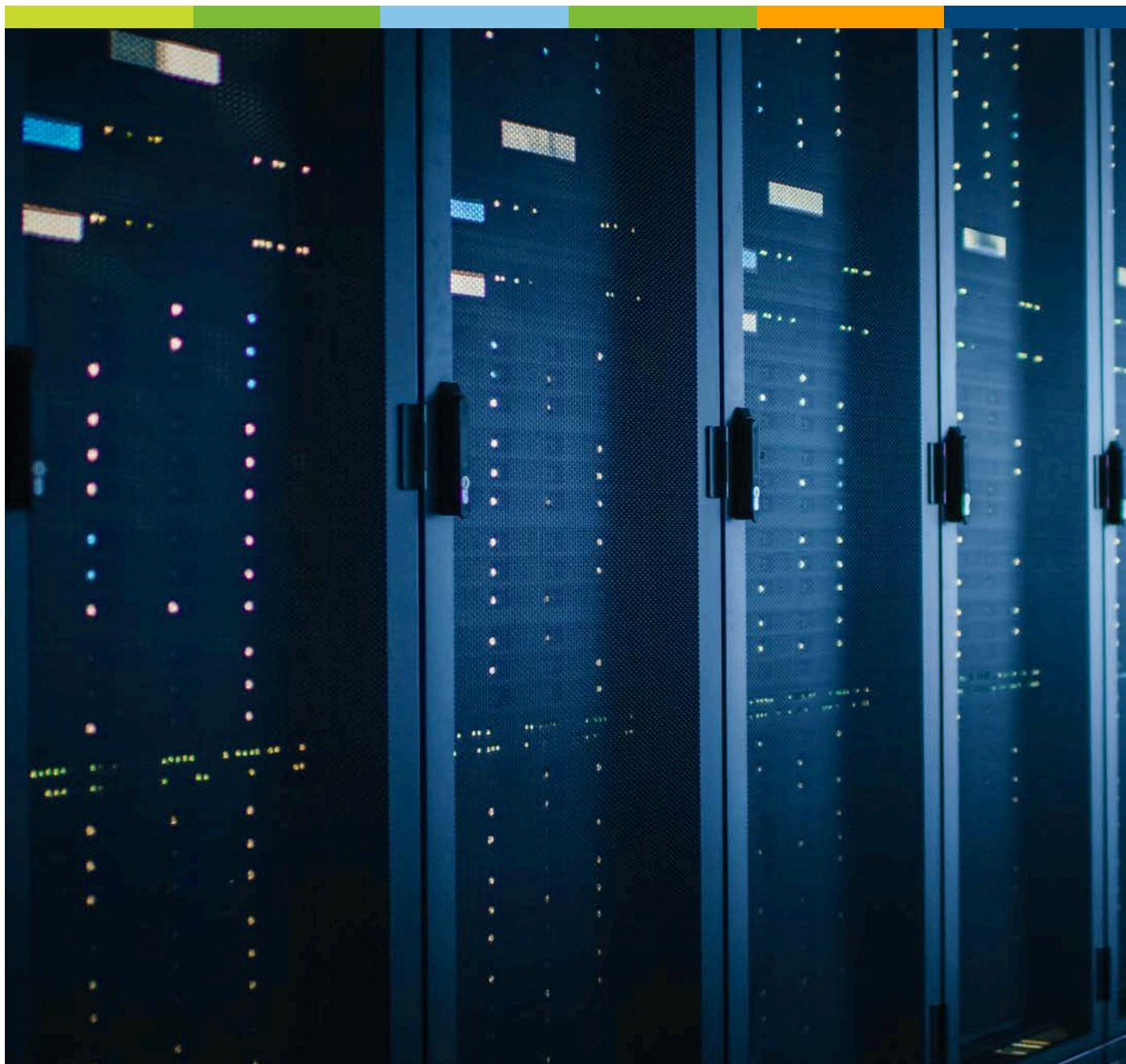




Data Center Policy Playbook



Addressing Governance, Water, Air, Energy and
Community Needs for Texas

October 2026

ABOUT HARC

HARC (Houston Advanced Research Center) is an independent nonprofit science organization established in 1982 with a focus on accelerating solutions for a sustainable economy, a healthy environment, and human well-being.

Mission

Leverage science to accelerate practical solutions for a sustainable economy, a healthy environment, and human well-being.

Vision

A future where the economy, environment, and communities thrive together.

