SENATE THIRD READING
SB 1168 (McNerney)
As Amended June 15, 2026
Majority vote

SUMMARY

This bill requires the California Public Utilities Commission (CPUC) to assess opportunities for rate structures to address specified rate impacts associated with data centers, including paying a reasonable share of costs associated with transmission and distribution needs, paying for a proportionate share of load increases and procurement needs, and alleviating cost pressures on residential ratepayers.

Major Provisions

COMMENTS

The rapid expansion of data centers has introduced a fast-growing and geographically concentrated source of electricity demand in California. Data centers are characterized by high, sometimes continuous (24/7) loads with often relatively limited demand flexibility, placing sustained pressure on transmission and distribution infrastructure. Recent analyses by the California Energy Commission indicate that data center electricity consumption is increasing, with projections suggesting significant growth in demand over the next decade. This growth may require large-scale infrastructure upgrades. In the 2024-2025 Draft Transmission Plan, the California Independent System Operator (CAISO) identified billions of dollars in transmission upgrades needed over the next decade to serve anticipated load growth, in part driven by new data centers. Particularly, the clustering of data centers in specific regions (like the Bay Area) can strain local transmission capacity and necessitate costly upgrades for new service lines. Just how utilities, regulators, and tech companies will meet this unsatiated demand is uncertain. New resources must be procured, and new transmission is likely needed to serve this load, all at cost to either ratepayers or the tech companies themselves.

In California, action is underway by the CPUC to address costs of new electrical loads, including data centers. On April 9, 2026, the CPUC opened 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. Specifically, this proceeding, in coordination with the assessment required by SB 57 (Padilla), Chapter 647, Statutes of 2025, will consider issues such as stranded costs and cost shifts for new and emerging large loads with a focus on data centers. The order instituting rulemaking 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. Additionally, the CPUC recently approved interim implementation of PG&E′s Electric Rule 30, which establishes a new tariff for large loads interconnecting on the transmission grid. The decision requires new transmission-level customers to be responsible for the initial costs of all transmission facilities, rather than those costs being borne by ratepayers and was sought by PG&E to address an influx of customers requesting this type of service. In June 2026, the Federal Energy Regulatory Commission ordered all six regional grid operators to justify or reform tariffs for data centers and other large energy users as they relate to interconnection and transmission costs. Under the orders, each operator and its transmission owners have 60 days to either justify why their current tariffs remain just and reasonable, or to file tariff changes.

Additionally, there are already emerging, supported paths (or opportunities) available to help fairly allocate the costs of serving data centers. This includes recommendations from the California Public Advocates Office to ensure data centers pay the cost of interconnection, pay minimum demand charges, and be faced with early termination fees to protect against stranded assets. These principles were also echoed in a recent report from the Little Hoover Commission and Lawrence Berkeley National Laboratory. Therefore, it is likely that these options need to be implemented in rate structures for data centers, and then potentially, further assessed to ensure the desired outcome has been achieved. This bill largely directs the CPUC to examine topics already extensively discussed as it relates to data center rate structures and ratepayer protections.

According to the Author
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 task the CPUC with assessing methods to ensure data centers pay their fair share for interconnection, excess usage, and new loads required to serve their demands.″

Arguments in Support
Ava Community Energy, writing in support of the bill, states ″As data center demand continues to grow, evaluating rate structures that appropriately allocate transmission, distribution, and procurement costs can help ensure these new large loads bear the costs of serving their demand rather than shifting those costs onto existing residential customers.″ Moreover, they write that this bill ″supports a more equitable and sustainable approach to integrating large new loads into California′s energy system.″

Arguments in Opposition
None on file

FISCAL COMMENTS

According to the Assembly Committee on Appropriations, the CPUC estimates annually costs of $224,000 for the completion of the report.

VOTES

SENATE FLOOR: 30-9-1
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Dahle

ASM UTILITIES AND ENERGY: 18-0-0
YES: Petrie-Norris, Patterson, Boerner, Calderon, Chen, Davies, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz, Ta, Wallis, Zbur

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Arambula, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

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