Office of Senate Floor Analyses
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THIRD READING

Bill No: SB 1168
Author: McNerney (D), et al.
Amended: 4/22/26
Vote: 21

SENATE ENERGY, U. & C. COMMITTEE: 13-4, 4/13/26
AYES: Allen, Archuleta, Arreguín, Becker, Caballero, Gonzalez, Hurtado, McNerney, Reyes, Richardson, Rubio, Stern, Wahab
NOES: Ochoa Bogh, Dahle, Grove, Strickland

SENATE APPROPRIATIONS COMMITTEE: 5-2, 5/14/26
AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

SUBJECT: Data centers: rate structures

SOURCE: Author

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to assess opportunities for rate structures to address specified rate impacts associated with data centers.

ANALYSIS:

1) Authorizes the CPUC to fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt, and prescribe a uniform system of accounts for all public utilities under its jurisdiction. (California Constitution, Article XII, §6)

2) Authorizes the CPUC to supervise and regulate every public utility in the state and do all things necessary and convenient in the exercise of such power. (Public Utilities Code §701)

3) Defines a "public utility" includes every common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, sewer system corporation, and heat corporation, where the service is performed for, or the commodity is delivered to, the public or a portion of the public. (Public Utilities Code §216)

4) Defines an electrical corporation as every corporation or person owning, controlling, operating, or managing any electric plant for compensation within this state, except where electricity is generated on or distributed by the producer through private property solely for its own use or the use of its tenants and not for sale or transmission to others. (Public Utilities Code §218)

5) Requires all utility charges for products, commodities, and services to be just and reasonable. Existing law requires every public utility to maintain adequate, efficient, just, and reasonable service, equipment, and facilities, including telephone facilities, to promote health, safety, and comfort. (Public Utilities Code §451)

6) Requires the CPUC to establish and maintain a program to provide discounted electrical and gas corporation rates for households with incomes up to 200% of the federal poverty level (FPL). Existing law specifies that this program shall be named the California Alternate Rates for Energy (CARE) program. (Public Utilities Code §739.1)

7) Requires the CPUC to establish and maintain a program to provide discounted electrical rates for households with incomes between 200% and 250% of the FPL. Existing law specifies that this program shall be named the Family Electric Rate Assistance (FERA) program. (Public Utilities Code §739.12)

8) Authorizes the CPUC to assess the extent to which new data center loads may result in cost-shifts to other electrical corporation customers. Existing law requires this assessment to identify opportunities to prevent or mitigate any substantial cost shifts. Existing law requires the CPUC to publish the assessment and submit it to the relevant policy committees of the Legislature by January 1, 2027. (Public Utilities Code §913.22)

This bill requires the CPUC to assess the following as part of a new or existing proceeding:

a) Opportunities for rate structures to ensure data centers pay their reasonable share of costs associated with transmission and distribution needs, regardless of how data centers interconnect with the electrical grid.
b) Mechanisms to ensure that data centers pay for their proportionate share of load increases and procurements needed to reliably serve their loads using non-emitting resources.
c) Rate structures to alleviate cost pressures on residential ratepayers, including, but not limited to, customers enrolled in the CARE and FERA programs.

Background

Unmanaged data center growth in other states has led to concerns about their energy impacts. Data centers have long existed in California to store and transport data necessary for a variety of internet-based services, including telecommunications systems, cloud computing, streaming video, software development, and electronic file storage. The rapid growth of certain services, including cloud-based computing and artificial intelligence (AI) has led to substantial data center growth. Certain states have experienced an unusual amount of this growth without a regulatory framework in place to ensure that costs associated with building new transmission and distribution, adding new generation, and securing sufficient reliability resources do not impact other ratepayers. Pennsylvania – New Jersey – Maryland Interconnection (PJM) operates the largest regional grid in the United States. In January 2026, data from PJM indicated that 40% of its expected increased electricity demand will come from data centers. With this increase in load, PJM has seen record high costs in certain electricity markets, substantial new transmission costs, and challenges in procuring adequate resources to ensure that it can reliably meet peak electricity demands. Consumers in four states within PJM territory paid over $4 billion in 2024 for transmission projects serving data centers.