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EXECUTIVE SUMMARY

The rapid growth of data centers, the defining physical infrastructure of the artificial intelligence era, is bringing billions of dollars in investment to Texas amid mounting public concern over their impact on quality of life and natural resources.

Grid interconnection requests have reached roughly 475 GW — about five times current peak demand — with close to 90% associated with data centers.¹ A buildout at that speed and scale is arriving faster than the state’s permitting and planning processes were built to absorb.

Meanwhile, opposition to data center development is bipartisan, urban and rural, and has grown to 71%.²

The governor directed the state to audit all pending interconnection requests before allowing new grid connections and to deny requests from non-compliant projects.¹ On September 21, the governor also paused new TCEQ air and water permits for data centers, and ERCOT expects to complete the audit by December.³ That directive, as well as Lt. Gov. Dan Patrick’s interim charge to the legislature in March calling for consideration of data center regulation⁴, serves as clear evidence that the state has, to date, lacked the policy tools to proactively manage the growth and impact of these facilities.

The governor’s standards (pay for electric infrastructure instead of shifting costs onto Texas families and small businesses, reuse water, reduce the cost of electricity for Texans, do not disrupt residential neighborhoods, pay their own way and reduce use of taxpayer-funded incentives) have been accepted by major developers.⁵ Because these commitments are voluntary and rest on executive action, the legislature should codify them in statute, with verification and enforcement, so they apply to every project and survive changes in administration.

Texas would not be acting alone. In 2026, California, Pennsylvania, Michigan, and Massachusetts adopted frameworks requiring developers to fund grid and water upgrades, disclose resource use, and forgo nondisclosure agreements; Pennsylvania now withholds state permit review until a project has local approval.⁶

As an independent and nonpartisan research organization, HARC compiled this policy playbook, drawing on rigorous, independent analysis and deep connections to Texas communities, to guide lawmakers and other stakeholders in charting a sustainable path forward.

Three gaps offer the most productive starting points for data center policy:

01

Governance and private property

No statewide process requires a developer to tell a community what it will consume, and no one is certain whether the county or the city decides — an ambiguity now producing litigation across the state.

02

Energy and environmental impacts

Water, air, and noise rules written for other kinds of facilities, and applied one project at a time, miss both this class of development and its cumulative effect on natural resources and quality of life.

03

Community benefits

Public support reaches these projects through rate structures and tax exemptions with few conditions attached and little verification.

When its Legislature convenes in 2027, Texas has the chance to lead and ensure the physical infrastructure of AI is built to create a healthier, more prosperous Texas.

