
- The review must start within 90 days and finish with new rules by December 31, 2026 to ensure transmission costs are shared fairly.