Data centers are growing in California, but they may not be the most significant driver of future load growth. California has experienced load growth associated with data center expansion; however, this growth has been more gradual than the increased demand experienced by some other states. The CEC, CPUC and California Independent System Operator (CAISO) have all projected varying increases in load from data centers. In forecasts focusing on near term demand, the CEC has shown that CAISO may experience a 1.8 gigawatt (GW) load growth from data centers by 2030. However, the CEC's energy demand forecast covering 2025 through 2045 indicates that vehicle electrification will be the largest driver of peak electricity demand in the state by 2045. While data centers are expected to

increase peak electricity demand by 4.7 GW by 2045, electric vehicles (EVs) may contribute approximately 8.2 GW to peak demand. Serving these future loads will necessarily require additional resources. To address these needs, the CPUC has ordered utilities under its jurisdiction to collectively procure 6 GW of new zero emissions energy resources by 2032. This 6 GW procurement is intended to cover near-term load growth and account for delays in delivering previously planned renewable resources, including off-shore wind resources.

The CPUC is in the process of considering proposals to address rate impacts from utility costs, including those associated with data centers and wildfires. This bill requires the CPUC to assess certain rate impacts associated with data centers and opportunities for rate structures to limit the extent to which other ratepayers are impacted by data center energy costs. The CPUC is in the process of considering rate changes to address costs of new electrical loads, including data center loads. In November 2024, PG&E filed an application at the CPUC to establish a new electric rule for retail electricity customers seeking interconnection at the transmission level. (Application 24-11-007). According to PG&E's filings, data centers were 67% of the 34 transmission interconnection applications that PG&E received between 2023 and November 2024. In July 2025, the CPUC issued an initial decision (D. 25-07-039) that approved an interim PG&E electric rule for data centers that pre-pay the cost of interconnection. On April 9, 2026, the CPUC started the process to open a rulemaking on the California Advanced Electric Rate Design. As part of this proceeding the CPUC intends to explore opportunities to address affordability challenges associated with wildfire costs and rapid load growth, including load from data centers. The proposed decision indicates that the CPUC intends to publish a staff proposal on residential rate reform as part of this proceeding in the 3rd Quarter of 2026.

Related/Prior Legislation

SB 886 (Padilla) of 2026, requires the CPUC to establish a specified rate structure, including an electrical corporation tariff, for data centers with a peak capacity of 25 MW or greater that request a new transmission interconnection. The bill is pending in the Senate.

SB 978 (Pérez) of 2026, would have required the CPUC to create a special rate structure for large data centers prevent cost shifts to other customers. The bill would have established labor requirements for the construction of facilities subject to the bill. The bill would have expanded existing CPUC reporting requirements to

include a specified assessment about data center impacts to renewable procurement goals. The bill was held by the Senate Appropriations Committee.

SB 57 (Padilla, Chapter 647, Statutes of 2025) authorized the CPUC to assess the extent to which electrical corporation costs for new loads from data centers result in cost shifts to other electrical corporation customers. The bill also required the CPUC to publish and submit a report regarding its assessment to the relevant legislative policy committees by January 1, 2027.

AB 222 (Bauer-Kahan) of 2025, would have required the CPUC to assess the extent to which electrical corporation costs for serving data centers result in cost shifts to other customers. The bill also required the CEC to establish a process for data centers to submit specified energy efficiency data to the CEC, and it required the CEC to assess data centers' energy consumption. The bill was held by the Senate Appropriations Committee.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, the CPUC estimates ongoing costs of between $536,000 and $754,000 annually (ratepayer funds) to assess, as part of a new or existing proceeding, opportunities for rate structures applicable to data centers.

SUPPORT: (Verified 5/27/26)

Ava Community Energy
Climate Action California
The Utility Reform Network
An Individual

OPPOSITION: (Verified 5/27/26)

California Chamber of Commerce
California Taxpayers Association
CTIA - the Wireless Association
Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Edison
Southern California Gas Company
Us Telecom - the Broadband Association

ARGUMENTS IN SUPPORT: According to the author:

> Californians pay the second-highest utility prices in the country, and rates are expected to soar even higher because of the rapid growth of data centers around the state. Data center owners and their customers should bear the high costs associated with data centers, not California ratepayers. SB 1168 will ensure data centers pay their fair share by covering the costs of rate assistance programs for California families and low-income residents.

ARGUMENTS IN OPPOSITION: Opponents argue that this bill is unnecessary and unfairly targets data centers instead of applying broadly to other large load customers. In opposition, the California Chamber of Commerce states:

> SB 1168 should not create a separate resource-procurement standard for a particular customer class. Requiring a particular class of end-use customers to pay for procurement "using nonemitting resources" risks blurring the line between customer cost responsibility and statewide procurement policy. The CPUC already has tools to ensure large loads pay for costs they cause, including interconnection-related costs, transmission and distribution upgrades, demand charges, standby charges where appropriate, and other rate-design mechanisms.

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****** END ******