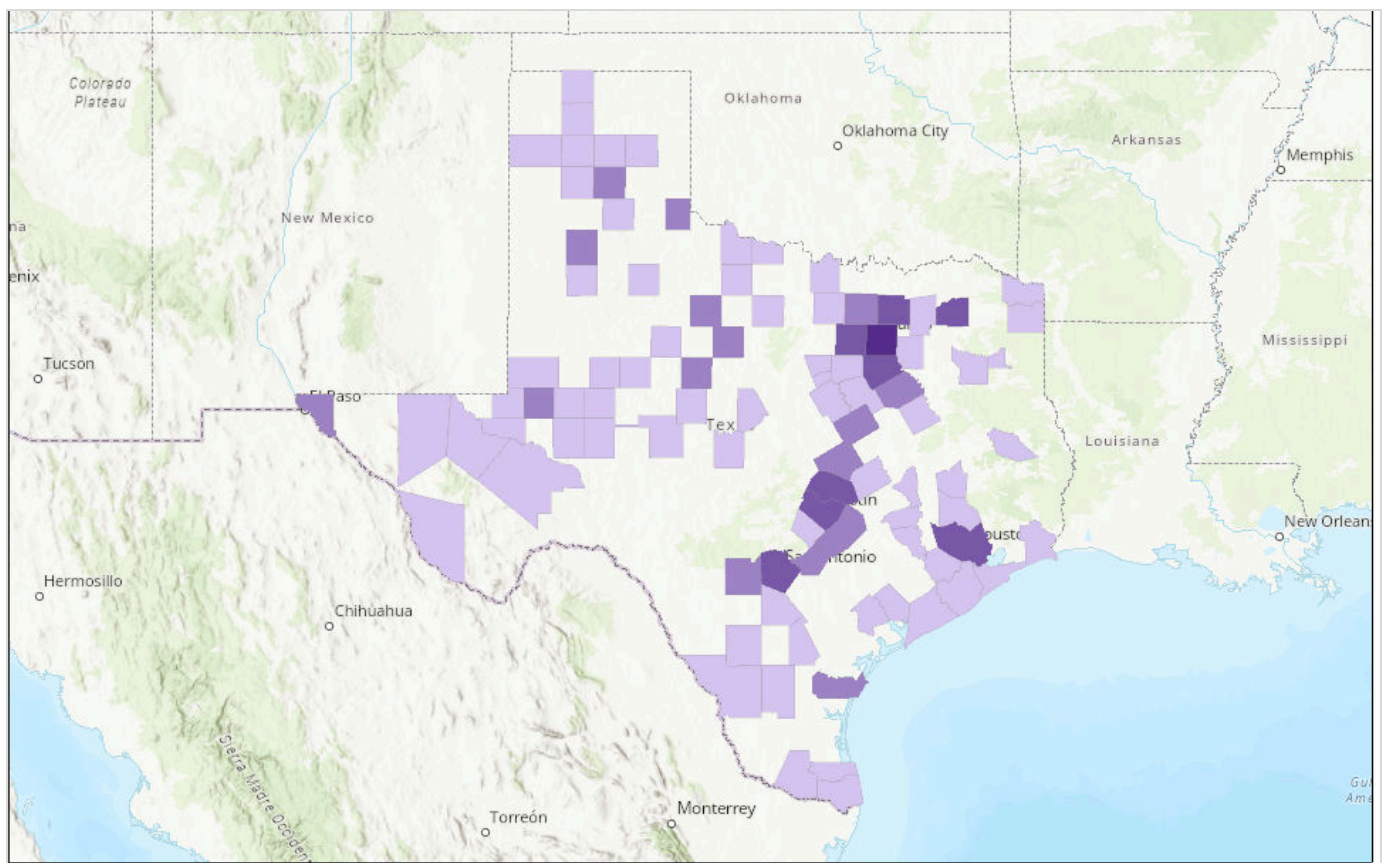


CONTENTS

	Executive Summary	3
01	Governance and Private Property	5
	Transparency, Accountability, and Disclosure	6
	Safeguard Local Control	7
	Landowner Protections	7
02	Energy and Environmental Impacts	8
	Water Use	9
	Grid Resilience	10
	Close Air Quality Protection Gaps	11
	Compounding Impacts	11
	Noise and Light	12
03	Community Benefits	13
	Affordability	14
	Standards and Public Value	14
	Workforce and Local Hiring Standards	15
	Notes	16

01 Governance and Private Property

When communities try to act, they find that there is confusion on what authority they hold. County siting power is unclear, and ambiguity over jurisdiction is producing litigation from Hood and Guadalupe counties to Westlake and the Hill Country.⁷ Adjacent landowners have no forum to raise objections and no protection when farmland or conservation land is converted. Clarifying authority would reduce legal costs for developers and local governments alike while giving residents a predictable way to be heard.



SITES PER COUNTY 1–5 6–20 21–60 61–121

Source: Baxtel

FIGURE 1 Number of data centers in Texas by county. Most data centers are concentrated in urban or suburban areas, but larger data centers are located in more rural areas.

1.1

**Transparency,
Accountability,
and Disclosure**

- Establish a statewide notification process, including advance written notice in plain language and accessible formats to the county and municipality, disclosure of projected water and power demand, a public comment period, and a framework for negotiated community benefit agreements.⁸
- Require disclosure, at first contact with a local government and before any incentive or land-use approval, of the ultimate parent company and end user, all affiliated entities and project code names, and the full planned campus buildout across all phases.
- Prohibit provisions in non-disclosure agreements between a project and a public entity to the extent they conceal projected or actual water use, water source, electricity demand, or the allocation of public infrastructure costs, allowing for protection for proprietary technology, computing capacity, and unrelated business terms.⁹ Enforce through voidability of the offending provision or an open-records exception. Apply these limits to agreements signed by contractors, site-selection consultants, and affiliated entities acting on a project's behalf, not only the developer.¹⁰
- Amend Texas Utilities Code Section 182.052, to allow government-operated utilities to disclose aggregate water and energy use by customer category, including a separate category for data centers. The current rule bars disclosure of "any information relating to the volume or units of utility usage" without the customer's consent, which leaves residents and local officials unable to see how much water data centers draw from a public system. The amendment should (1) authorize, and for utilities above a defined size require, annual publication of total and peak-month usage by customer category; (2) keep existing protections for residential customers' individual account information; and (3) provide that the confidentiality protection does not apply to nonresidential customers above a defined water or electricity demand threshold, so aggregate data for a category cannot be withheld because only one or a few data centers fall within it.
- Mandate standardized water and energy use disclosure, annual reporting, and rigorous enforcement for facilities above a defined demand threshold, including direct actual and peak use and source, cooling technology, electricity and peak use and source, onsite generation plans and related indirect actual and peak water use, and a rolling five-year projection of water use. Require full disclosure before any grid interconnection or water access is granted. Require facilities to report directly to the county, city, the applicable Regional Water Planning Group, the PUC, and TWDB. Fund the staffing needed to process expanded reporting. Increase penalties for failure to report and tie compliance to continued interconnection or water service.
- Apply disclosure, approval, and cumulative-impact thresholds to the combined campus, counting all phases and affiliated entities within a defined radius, so projects cannot be divided into smaller filings to fall below review thresholds.
- Require annual emissions, employment, and tax contributions reporting for data centers and other large loads.
- Require the PUC to maintain a publicly accessible website providing information about all data center facilities in the state, including water and energy use.
- "Water positive" and "zero-water" claims are already the subject of litigation over accuracy.¹¹ Establish independent, third-party verification standards for corporate water or energy sustainability disclosures.

