

COACHELLA VALLEY POWER AGENCY AGENDA

**March 16, 2026
3:00 p.m.**

**Coachella Valley Water District
Steve Robbins Administration Building Training Room
75515 Hovley Lane East
Palm Desert, CA 92260**

This is a special meeting due to a scheduling conflict with the regular meeting date. Members of the public may use the following link for listening access and ability to address the Coachella Valley Power Agency's Board of Directors when called upon:

<https://us02web.zoom.us/j/89850512386?pwd=hNvLMjuzKO36TB9tsaZVTHIGE6vI82.1>

**Dial In: +1 669 900 9128 US
Webinar ID: 898 5051 2386
Password: 590306**

**IF YOU ARE UNABLE TO CONNECT VIA DIAL IN OPTION,
PLEASE CALL 760-346-1127.**

Members of the public are encouraged to submit comment in connection with the Coachella Valley Power Agency meeting by email to: cvag@cvag.org by 5:00 p.m. on the day prior to the Board meeting. Members of the public joining the meeting by Zoom can provide comment by using the “raise hand” feature or hitting *9 on the phone keypad.

As a convenience to the public, CVPA provides a call-in and internet-based option for members of the public to virtually observe and provide public comments at its meetings. Please note that, in the event of a technical issue disrupting the call-in or internet-based options, the meeting will continue unless otherwise required by law.

**THIS MEETING IS ADA ACCESSIBLE.
ACTION MAY RESULT ON ANY ITEMS ON THIS AGENDA.**

1. **CALL TO ORDER** – Chair Waymond Fermon, Mayor Pro Tem, City of Indio
Roll Call
Pledge of Allegiance
Agenda Modification
Conflict of Interest Disclosure

P4

2. **PUBLIC COMMENTS ON AGENDA ITEMS**

This is the first of two opportunities to address the Board. Any person wishing to address the Coachella Valley Power Agency on items appearing on this agenda may do so at this time. Please limit comments to 3 minutes. At the discretion of the chair, additional public comment time and/or opportunities during the meeting may be granted.

3. **BOARD MEMBER / EXECUTIVE DIRECTOR COMMENTS**

4. **CONSENT CALENDAR**

- A. **Adopt Resolution No. 2026-001 authorizing the CVPA Board, as an eligible multijurisdictional body, to utilize the teleconferencing provisions established under Senate Bill 707**

P5

- 4.1 **ITEMS HELD OVER FROM CONSENT CALENDAR**

5. **DISCUSSION / ACTION**

- A. **Solar and Distributed Generation Interconnection in Imperial Irrigation District’s territory** – Lauren Olivo, IID Manager of Energy Business & Regulatory Compliance Programs

P7

Recommendation: Information

- B. **Overview of Data Centers** – Alvaro Valcarcel Jervis

P9

Recommendation: Information

6. **INFORMATION**

a) Board Attendance Record

P51

b) Conflict of Interest Guidance

P52

7. **PUBLIC COMMENTS ON NON-AGENDA ITEMS**

This is the second of two opportunities to address the Board. Any person wishing to address the Board on items not appearing on this agenda may do so at this time. Please limit comments to 2 minutes. At the discretion of the Chair, additional public comment time and/or opportunities during the meeting may be granted.

8. **ANNOUNCEMENTS**

The next meeting of the CVPA Board of Directors will be held at 3 p.m. on Monday, April 27, 2026, at the Coachella Valley Water District, Steve Robbins Administration Building Training Room, 75515 Hovley Lane East, Palm Desert, 92260.

9. **ADJOURNMENT**

COACHELLA VALLEY POWER AGENCY BOARD MEMBER ROSTER

Voting Members	Seat on Board	Representative
City of Indio	Chair	Waymond Fermon Mayor Pro Tem
City of La Quinta	Vice Chair	Linda Evans Mayor
County of Riverside	Director	V. Manuel Perez Supervisor
Staff Support		
Tom Kirk <i>CVAG Executive Director</i>		
Emmanuel Martinez <i>CVAG Assistant Director – Energy & External Affairs</i>		

ITEM 4A

Coachella Valley Power Agency March 16, 2025

STAFF REPORT

Subject: Authorizing Use of SB 707 Teleconferencing Provisions

Contact: Elysia Regalado, Deputy Clerk (eregalado@cvag.org)

Recommendation: Adopt Resolution No. 2026-001 authorizing the CVPA Board, as an eligible multijurisdictional body, to utilize the teleconferencing provisions established under Senate Bill 707

Background: The California Legislature last year passed Senate Bill 707 (2024) to modernize the teleconferencing provisions of the Ralph M. Brown Act and establish updated rules for specific categories of legislative bodies, including eligible multijurisdictional bodies. SB 707 took effect on January 1, 2026, and its provisions are now available for use by qualifying agencies.

The CVPA qualifies as an eligible multijurisdictional body under SB 707 because its membership includes cities and the County of Riverside. The legislation recognizes that regional agencies often include members who travel across multiple jurisdictions and therefore benefit from additional flexibility when participating remotely.

Adopting the proposed resolution will authorize the CVPA Board members to use the teleconferencing flexibilities available under SB 707. These include exemptions that allow remote participation without posting a member's teleconference location, subject to certain limits. For CVPA, this would mean members could use this option up to two meetings per calendar year. SB 707 requires that an eligible multijurisdictional body adopt a resolution in open session at a regular meeting before using these provisions.

Adoption of the resolution does not obligate CVPA to rely exclusively on SB 707. The Board may continue using traditional Brown Act teleconferencing rules, with SB 707 serving as an additional option when appropriate. Implementing SB 707 will also support member participation, particularly for a regional body whose members travel, while maintaining full compliance with the Brown Act's public access and transparency requirements.

This is a one-time resolution that does not require periodic renewal. In addition to the resolution, staff has included further guidance on Brown Act changes and conflicts of interest as part of a separate, informational staff report.

Fiscal Analysis: There is no cost to adopt the resolution.

