SENATE THIRD READING
SB 886 (Padilla and McNerney)
As Amended July 2, 2026
Majority vote

SUMMARY

This bill requires the California Public Utilities Commission (CPUC) to establish tariffs that address costs associated with transmission, distribution, generation, and interconnection services for data centers.

Major Provisions

1) Defines a data center subject to the tariffs ("participating customer") as a facility, or a part of a facility, that houses computing infrastructure, including graphics and central processing units, servers, storage devices, networking equipment, and associated power and cooling systems, for the primary purpose of processing, storing, or distributing electronic data and a facility with a minimum peak demand as determined by the CPUC, but no more than 25 megawatts and with consideration of the data center's material impact on electrical corporation costs.

    a. Exempts the following facilities from this definition: publicly funded research facilities, public safety facilities, national security facilities, publicly owned facilities, and utility facilities, including but not limited to, an asset of a facilities-based telecommunications provider.

2) Requires the CPUC, by July 1, 2027, to establish a tariff for each of the following: (a) interconnection of a data center to the electrical grid, (b) procurement of electricity generation resources to serve a data center's demand for electricity ("load") and (c) the transmission and distribution services used to deliver electricity to a data center.

3) Regarding establishment of any of the data center-specific tariffs, requires the CPUC to (a) evaluate the risks and benefits of the separate tariffs to "nonparticipating customers" (customers other than data center customers subject to the tariffs) and ensure the separate tariffs prevent the creation of stranded costs for, or cost shifts to, nonparticipating customers.

4) Regarding establishment of the interconnection tariff, requires the CPUC, among other things, to assign cost responsibility for all transmission facility upgrades triggered by a new facility interconnection to the applicable participating data center customer and require an early termination fee to be assessed if the data center departs within 10 years of the initial interconnection or fails to achieve adequate load ramp up.

5) Regarding establishment of the generation tariff, requires the CPUC to, among other things, (a) ensure data center procurement of generation resources support achievement of CPUC procurement requirements and the state's clean energy targets and policies and (b) require a data center to prefund a contract of at least 10 years with the load-serving entity (LSE), such as the utility or community choice aggregator (CCA), to cover the costs of procurement for the data center.

6) Regarding establishment of the transmission and distribution tariffs, requires the CPUC to ensure a participating data center pays a reasonable share of the costs relating to wildfire mitigation, wildfire liability, electrification and environmental programs, and other societal cost obligations typically collected from distribution-level ratepayers.

7) Directs the CPUC to require each electrical corporation (also known as an investor-owned utility (IOU)) to publish and update maps showing locations where participating data centers can interconnect without the need for significant, costly and time-consuming transmission upgrades.

8) Requires a participating data center to take part in a new demand response program authorized by the CPUC that does not result in any net costs to a nonparticipating customer and supports various demand management and clean energy objectives.

COMMENTS

California is experiencing a structural shift in electricity demand driven by the emergence of large energy loads associated with digital infrastructure, transportation electrification, and industrial decarbonization. These large loads can materially affect grid planning by increasing peak demand, accelerating the need for new transmission and distribution infrastructure, and complicate procurement requirements. All these factors can have a direct effect on costs borne by ratepayers. At the same time, certain large loads may provide opportunities for demand flexibility, load shifting, or co-location with clean generation resources, suggesting potential for the net impact on the grid to be neutral, and possibly even positive. This will depend on how these loads are integrated into state planning and regulatory frameworks.

The rapid expansion of data centers – driven by cloud computing, artificial intelligence, and digital services – 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 (CEC) 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, raising broader questions of who pays for these upgrades and how to properly plan for these incoming loads. And once energized, questions remain about how these entities adequately cover their cost of service, especially to protect against rising costs for other ratepayers.

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 third Quarter of 2026. Additionally, the CPUC recently approved interim implementation of PG&E's Electric Rule 30, which establishes a new tariff for large load 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.

Therefore, many actions are underway to try to ensure those with a greater burden on the electrical grid pay their "fair share" of service needs. The goal of this bill is to do just that, requiring the CPUC to establish a new tariffs for data centers that more appropriately allocates the costs of providing energization and serving these large load customers.

According to the Author
According to the author, "As data centers construction has boomed across the country, ratepayers have been forced to pay for the infrastructure of these high energy facilities. Utilities borrow billions to meet this demand with ordinary ratepayers footing the bill. PJM, the East Coast utility provider for 67 million customers, recently reported rates rose 76% due to data centers energy demands. In a meeting with President Trump in the White House, Microsoft, Meta, Anthropic all promised to pay for the cost of interconnection to their data centers, this bill puts these commitments into law."

Arguments in Support
The California State Pipe Trades Council, State Association of Electrical Workers, Coalition of Utility Employees, and the Wester States Council of Sheet Metal Workers, along with support from individual local representatives, share that this bill "strikes the perfect balances between accommodating the economic engine that data centers represent while protecting and benefitting other ratepayers" and ensuring high quality jobs. The support also notes the risk of inaction should this bill not pass, which could be stranded assets and cost shifts onto other ratepayers.

Arguments in Opposition
The Data Center Coalition, along with other including organizations such as TechNet and Silicon Valley Leadership Group, writes that "Any rate design that focuses on a single end use, without showing a measurable difference in service requirements or cost responsibility, risks creating unjustified distinctions among similar customers." Therefore, they see this bill as singling out data center customers, who are not the sole large energy users in the state. The opposition also points to the CPUC as "most appropriately suited to ensure appropriate cost allocations" and that this bill is overly prescriptive in CPUC direction regarding these new tariffs for data centers.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations, the CPUC estimates approximately $1 million in annual costs to develop data center-specific tariffs.

VOTES

SENATE FLOOR: 28-8-4

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Durazo, 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, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Cortese, Dahle, Gonzalez, Niello

ASM UTILITIES AND ENERGY: 14-0-4
YES: Petrie-Norris, Boerner, Calderon, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz, Ta, Zbur
ABS, ABST OR NV: Patterson, Chen, Davies, Wallis

ASM APPROPRIATIONS: 12-2-1
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta
NO: Dixon, Tangipa
ABS, ABST OR NV: Hoover

UPDATED

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