1.2

**Safeguard
Local Control**

- Provide clearer, expanded county authority over siting and clarify city and county authority.
- Extend land use tools available to cities to counties for unincorporated areas, where most large projects are being sited and where Texas counties lack general zoning authority.
- In addition to preserving city zoning authority, give municipalities the right to decline data centers sited near homes, schools, childcare facilities, hospitals, and nursing homes.
- Provide a new transparent county disclosure and approval process for developments with high energy and water footprints. Consider conditioning state permits and interconnection on local approval.¹²
- Explicitly authorize cities and counties to negotiate and enforce community benefit agreements for facilities above a defined demand threshold.
- Clarify whether, and under what conditions, cities and counties may adopt temporary moratoria on data center development while they update ordinances and assess local capacity, so communities are not left choosing between rushed approvals and legal challenges.
- Provide state technical assistance, funded through large-load registration fees, or require developers to fund independent legal, water, and grid experts selected by the host community, so smaller counties can negotiate on equal terms.¹³

1.3

**Landowner
Protections**

- Consider protections for prime farmland or conservation easements displaced by development and mitigation payments and activities for affected landowners if these protections are violated.
- Provide an avenue for landowners to raise concerns at the county level regarding developments with large energy and water footprints. Provide authority for counties to reject projects that do not adequately mitigate impacts.
- To protect rural quality of life, require property line setbacks to act as additional buffers that limit noise and vibration impacts. Setbacks can incorporate use of regenerative agriculture for environmental offsets.
- Establish decommissioning and financial assurance requirements for data centers. Cover equipment removal, electronic-waste handling, and site restoration, with financial security held for the benefit of the landowner and county if a facility closes or is abandoned. Require the parent company, not only a single-project LLC, to guarantee these and other project obligations, and make all obligations binding on any successor owner.¹³

02 Energy and Environmental Impacts

The rules meant to govern these impacts were written for different facilities. On-site gas generation permitted as “temporary” or “emergency” equipment can run as long-term supply, outside utility-scale emissions oversight.¹⁴ Industrial noise exemptions never contemplated continuous low-frequency humming next to homes. And because review happens project by project, several facilities in one watershed or grid-service area can each clear permitting while their combined draw on water, air, and power goes unexamined.¹⁵ The gaps here are in coverage and coordination, not in the underlying environmental standards.