Attachment: Resolution 2026-001

RESOLUTION NO. 2026-001

**A RESOLUTION OF THE
COACHELLA VALLEY POWER AGENCY
AUTHORIZING THE USE OF TELECONFERENCING PURSUANT TO SENATE BILL 707
FOR ELIGIBLE MULTIJURISDICTIONAL BODIES**

THE COACHELLA VALLEY POWER AGENCY DOES HEREBY FIND, RESOLVE, AND ORDER AS FOLLOWS:

WHEREAS, the Coachella Valley Power Agency (CVPA) is a regional, multijurisdictional agency composed of cities and the County of Riverside, with the possibility of future membership by tribal governments, and therefore qualifies as an *eligible multijurisdictional body* under the Ralph M. Brown Act, as amended by Senate Bill 707 (2024); and

WHEREAS, Senate Bill 707 modernizes the Ralph M. Brown Act's teleconferencing provisions and establishes specific teleconferencing flexibilities for eligible multijurisdictional bodies, including exemptions from certain traditional teleconference requirements; and

WHEREAS, Government Code section 54953.8.7 authorizes eligible multijurisdictional bodies to utilize these teleconferencing provisions upon adoption of a resolution in open session at a regular meeting of the body, and in compliance with other requirements contained in Government Code sections 54953.8 and 54953.8.7; and

WHEREAS, the Board desires to ensure that its members may utilize this teleconferencing method and participate remotely when appropriate, while maintaining full compliance with the Brown Act's public access and transparency requirements; and

WHEREAS, adopting this resolution will allow CVPA to implement the teleconferencing options available to eligible multijurisdictional bodies under SB 707, while continuing to provide meaningful public participation and access to meetings;

NOW, THEREFORE, BE IT RESOLVED as follows:

1. The CVPA hereby authorizes the use of the teleconferencing provisions available to eligible multijurisdictional bodies under Government Code section 54953.8.7, as amended by Senate Bill 707 for its meetings, as appropriate. This resolution shall remain in effect unless and until amended or rescinded by the Board.

PASSED AND ADOPTED by the Board of CVPA, County of Riverside, State of California, on March 16, 2026.

By: _____
Waymond Fermon
CVPA Chair

Witnessed By: _____
Tom Kirk
Executive Director

ITEM 5A

Coachella Valley Power Agency March 16, 2026

STAFF REPORT

Subject: Solar and Distributed Generation Interconnection in Imperial Irrigation District's territory

Contact: Alvaro Valcarcel Jervis, Management Analyst – Energy & Sustainability
(ajervis@cvag.org)

Recommendation: Information

Background: Solar and distributed generation (DG) interconnection is a critical component of local energy resiliency, cost control and alignment with regional climate and sustainability goals in the Coachella Valley, especially in the context of rising retail rates and increased interest in electrification. Within Imperial Irrigation District's (IID) service territory, interconnection involves submission of a completed application, technical review to ensure system safety and grid compatibility, inspection and verification, and execution of an interconnection agreement prior to system operation. This process is required regardless of system size and applies to both retrofit installations and solar systems installed as part of new residential construction.

Historically, solar customers required a bi-directional meter so IID could separately measure electricity consumed from and exported to the grid, since older analog or early digital meters only recorded one-way power flows and required a physical meter swap. IID's deployment of advanced smart meters changes this process, as modern meters can measure two-way energy flows through software configuration, reducing the need for additional meter exchanges and helping streamline interconnection timelines, lower operational costs, and improve coordination as solar adoption – particularly in new residential construction – continues to grow.

Net metering in California is different for Investor Owned Utilities (IOUs) and Publicly Owned Utilities (POUs) like IID, mainly because the regulator and the tariff-setting authorities are different. For the IOUs, net metering has been set through the CPUC. Customers who submitted applications on or after April 15, 2023, are now under Net Billing Tariff (NBT), often called Net Energy Metering (NEM) 3.0 or the Solar Billing Plan. Under the NBT, exports are generally valued using the CPUC's avoided-cost framework rather than at full retail rates, which tends to push economics toward self-consumption and storage.

IID's NEM program was structured under California law (Public Utilities Code Section 2827), which required utilities to make net energy metering available until total customer solar capacity reached 5% of the utility's peak demand. IID reached this capacity ahead of schedule in 2016. Under NEM, exports offset usage at (or near) the full retail rate, whereas the current net billing framework credits exports around the utility's avoided/supply cost, which is typically well below the retail rate customers pay –reducing the value proposition for “export-heavy” rooftop solar systems and shifting sales toward right-sizing, self-consumption and storage.

IID has indicated that this transition is intended to support continued DG adoption while maintaining rate stability and grid reliability. The current published rate for excess energy

delivered back to the grid under the Distributive Self-Generation Service Rate Schedule is approximately \$0.0698 per kilowatt-hour, although it is variable and tied to IID's lowest wholesale solar contract cost.

In addition to programmatic changes, IID has updated certain administrative aspects of the interconnection process. IID has implemented an inspection fee of \$255 as of May 1, 2025, associated with solar interconnection applications, reflecting the staff time and resources required to review, inspect, and approve DG systems. These procedural updates are intended to improve consistency and transparency as interconnection volumes increase, including those driven by new residential construction requirements.

At the state level, California's Building Energy Efficiency Standards, commonly referred to as the California Energy Code or Title 24, have played a significant role in expanding residential solar deployment. Beginning in 2020, the Energy Code required most new low-rise residential buildings to include on-site solar PV systems. Subsequent Energy Code updates, including the 2022 and 2025 code cycles, have expanded and refined these requirements by increasing overall building efficiency standards, encouraging higher levels of electrification, and strengthening incentives and compliance pathways for battery energy storage. While batteries are not universally mandated for all new homes, the Energy Code increasingly favors designs that support load flexibility, peak demand reduction, and resilience, making solar-plus-storage a more common compliance strategy, particularly in hot inland regions with high cooling loads.

These Energy Code changes have direct implications for IID's interconnection process. New homes constructed within IID's service territory are often required to install solar PV systems as a condition of building permit approval, which in turn necessitates timely interconnection review and inspection by IID prior to occupancy. As battery installations become more prevalent, whether for Energy Code compliance, backup power, or economic optimization under Net Billing – interconnection applications are also becoming more technically complex. This increases the importance of clear interconnection standards, predictable timelines, and coordination between local building departments, installers and IID.

IID's current approach – maintaining an established interconnection framework, transitioning customers from NEM to Net Billing, updating inspection and administrative procedures, and coordinating with local jurisdictions – represents its primary mechanism for addressing increased distributed generation activity associated with state and local building requirements. As new residential development continues and Energy Code standards evolve, interconnection capacity, staffing resources, and process efficiency are expected to remain key considerations.