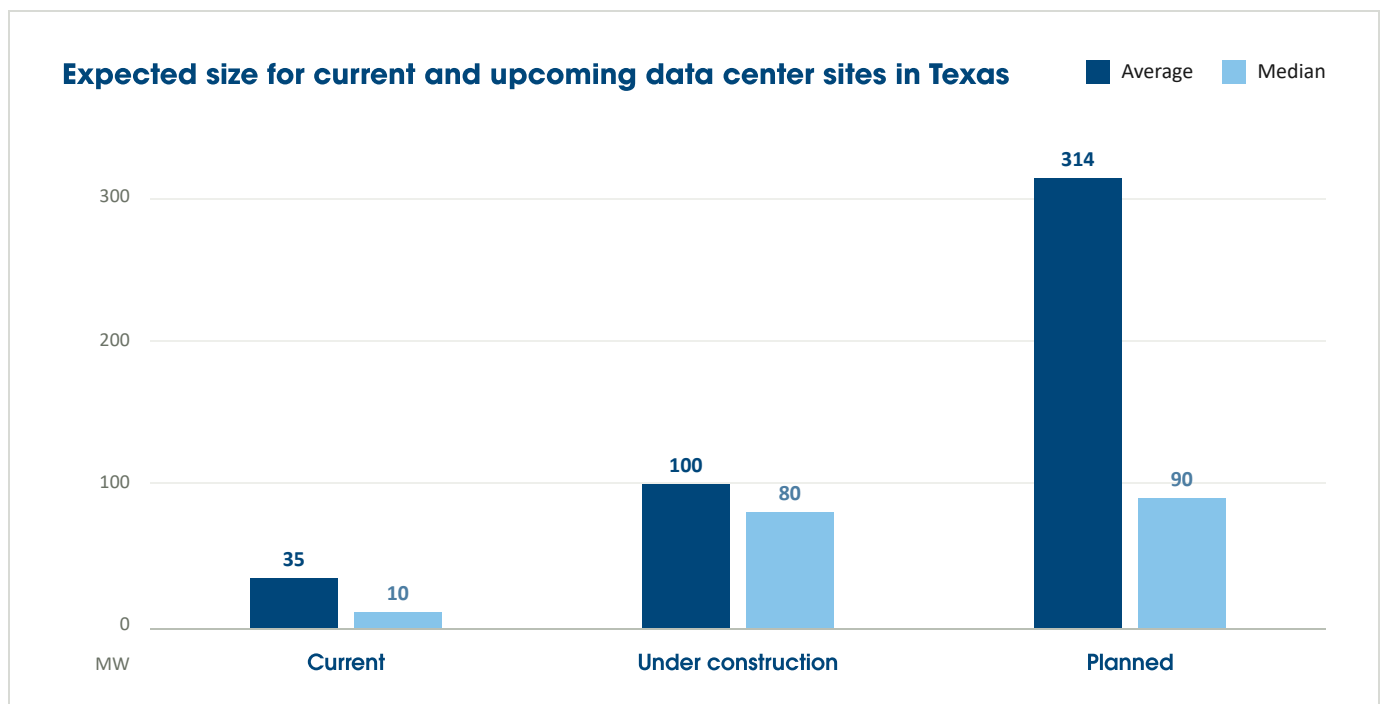


FIGURE 2 Average and median size of current, under construction, and planned data centers in Texas. Data centers are expected to increase 9x in size (average planned site, 314 MW, compared with average current site, 35 MW).

2.1

Water Use¹⁶

- Require drought-contingency operating plans for large water users. Plans should address drought and grid emergencies together, since switching from evaporative to air cooling during drought raises electricity demand on the hottest days.
- Require data centers and new large industrial and power water users to perform better than the industry average in terms of water (direct and indirect) and energy consumption at the time they are designed, as benchmarked annually by the PUC and TWDB.
- Mandate and/or tie incentives to efficient water use, taking into account direct and indirect impacts.¹⁷
- Require use of alternative water sources when feasible. Create an alternative-water incentive scaled to total facility water use for sourcing from reclaimed, brackish, or produced water rather than potable supply.¹⁸
- Disallow siting or construction of data center facilities on protected wetlands.¹⁹
- Require data centers and new large industrial and power water users to limit wastewater discharge.
- Direct TCEQ to evaluate existing pretreatment regulations to ensure discharges during both construction and ongoing operation are adequately addressed, including commissioning and system-flush water demands. Require microbial monitoring where facilities use or return reclaimed water.²⁰
- Encourage land conservation, water/energy efficiency, and water replenishment projects to offset the resources used by data centers and other large loads. Companies may satisfy this through agreements with local governments or community stewards. Count replenishment only when the water returns to the same water system the facility draws from (i.e., watershed or aquifer), is available when needed (including during drought), augments local water supplies, and is independently verified.
- Task the TWDB with mapping areas of near-, medium-, and long-term water stress based on state water plan data. Use the results to limit water use for industrial development in the most stressed areas.
- Extend the groundwater availability certificate (GAC) requirement created under SB 2440 (88th Legislature) to large industrial water users, so they must demonstrate adequate supply and show that withdrawals will not harm neighboring wells, springs, or surface water resources.
- Authorize counties to set reasonable impervious cover limits on large industrial development to manage increased stormwater runoff, reduced aquifer recharge, and heightened flood risk.
- Because coal plants use significantly more water for cooling than that of the average power plant added to the Texas grid in the last ten years, prohibit the recommissioning of retired or soon-to-retire coal plants for data center or other large-load power.

2.1

Water Use

CONTINUED

- Encourage produced water use while protecting groundwater around oil and gas wells, particularly legacy wells. Under Texas law the mineral estate is dominant over the surface estate, and courts have allowed mineral lessees to use fresh groundwater beneath a surface owner's land for production without compensation. As produced water becomes a candidate alternative water supply, this arrangement could create an incentive to flood wells with fresh groundwater to harvest diluted produced water for treatment and sale. Courts have generally limited the lessee's implied right to groundwater used for operations on that lease, not water taken for other lands or for sale, but produced water can be sold. The legislature should protect that limitation in the development of produced water to ensure it is not a route for groundwater exploitation.²¹
- Limit state funding and incentives for produced water treatment, such as the New Water Supply for Texas Fund, to the net volume of produced water: the volume produced minus the fresh groundwater injected to produce it. Additionally, limit eligibility to wells whose fresh groundwater use per barrel produced does not exceed their historical average, with a defined baseline for wells without recent production (e.g., the average for vertical or horizontal wells in the county, respectively).
- Define more clearly what constitutes "reasonable necessary" use of groundwater by mineral estate holders.
- Update the delineation of the surface and mineral estates so that mineral estate producers must compensate surface estate owners for their use of groundwater in future leases.

2.2

Grid Resilience

- Grant ERCOT and the PUCT authority to communicate directly with data centers during grid emergencies and require large energy users to formally register with the state.²²
- Extend the Lone Star Infrastructure Protection Act, currently limited to power plants and transmission companies, to cover data centers and bar foreign-linked control.²²
- Reform the transmission-line siting and approval process to provide more review and time for landowner-intervention.²³
- Require data centers to back down operations as needed during grid emergencies to reduce potential for outages caused by more grid demand than available supply and/or require participation in demand response programs to reduce grid strain during periods of high electricity demand.
- Require transparency on projected load growth so utilities and regulators can plan proactively.
- Require behind-the-meter generation that is planned to connect to the grid later to disclose those plans at initial permitting, with interconnection and integration costs assigned to the developer.²⁴
- Ensure full implementation of the large-load provisions of SB 6 (89th Legislature), including curtailment during firm load shed, disclosure of backup generation, and interconnection cost responsibility, and address any gaps identified during PUC rulemaking.
- Require data centers above a defined demand threshold to maintain a cybersecurity program aligned with a recognized national framework and to report incidents that could affect grid operations to the PUC and ERCOT.

2.3**Close Air Quality Protection Gaps**

- Clarify the regulations for temporary or emergency equipment to prevent long-term supply use.
- Limit annual hours of backup generator operation beyond declared emergencies and require operating logs to be made available to regulators.
- Set enforceable energy efficiency standards and emissions limits designed around protection of public health, including capture requirements, for all primary and backup generation for data centers and other large loads.
- Require onsite generation for data centers and other large loads to be sited away from residential areas, schools, and other vulnerable populations, supported by cumulative emissions impact modeling completed before a permit is granted.
- Prohibit new on-site fossil fuel generation for data centers and other large loads in counties that are nonattainment for ozone or other criteria pollutants.
- Require any on-site fossil fuel generator for data centers and other large loads, grid-connected or not, to meet the state's existing weatherization standards adopted after Winter Storm Uri.
- Apply the same permitting, performance, monitoring, and reporting requirements to on-site fossil fuel generation for data centers and other large loads that already apply to any other industrial generation source.
- Extend permitting, monitoring, and reporting requirements to on-site generation for data centers and other large load facilities above 25 megawatts.
- Require a minimum share of renewable generation and battery storage at any facility with on-site fossil fuel generation to reduce reliance on gas or diesel for primary or backup power.
- Prohibit the recommissioning of retired or soon-to-retire fossil fuel power plants for data center or other large-load power to limit air quality impacts.

2.4**Compounding Impacts**

- Require a cumulative impact assessment when more than one large-load facility is proposed in the same watershed or grid-service area.
- Require cumulative environmental impact assessments for air quality, noise, and other impacts, including local heat-island effects from facility waste heat.²⁵
- Treat all generation for data centers and other large loads within a defined radius of a commonly owned or operated campus as a single permitted facility, to prevent developers from evading major-source thresholds and cumulative-impact review by dividing generation into smaller, separately permitted units.