Lauren Olivo, Manager of Energy Business & Regulatory Compliance Programs with IID, will attend the March meeting to provide the Board more detailed information regarding roof top solar.

Fiscal Analysis: There is no cost impact to CVPA for this informational report.

ITEM 5B

Coachella Valley Power Agency March 16, 2026

STAFF REPORT

Subject: Overview of Data Centers

Contact: Alvaro Valcarcel Jervis, Management Analyst – Energy & Sustainability (ajervis@cvag.org); and Emmanuel Martinez, Assistant Director – Energy and External Affairs (emartinez@cvag.org)

Recommendation: Information

Background: At a recent CVPA meeting, there was a request from members to bring forward an update on the development of data centers, which are specialized facilities that house servers, data storage systems, and other informational technology (IT) equipment. The projected growth of artificial intelligence (AI) is expected to significantly increase demand for data centers and electricity. California is home to more than 270 data centers, most of which are concentrated in Silicon Valley and the Los Angeles region. However, electricity constraints, land scarcity, and rising AI investment are prompting developers to explore new areas of the State that offer available land, competitive power rates, and reliable water resources.

Given its land availability, relatively low electricity and water costs, and proximity to major metropolitan markets, the potential remains for the Coachella Valley to emerge as a location for data development. While data centers can generate short-term construction employment and drive infrastructure investment, their large, continuous energy demand presents significant grid planning, environmental, and long-term sustainability considerations.

In the Coachella Valley, the City of Coachella has already identified private-sector interest in developing a data center in the eastern portion of the city. The City has taken preliminary steps to plan for potential load growth, including establishing a municipal utility framework intended to serve undeveloped greenfield areas within its Industrial and Auto-Wrecking zones. On February 11, 2026, the City approved a Municipal Utility Development Agreement with Coachella Valley Power Services, LLC. The agreement outlines the implementation of a Municipal Electric Utility designed to serve industrial customers, including [a potential data center load](#). The proposed utility infrastructure includes a new interconnection to Imperial Irrigation District's (IID) existing Coachella Valley Substation, associated switchyards and metering equipment, and fuel cell-based microgrid systems planned for a designated "Technology Campus." Additionally, a \$10 billion, 950,000 square foot AI data center campus has been proposed at the City of Imperial. CVPA staff sought additional information from IID staff on this item, but they are not publicly discussing the proposal due to ongoing litigation.

Data centers are among the most electricity-intensive land uses. Nationally, the U.S. Department of Energy estimates data centers could account for approximately 12% of total U.S. electricity consumption by 2028, nearly triple their share in 2023. Their large, concentrated loads can require new transmission, substation upgrades, and generation resources, raising concerns about cost allocation and potential impacts on existing ratepayers. Most facilities rely

on on-site backup generators, often diesel-fueled, to ensure uninterrupted operation during outages or grid events.

Many data centers use water-based cooling systems to prevent equipment overheating. Cooling of these systems is essential to maintain optimal operational conditions. While water-efficient and waterless cooling technologies exist, they have not yet been widely adopted due to cost and energy tradeoffs. Studies indicate that a significant share of new data center development is occurring in regions already experiencing high or extreme water stress, raising local and regional planning considerations, particularly in arid areas. In addition, there is a trade-off between water and energy use. For example, [according to U.C. Berkeley](#), data centers water use ranges from 18,000 gallons per day for small data centers, to up to 550,000 gallons per day for large “hyperscale” data centers (pg. 18). The report also references a study by UC Riverside which estimates that “statewide on-site data center water consumption in California will balloon from 351 million gallons in 2019 to between 1.12 and 1.75 billion gallons by 2028.” Some data center proposals have incorporated renewable energy strategies, including geothermal and solar power, which are resources present in the Coachella Valley.

The Little Hoover Commission, an independent State oversight body, has identified data centers as an emerging topic requiring coordinated state attention. In recent briefings, the Commission emphasized the rapid pace of data center growth driven by AI and cloud computing, risks of fragmented permitting and infrastructure planning, and the need for clearer state standards addressing energy reliability, water use, environmental review, and cost responsibility. The Commission’s work is intended to provide nonpartisan recommendations to the Legislature and state agencies to ensure infrastructure development aligns with California’s climate, water, and ratepayer-protection goals.

In response to growing concerns, State Senator Steve Padilla (D-Chula Vista) introduced legislation focused on data center impacts. Last year, the Governor signed bill, SB 57 (Padilla), which authorizes the California Public Utilities Commission (CPUC) to assess the extent to which data center loads are resulting in a cost shift for customers of electrical corporations. This year, Sen. Padilla introduced two data center related bills. SB 886, the Data Center Ratepayer Protections Act, which would direct the CPUC to establish a special tariff ensuring that the full costs of transmission and grid upgrades needed to serve large data centers are borne by those facilities, rather than shifted to other electricity customers. Padilla also introduced SB 887, the Sustainable Data Center Leadership Project, which would clarify that data centers are not ministerial projects exempt from environmental review. This bill aims to establish a pathway for qualifying projects to receive streamlined environmental review only if they meet enhanced standards related to clean energy use, water efficiency, emissions, labor protections, and community benefits.

Fiscal Analysis: There is no cost to CVPA for this informational item.

Attachments:

1. SB 886 California Technology Innovation and Ratepayer Protection Act Fact Sheet
2. SB 887 Sustainable Data Center Standards Fact Sheet
3. Little Hoover Commission Study to Review Data Centers and California Energy Policy, Pt. II Hearing Date: December 11, 2025

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California State Senate

SENATOR
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EIGHTEENTH SENATE DISTRICT



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SB 886 – Data Center Ratepayer Protections Act

The AI boom is powered by massive data centers. Those data centers while driving the AI revolution, also consume massive amounts of energy and water, putting enormous strain on the electrical grid and require massive investments into the electrical grid infrastructure. The recent rise of generative artificial intelligence has driven a corresponding growth in data center demand, with Siemens, a leading data center provider, reporting their data-center business revenue jumping 50% in a year.¹ This puts residential ratepayers' energy reliability at risk as California's grid is overburdened by the sudden load growth, and are liable for stranded assets built to meet that demand.