2.5**Noise
and Light**

- Require decibel testing and dedicated hours for generator testing.²⁶
- Require noise limits measured against pre-development ambient baseline.²⁷ Noise from backup generators, turbines, data center operation, and any other facility sources should count in the noise limits.
- Apply strict noise limits to data center power generation equipment. Temporary units are typically louder than permanent installations and are more likely to be sited with short notice.
- Require native trees to be planted as noise buffers where feasible.
- Require dark-sky compliant lighting design (shielded fixtures, motion-activated lighting) to limit spillover to neighboring properties and wildlife.
- Authorize counties to adopt and enforce noise and lighting standards for data centers and other large-load facilities in unincorporated areas, where most projects are being sited and where counties currently have limited authority.

03 Community Benefits

Without clear rate rules, the fixed costs of transmission, interconnection, and water system buildout could be socialized across all customers, which means residential and agricultural ratepayers could subsidize facilities that consume far more than they do. Texas is already foregoing an estimated \$3.2 billion in sales tax revenue over the next two years — a substantial public contribution, made largely without conditions attached.²⁸ Meanwhile, Texans are increasingly bearing a higher cost for electricity, paying 30% more in 2025 than they did in 2020, with prices anticipated to rise another 29% by 2030.²⁹

What communities receive in return is negotiated (if at all) one jurisdiction at a time, producing uneven protections and leaving smaller counties without the capacity or leverage to secure enforceable terms. Job creation is the most common justification for these incentives, yet local-hire and wage commitments are rarely verified once a project is approved.

The state can address both gaps by standardizing what host communities are entitled to expect and by conditioning public support on outcomes that can be measured.

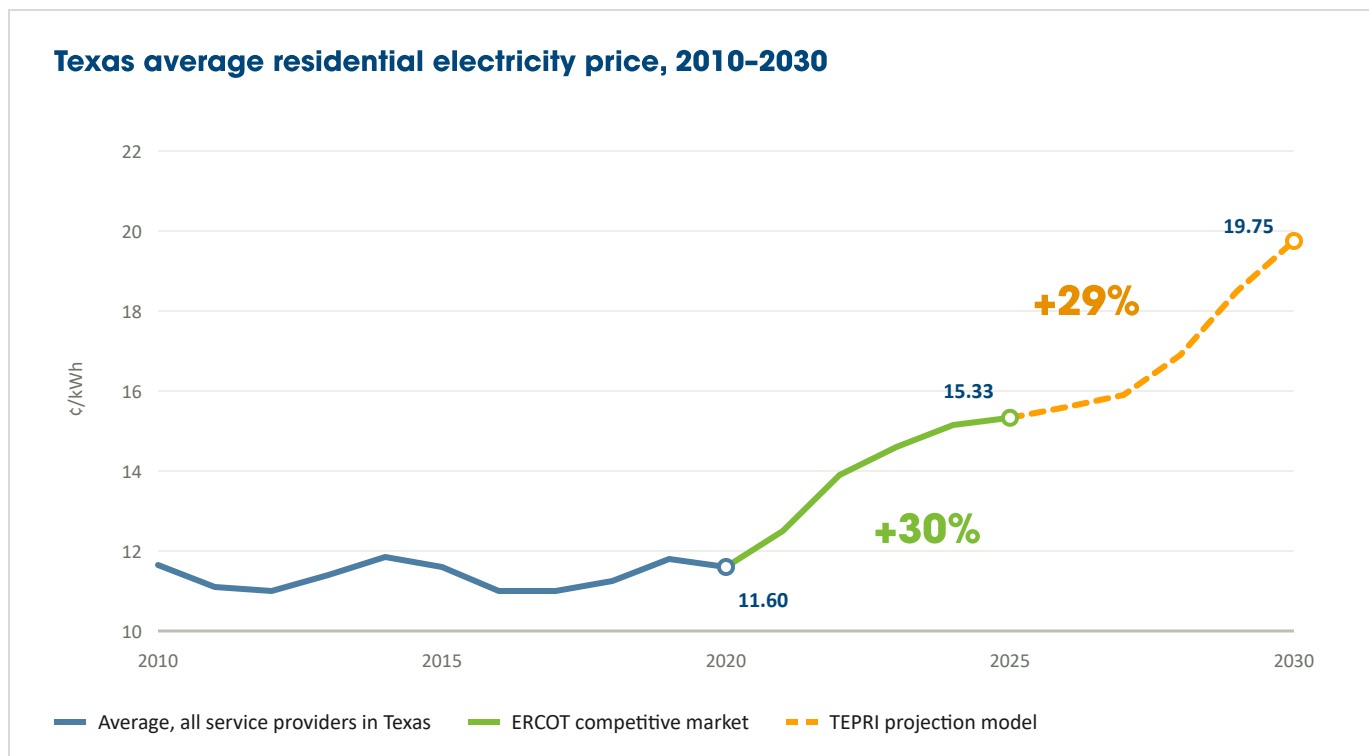


FIGURE 3 Estimated Increase in Residential Energy Price in Texas. Prices are expected to increase by 29% from 2025 to 2030. Source: TEPRI.

3.1

Affordability

- Require ratepayer-protection provisions for large loads party to state-approved tax or development agreements so residential and agricultural customers do not see rate increases attributable to their interconnection or infrastructure costs.
- Insist on “growth pays for growth” utility rate design and full-cost fees or system development charges so infrastructure costs are not shifted onto existing users.
- Require large-load customers to commit to paying for the transmission and interconnection infrastructure built to serve them for the life of those investments.
- Direct the PUC to conduct a statewide study to develop regionally specific guidance for utilities on rates for large water users like data centers, including amending or instituting a new water consumption rate structure and other charges (such as tap fees or capital surcharges) proportional to the cost of service, and recommending against volumetric discounting.
- Update the Texas Water Code to ensure utilities cannot waive or discount rates, tap fees, or capital surcharges intended to recoup costs to serve new large water users, requiring these users to pay the full cost necessary to provide service.
- Require large energy, water, or wastewater customers to provide a bond against stranded-cost risk if a project scales back or exits after infrastructure has been built.
- Require large-load customers to fund local energy- and water-efficiency upgrades and demand-response program enrollment for homes and public facilities in host communities, particularly for low-income residents. Include reporting and verification.
- Allow large-load customers to move earlier in the interconnection queue if they fund reputable third-party (e.g., utility or nonprofit run) residential rooftop solar+storage programs in the same city or county as their site at a level that fully offsets at least 100% of the large load’s demand. Ensure the program is implemented prior to fully energizing the project.
- Direct a share of large-load registration fees toward statewide low-income energy and water affordability/bill-assistance (disseminated through existing Texas Department of Housing and Community Affairs programs) to reduce disconnections in host communities.

3.2

Standards and Public Value

- Publish a statewide model Community Benefit Agreement framework that local governments may adopt including enforceable noise, water, and air limits; setbacks and screening; community development funding; job commitments; reporting and transparency requirements; verification; and a notice-and-cure enforcement mechanism. Include payments that begin before construction and are tied to milestones, a parent-company guarantee, and resident input on how community funds are spent.³⁰
- Require any state tax incentive to include clawback provisions tied to job creation, wage floors, and community investment commitments, with escalating tax contributions over time rather than long flat abatement periods.
- Prohibit stacking incentives from multiple political subdivisions for the same project without disclosure to, and approval from, each subdivision granting an incentive.
- Direct the Comptroller to maintain a single public, searchable registry of all state and local incentives specific to data center projects, including Chapter 312 abatements, Chapter 380/381 agreements, and the data center sales tax exemption, so each subdivision can see what others have offered before approving its own.

3.2

Standards and Public Value

CONTINUED

- Fund independent, ongoing monitoring of air quality, noise, and water impacts — paid for by facilities receiving state incentives as a condition of eligibility, and through data center fees otherwise — with results published to public, downloadable dashboards.
- Require data centers and other large loads building on-site fossil fuel generation to develop a comprehensive community impact and benefit plan in cooperation with local elected officials and community members.
- Texas will lose out on \$3.2 billion in sales tax revenue over the next two years.²⁸ The Attorney General has endorsed repealing the data center sales-tax exemption.³¹ If tax breaks continue, tie them to verified water and energy commitments, local wage floors, and infrastructure co-investment.
- Provide reasonable restrictions on collecting and storing surveillance data collected on Texas residents.

3.3

Workforce and Local Hiring Standards

- Condition state tax incentives on local-hire commitments for both construction and operations, certified by the local government or a third party, paired with job-training guarantees.
- Require wages above the area median for permanent positions tied to state incentives, indexed to inflation.
- Require use of registered apprenticeship programs and partnerships with community colleges and trade schools for data-center-specific technical training (electricians, HVAC technicians, network technicians) as a condition of incentive eligibility.
- Encourage prioritization of local small businesses in incentive-linked construction and vendor spending.

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