Data centers often have backup power and utilize cooling systems, requiring large amounts of energy and water to continuously power these facilities through peak demand times. Across many states, the demand for energy from data centers are forcing states to increase the energy supply as quick as possible, with Microsoft signing the largest-ever power purchase agreement to reopen Three Mile Island to power the corporation's computing and artificial intelligence programs.² In Texas, Chevron and ExxonMobil plan to offer electricity for the first time, operating fossil fuel power plants to power data centers.³ Moreover, the Department of Energy reports data centers are expected to consumer 12% of total US electricity by 2028, nearly three times the 2023 electricity demand of 4.4%.⁴

These high energy demands strain California's aging transmission grid and threaten California's aggressive clean energy and climate goals. Siemens's head of Smart Infrastructure states there is not enough green energy to power data centers, pushing companies to look elsewhere to meet their energy needs such as coal.⁵ Incentivizing clean energy adoption and establishing a special rate structure in this rapidly growing space is necessary to protect ratepayers from footing the bill as utilities are racing to build transmission infrastructure. PJM, the grid operator for much of the east coast has seen the average energy bill to jump 5% in a year. Three PJM states, one of which is Virginia, the state with the highest concentration of data centers, saw rates rise 11-16%.⁶ Federal officials stated they would push PJM and tech companies to strike deals ensuring they pay the full cost of interconnection, and California must take similar steps to protect ratepayers from bearing the brunt of the financial burden.

SB 886 would require the PUC to establish a special tariff to protect other ratepayers from transmission costs that supply large data centers while meeting the state's climate goals. The tariff will ensure electrical grid investments for data centers are fully recovered to ensure other ratepayers do not end up footing the bill. A tariff will ensure ratepayers do not have skyrocketing costs without increasing the state's reliance on fossil fuels.

¹ Kienle, Nina. "Data Centers Need to Look Beyond Green Energy, Siemens Executive Says." MSN, January 6, 2025. <https://www.msn.com/en-us/money/other/data-centers-need-to-look-beyond-green-energy-siemens-executive-says/ar-AA1x2lmC>.

² Mandler, C. "Three Mile Island Nuclear Plant Will Reopen to Power Microsoft Data Centers." NPR, September 20, 2024. <https://www.npr.org/2024/09/20/nx-s1-5120581/three-mile-island-nuclear-power-plant-microsoft-ai>.

³ McDonnell, Tim. "Data Centers Are Dragging Big Oil into the Power Business." Yahoo! Finance, December 13, 2024. <https://finance.yahoo.com/news/data-centers-dragging-big-oil-124455675.html>.

⁴ "Doe Releases New Report Evaluating Increase in Electricity Demand from Data Centers | Department of Energy." US Department of Energy, December 20, 2024. <https://www.energy.gov/articles/doe-releases-new-report-evaluating-increase-electricity-demand-data-centers>.

⁵ Kienle, Nina. "Data Centers Need to Look Beyond Green Energy, Siemens Executive Says." MSN, January 6, 2025. <https://www.msn.com/en-us/money/other/data-centers-need-to-look-beyond-green-energy-siemens-executive-says/ar-AA1x2lmC>.

⁶ <https://www.nytimes.com/2026/01/15/business/energy-environment/data-center-energy-electricity-costs.html>

Staff Contact

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Support

- Net-Zero California (co-sponsor)
- The Utility Reform Network (TURN) (co-sponsor)

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SB 887 – Sustainable Data Center Leadership Project

The AI boom is powered by massive data centers. Those data centers while driving the AI revolution, also consume massive amounts of energy and water, putting enormous strain on the electrical grid and require massive investments into the electrical grid infrastructure. The recent rise of generative artificial intelligence has driven a corresponding growth in data center demand, with Siemens, a leading data center provider, reporting their data-center business revenue jumping 50% in a year.¹

Data centers run 24/7, requiring backup generators in the event of a power outage. The backup generators often utilize diesel or other fossil fuels, estimated to create public health costs of more than 5.4 billion dollars from air pollution, linking these facilities to cancer, asthma, and other health issues.² Between the years 2019 and 2023, the healthcare costs of data centers surged from 44.68 to 155.44 million.³ Unless these data centers utilize clean energy, the public health impacts of data centers will dramatically increase.

Data centers also need large amounts of water to cool the systems and prevent overheating. While waterless methods for cooling exist, the industry is not adopting waterless cooling due to energy costs. Developers have focused siting data centers where they can get the fastest interconnection and cheapest electricity rate, and water usage has not been a central consideration.⁴ In California, researchers found water consumption by data centers doubled between 2019-2023, equaling 49.9 billion liters.⁵ The water shortages caused by data center development is being felt across the US and exacerbates drought conditions, and these issues will continue as 40% of new data centers are located in areas of high or extremely high water stress.⁶

Absent rational standards, the rapid expansion of data centers presents one of the nation's largest energy and environmental challenges. Currently there are no labor or environmental standards for data center development. Data center developers have claimed changes to CEQA through SB 131 has exempt them, claiming they meet the definition of "advanced manufacturing" which is not in the bill. In Imperial County, the proposed 330 MW data center has been deemed ministerial and exempt from CEQA, despite the city of Imperial raising concerns on the potential impact to nearby city residents and elementary schools. This is despite the project being called "unprecedented in its magnitude" and the nearby Salton Sea contributing to some of the highest respiratory hospitalization rates in the state.⁷

SB 887 would clarify that data centers are not ministerial projects exempt from CEQA and does not qualify as an advanced manufacturing facility. The bill would also allow data centers to be eligible for Environmental Leadership Development Project (ELDP) certification if it meets the criteria as well as some additional requirements specific to data centers regarding

¹ Kienle, Nina. "Data Centers Need to Look Beyond Green Energy, Siemens Executive Says." MSN, January 6, 2025. <https://www.msn.com/en-us/money/other/data-centers-need-to-look-beyond-green-energy-siemens-executive-says/ar-AA1x2lmC>.

² Criddle, Cristina, and Stephanie Stacey. "Pollution from Big Tech's Data Centre Boom Costs US Public Health \$5.4bn." Financial times, February 22, 2025. <https://www.ft.com/content/d595d5f6-79d1-47eb-b690-8597f09b39e7?sharetype=blocked>.

³ <https://www.next10.org/sites/default/files/2025-11/ai-environmental-public-health-costs.pdf>

⁴ Tan, Eli. "Meta Built a Data Center next Door. the Neighbors' Water Taps Went Dry. - The New York Times." The New York Times, July 14, 2025.

<https://www.nytimes.com/2025/07/14/technology/meta-data-center-water.html>.

⁵ <https://www.next10.org/sites/default/files/2025-11/ai-environmental-public-health-costs.pdf>

⁶ <https://www.businessinsider.com/how-calculate-data-center-cost-environmental-impact-methodology-2025-6?ref=dispatch.techoversight.org>

⁷ https://www.thedesertreview.com/news/local/imperial-county-advances-grading-for-massive-data-center-city-iid-sound-alerts/article_ff2b7f40-93ac-45eb-b196-2365a992a14e.html

water use, clean energy, and paying full infrastructure costs. Specifically, the bill would require that the data center developer does the following:

- Pays the full cost of interconnection to prevent cost shifts to other ratepayers.
- Does not increase fossil fuel consumption within the state.
- Includes zero-carbon energy storage with at least four hours of capacity at 100 percent of forecasted peak demand for the facility.
- Uses onsite zero-carbon energy storage to provide demand response services to the electrical grid.
- Relies on zero-carbon generation located behind the meter to the maximum extent feasible.
- Recovers fully from the data center operator all electrical grid investments, including costs of new generating capacity, to serve the data center in the event the data center ceases operations.
- Uses recycled water and water-efficient technology or waterless cooling systems.
- Will rely on 100 percent zero-carbon electricity resources to serve hourly energy needs within five years of initial operations, of which 75 percent shall be newly developed.
- Contains a community benefits program.
- Contains a project labor agreement and prevailing wage requirement, consistent with Section 21183.5.

ELDP certification grants the applicants accelerated CEQA litigation procedures, aimed at reducing the CEQA challenge timeline to 270 days. Certified data center applicants can go online faster while also protecting surrounding communities from health and environmental impacts.

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Support

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- The Utility Reform Network (TURN) (co-sponsor)



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Milton Marks Commission on California State Government
Organization and Economy

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AGENDA
Virtual Hearing on Data Centers and California Electricity Policy, Pt. II
2 p.m.
Thursday, December 11, 2025

Join online or by phone via Zoom

URL: <https://bit.ly/4rd8q81>

Webinar ID: 947 5934 4591

Passcode: 072568

Phone: (888) 788 0099

Join in-person

925 L Street, Suite 175

Sacramento, CA 95814

1. Witnesses
 - a. Sen. Josh Becker – Chair, Senate Energy, Utilities and Communications Committee
 - b. Khara Boender – Senior Manager of State Policy, Data Center Coalition
 - c. Mike Medeiros – Vice President of Strategic Commercial Solutions, Pacific Gas & Electric Company
 - d. Matt Coldwell – Manager, Distribution Planning Branch, California Public Utilities Commission
 - e. Heidi Javanbakht – Manager, Demand Analysis Branch, California Energy Commission
2. Public Comment (3 minutes per speaker, limited to 30 minutes total)
3. Project and Meeting Schedule
 - a. Update on Current Studies
 - b. Future Meeting Schedule
 - c. Selection of Future Study Topic
4. Administrative Update

Pedro Nava, Chair

Anthony Cannella, Vice Chair

Dion Aroner

David Beier

Christopher Cabaldon, Senator

Phillip Chen, Assemblymember

Gil Garcetti

José Atilio Hernández

Jason Johnson

Gayle Miller

Roger Niello, Senator

Liz Ortega, Assemblymember

Janna Sidley

Ethan Rarick, Executive Director



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Milton Marks Commission on California State Government
Organization and Economy

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Little Hoover Commission Study to Review Data Centers and California Energy Policy, Pt. II Hearing Date: December 11, 2025

Witness Biographies

Sen. Josh Becker, Chair, Senate Committee on Energy, Utilities and Communications

Senator Josh Becker chairs the Senate Committee on Energy, Utilities and Communications, and is the author of several bills focused on accelerating California’s transition to 100% clean energy and net zero emissions, voter access and justice reforms, and leveraging technology to provide greater economic mobility for all Californians. Senator Becker was elected to the Senate in November 2020 and re-elected in 2024. He represents California’s 13th Senate District, which comprises most of San Mateo County and the northern part of Santa Clara County. In 2000, he created Full Circle, a community leadership and policy innovation organization that funds nonprofits creating positive change in the Bay Area and building civic leaders for the future. He served seven years on the California State Workforce Development Board, and is a founding trustee at the University of California Merced. He holds a JD and MBA from Stanford University.

Khara Boender, Senior Manager of State Policy, Data Center Coalition

Khara Boender is the Senior Manager of State Policy at the Data Center Coalition (DCC), where she helps lead outreach and advocacy on issues affecting the data center industry, including water, energy, and tax policy. Before joining DCC, Boender served as State Policy Director at the Computer & Communications Industry Association (CCIA) and previously held policy and research positions at The Pew Charitable Trusts and Stateside Associates. She holds a bachelor’s degree in political science from Loyola University Maryland.

Pedro Nava, Chair

Anthony Cannella, Vice Chair

Dion Aroner

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Christopher Cabaldon, Senator

Phillip Chen, Assemblymember

Gil Garcetti

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Jason Johnson

Gayle Miller

Roger Niello, Senator

Liz Ortega, Assemblymember

Janna Sidley

Ethan Rarick, Executive Director

Mike Medeiros, Vice President of Strategic Commercial Solutions, Pacific Gas & Electric Co.

Mike Medeiros is Vice President of Strategic Commercial Solutions at Pacific Gas & Electric Company, where he leads efforts to bring data centers and other large-load customers online throughout PG&E's service area, develop solutions to better serve the company's largest commercial and industrial customers, and strengthen PG&E's partnership with the City of San Jose. Medeiros has 35 years of utility and energy experience, including 18 years at PG&E across two tenures. His prior roles include positions at New Energy Ventures, PG&E Energy Services, PG&E Gas Transmission–Northwest, Silicon Energy Corporation, and GWF Power Systems. He holds a bachelor's degree in economics from Santa Clara University and an MBA from Golden Gate University.

Matt Coldwell, Manager, Distribution Planning Branch, California Public Utilities Commission

Matt Coldwell is Manager of the Distribution Planning Branch within the California Public Utilities Commission's Energy Division. He oversees grid planning, interconnection, energization, microgrids, and transportation electrification. Prior to joining the CPUC, Coldwell served as an energy policy analyst at the California Energy Commission and as an environmental specialist with the California Institute for Energy and Environment at UC Berkeley. He holds a B.A. from California State University, Sacramento.

Heidi Javanbakht, Manager, Demand Analysis Branch, California Energy Commission

Heidi Javanbakht is Manager of the Demand Analysis Branch within the California Energy Commission's Energy Assessments Division. Before joining the CEC, Javanbakht worked as an energy engineer and consultant with the Cadmus Group and Itron. She holds an M.S. in environmental engineering from Michigan Technological University and a B.S. in chemistry from Eastern Washington University.



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**Little Hoover Commission Study to Review
Data Centers and California Energy Policy, Pt. II
Hearing Date: December 11, 2025**

This memo provides background for the Little Hoover Commission’s second hearing on data centers and California electricity policy. Commissioners will hear testimony from representatives of the data center industry, investor-owned utilities, and state agencies that help determine how electricity is regulated and delivered.

Witnesses will discuss the opportunities and challenges associated with integrating rapidly expanding data-center load into California’s electric system—highlighting implications for technological innovation, economic growth, and the operational needs of utilities—while ensuring that the state’s energy supply remains reliable, clean, and affordable.

The memo outlines the economic and business context of the data-center industry; describes how developers interact with utilities and state energy agencies across key stages of project development; and explains how these interactions can function as policy levers that allow state government to influence where, when, and how data centers grow in California. It concludes with a set of thematically grouped questions that Commissioners may find useful as they engage with witnesses. A report drawing on Commission research and insights from both hearings is expected in 2026.

Pedro Nava, Chair	Phillip Chen, Assemblymember	Roger Niello, Senator
Anthony Cannella, Vice Chair	Gil Garcetti	Liz Ortega, Assemblymember
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I. The Data Center Industry in California

This section provides background on where data centers are currently located, how ownership and development trends are shifting—particularly in PG&E territory—and what the industry is seeking from policymakers. It also outlines the pressures on California’s energy regulators and policymakers created by the data center building rush, the risks of speculative investment, and the potential exposure to ratepayers.

Data Centers in California

Data centers in California are currently clustered in Santa Clara and Los Angeles. Both are characterized by access to fast fiber, a willingness and ability to supply abundant energy and water, and the presence of municipal utilities that offer cheaper electricity rates than their investor-owned counterparts.¹

That said, many new facilities are being proposed in territory served by Pacific Gas & Electric, one of California’s investor-owned utilities. By late 2025, PG&E reported receiving data-center-related requests totaling roughly 10 gigawatts of new load.² As The Utility Reform Network’s Elise Torres explained at the Commission’s November hearing, most of these requests are concentrated in PG&E’s Bay Area territory, a region considered one of eight national data-center clusters and valued for its proximity to the tech industry, fast fiber infrastructure, and access to California’s clean-energy grid (see Fig. 1).³

Experts emphasize that operators are willing to pay a premium for highly desirable locations—including California—though that preference can coincide with a reluctance to vary their load demand by time of day, which could potentially benefit the grid.⁴ Still, major data centers have been built in rural locations and in states with little tech industry presence.⁵

¹ See the Data Center Map “[California Data Centers](#)” website for an overview. Cf. M. Petersen, “[Power-hungry AI Data Centers are Raising Electric Bills and Blackout Risk](#)”, *Los Angeles Times* (Aug. 12, 2024).

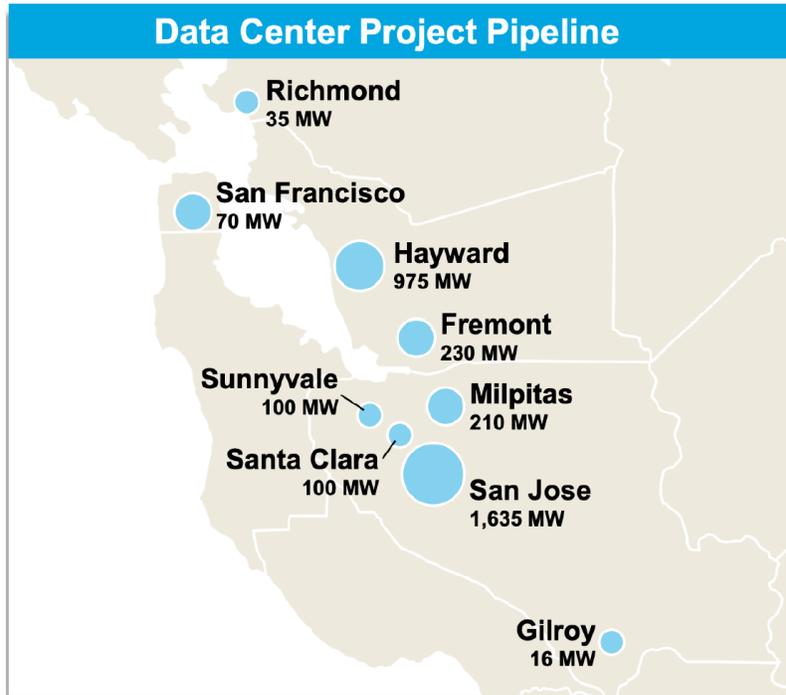
² Links to PG&E’s increasing 2025 predictions of new data center demand can be found [here](#) (Feb.), [here](#) (May), and [here](#) (July).

³ The link to Ms. Torres’ December 11 testimony before the Commission can be found [here](#). Figs. 1 and 2 are from PG&E’s [2024 Investor Update](#) (Jun. 12, 2024), pp. 20. Cf. The Utility Reform Network, [Testimony of the Utility Reform Network Addressing Proposed Rule 30 Ratepayer Impacts and Related Issues](#) [CPUC Proceeding A.24-11-007] (Jun. 30, 2025), p. 9.

⁴ The Utility Reform Network, [Testimony of the Utility Reform Network Addressing Proposed Rule 30 Ratepayer Impacts and Related Issues](#) [CPUC Proceeding A.24-11-007] (Jun. 30, 2025), p. 17.

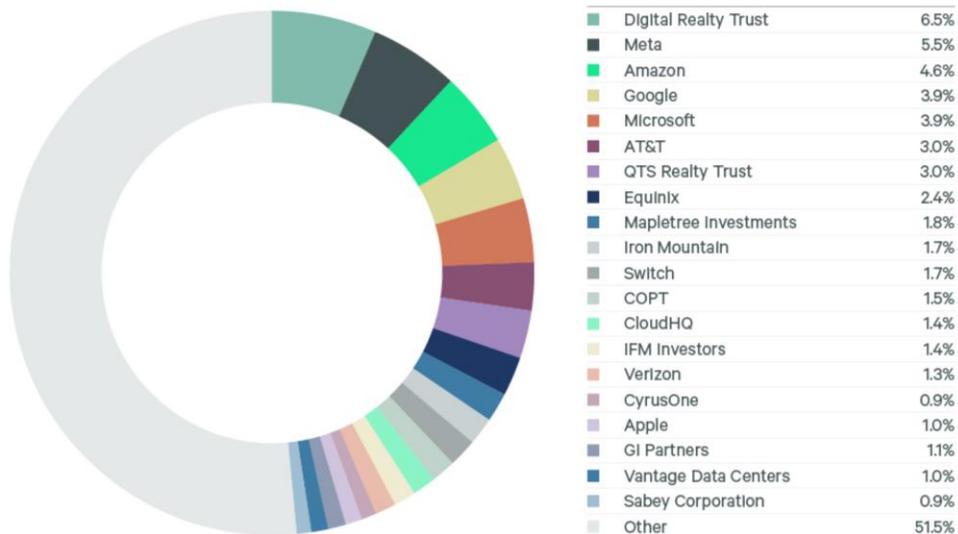
⁵ See, for example, F. Barringer, [Thirsty for Water and Power, AI-Crunching Data Centers Sprout Across the West](#), Bill Lane Center for the American West [Stanford University] (Apr. 8, 2025).

Figure 1: PG&E Data Center Project Pipeline



Source: Pacific Gas & Electric Co.

Figure 2: Data Center U.S. Market Share by Square Footage



Source: CoStar as of June 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Source: CBRE Investment Management

As shown in the chart above (Fig. 2), data center ownership is highly fragmented among well-known tech companies alongside companies that specialized in data center operations and often lease data center space. Meta, Apple, Google, Equinix, and GI Partners are headquartered in California. Almost all other data center operators have a strong corporate presence in addition to operating a large number of data centers in the state.⁶

Data center representatives are likely to emphasize the need for clearer, more predictable pathways for developing new projects in California.⁷ They seek faster interconnection timelines, greater certainty around cost obligations, and better coordination with state and local agencies regarding land use, permitting, and environmental review. Developers may also advocate for more flexible schedules for bringing demand online, and for policies that avoid singling out data centers as the primary drivers of statewide load growth.

Consequences of the Data Center Building Rush

The extraordinary pace of investment in AI and the data centers that support it has intensified pressure on California’s grid. Vacancy rates for existing facilities are low, especially in the state’s major clusters, and trillions of dollars are being poured into new construction.⁸ Because access to electricity is widely viewed as the primary bottleneck to growth, a site with a secured interconnection has become a highly valued asset—capable of serving immediate demand and, potentially, being resold at a premium.⁹ Companies also treat data centers as infrastructure investments that produce near-term revenue and offer tax advantages through accelerated depreciation, especially in jurisdictions that pair these benefits with targeted incentives.

While developers hope to build data centers at breakneck speed, solutions to grid interconnection challenges are slower by nature. Intelligent siting requires careful analysis of existing substation and transmission capacity; selective upgrades require engineering studies and environmental review; and the research needed to support durable policy—including studies on system impacts, rate design, and load forecasting—takes time. Legislative reforms

⁶ See, again, the Data Center Map “[California Data Centers](#)” website as well as T. Tsoneva and J. Affleck, [Data Center Investment: Decoding Opportunities](#), CBRE (Jul. 17, 2024). The chart in Fig. 2 is from this second report.

⁷ See P. Talbot, [Navigating Integration: Key Challenges for Data Centers, Nuclear Stakeholders, And Utility Operators](#), Idaho National Laboratory (Aug., 2025).

⁸ See T. Tsoneva and J. Affleck, [Data Center Investment](#), op cit.; n.d., [North America Data Center Trends H1 2025](#), CBRE (Sep. 8, 2025); and J. Noffsinger et al., [The Cost of Compute: A \\$7 trillion Race to Scale Data Centers](#), McKinsey & Co. (Apr. 28, 2025).

⁹ N.d., [What the Real Estate Industry Needs to Know About Data Centers](#), McKinsey & Co. (Oct. 15, 2024).

targeting data centers, still in an early stage nationwide, follow their own measured timeline of querying stakeholders, settling on policy positions, and drafting and advocating for legislation.¹⁰ This mismatch can lead to frustration on the part of developers and, if rushed, poor decision making on the part of regulators and policymakers.

In addition, to preserve strategic flexibility, data center developers sometimes overstate the expected energy requirements of proposed projects and file multiple interconnection requests for the same project or for several potential sites.¹¹ Because the cost of filing is relatively low, and because utilities may benefit from the appearance of higher future load, these duplicative applications can accumulate quickly. This has led to problems for utility regulators and some states—such as Texas—have begun requiring developers to disclose overlapping requests and to demonstrate ownership or control of land associated with each application.¹²

What Happens If the Data Center Bubble Pops?

The tech sector’s economic strength has significant fiscal consequences for California—a fact that has helped drive the Governor’s support for generative AI through a variety of initiatives and legislative decisions.¹³ Despite uncertainty about AI’s long-term economic value, firms continue to project rapid growth. California-based NVIDIA, for example, reported roughly \$32 billion in Q3 2025 revenue and now exceeds \$5 trillion in market value. And major firms like Microsoft, Google, Apple, and Amazon also report strong AI-linked profits and valuations.¹⁴ Analysts project up to \$3 trillion in global data-center investment by 2029—much of it financed through borrowing—and note that AI spending is propping up an otherwise sluggish economy.¹⁵

¹⁰ California has struggled to pass major data center legislation. For an analysis of the politics involved, see J. Wolman and L. Kashinsky, [“Big Tech’s Next Major Political Battle May Already be Brewing in Your Backyard”](#), *Politico* (Aug. 10, 2025).

¹¹ B. Giacobone, [“Phantom Data Centers are Flooding the Load Queue”](#), *Latitude Media* (Mar. 26, 2025). N.d., [“Uncertainty and Upward Bias are Inherent in Data Center Electricity Demand Projections”](#), London Economics Institute (Jul. 7, 2025).

¹² Overviews of the contents of SB 6 include: n.d., [“Texas Senate Bill 6 Significantly Expands Regulatory Oversight Over Large Loads in ERCOT”](#), McGuire Woods (Jul. 10, 2025). D. Chernicoff, [“Texas Senate Bill 6: A Bellwether On How States May Approach Data Center Energy Use”](#), *Data Center Frontier* (Jul. 2, 2025).

¹³ For a succinct overview, see the Governor’s [“GenAI for California”](#) website.

¹⁴ B. Casselman and S. Ember, [“The A.I. Boom Is Driving the Economy. What Happens if It Falter?”](#), *New York Times* (Nov. 22, 2025).

¹⁵ R. Singh and J. Jose, [“Citigroup forecasts Big Tech’s AI Spending to Cross \\$2.8 Trillion by 2029”](#), *Reuters* (Sep. 30, 2025). C. Metz, [“Why Debt Funding Is Ratcheting Up the Risks of the A.I. Boom”](#), *New York Times* (Nov. 10, 2025).

This surge has raised concerns that utilities may overbuild grid infrastructure in response to speculative demand, leaving ratepayers responsible for stranded assets if growth slows. One JP Morgan analysis estimated that achieving a 10 percent return on an expected \$5 trillion in AI investment would require \$650 billion in annual revenue, a level many view as unlikely.¹⁶ Some observers compare the moment to past infrastructure booms—such as railroads and fiber optics—that initially overbuilt but ultimately produced lasting public benefits. Witnesses at the November hearing similarly noted that data-center development could accelerate needed upgrades to high-voltage transmission.¹⁷

Others caution that graphics processing unit (GPU)-based data centers require frequent chip replacements and are poorly suited to non-AI workloads.¹⁸ Moreover, advances in chip efficiency and model-training methods—such as China’s DeepSeek AI model or Google’s tensor processing unit (TPU) AI chips, which reportedly triple carbon-efficiency—could reduce long-term energy needs, complicating load forecasting and raising the risk of overbuilding with little long-term benefit.¹⁹

These uncertainties have implications for utility cost-recovery policies. Under frameworks like PG&E’s Rule 30, where data center developers finance interconnection upgrades and then recover costs over a payback period, ratepayers could potentially be exposed if projects fail to reach their anticipated load or if payback schedules begin before usage fully stabilizes.²⁰

II. Data Centers and State Policy Levers

Before breaking ground on a new data center, developers must complete a number of steps with utilities and multiple layers of government. These steps represent the policy levers that state government can use to guide data center development: they do not determine where facilities can be built, but they shape the conditions under which projects move forward. The

¹⁶ As cited in M. MacCarthy, “Policymakers Have to Prepare Now for When the AI Bubble Bursts”, *TechPolicy.Press* (Nov. 24, 2025).

¹⁷ See, in particular, the testimony of Dr. Liang Min, Managing Director of Stanford’s Bits & Watts Initiative. Slides from his presentation to the Commission can be found [here](#).

¹⁸ J. Ball, “[What Happens When the AI Bubble Bursts?](#)”, *Transformer* (Oct. 16, 2025).

¹⁹ J. Quigley, “[Load Growth Irrational Exuberance Crashes into DeepSeek](#)”, Kleinman Center for Energy Policy Blog [University of Pennsylvania] (Jan.31, 2025). For an overview of the benefits of Google’s new AI chips, see D. Patel et al., “[TPUv7: Google Takes a Swing at the King](#)”, *SemiAnalysis* (Nov. 28, 2025).

²⁰ The Utility Reform Network, [Testimony of the Utility Reform Network Addressing Proposed Rule 30 Ratepayer Impacts and Related Issues](#) [CPUC Proceeding A.24-11-007] (Jun. 30, 2025), pp. 18-19.

following categories summarize the primary regulatory and permitting interactions required for new development:

1. Utility Interconnection & Transmission Planning: Developers must submit interconnection requests to utilities, specifying expected load and triggering engineering studies and any required infrastructure upgrades.²¹ Large projects that depend on new or expanded transmission may also intersect with CAISO’s Transmission Planning Process (TPP), even though CAISO is not a state agency. This engagement differs from the California Energy Commission’s role in statewide load forecasting, which informs—but does not replace—CAISO’s engineering-level transmission planning.

2. Air Quality & Backup Generation: Backup-generator emissions must be permitted by local air districts, which enforce limits on diesel engines and related equipment. CARB sets statewide emissions standards and guidance, but it does not issue permits directly; day-to-day oversight occurs at the district level.²²

3. Local Permitting, Water Use, & CEQA Review: Cities and counties manage zoning approvals, water-use permits, and building requirements. Most large data centers also undergo CEQA review, which now routinely evaluates air emissions, noise, water consumption, local ecological impacts, and—notably—energy use and the project’s likely demand on the grid.²³

4. Statewide Regulatory Influence & Incentives: Although the state does not directly approve siting decisions, it shapes the broader environment for data-center development through rates, cost-allocation rules, data-reporting requirements, energy-efficiency standards, and statewide demand forecasting. Some states also offer financial incentives such as sales-tax exemptions for construction and equipment purchases, typically tied to minimum investment or job-creation thresholds.²⁴

²¹ K. Hieta and E. Rodriguez, “[How Will Data Center Growth Impact California Ratepayers?](#)”, Public Advocates Office (Oct. 28, 2025). See also the California ISO “[Interconnection Request and Study](#)” website.

²² See the California Air Resources Board “[Air Quality and Emissions Resources](#)” website.

²³ See City of Santa Clara “[Environmental Review/CEQA](#)” website and R. Sabalow, “[‘Nothing Will be Protected’ — How California Environmentalists Killed a Plan to Fast-Track ‘Green’ Energy](#)”, *CalMatters* (Jul. 3, 2024).

²⁴ See, for example, J. Remington and R. Carter, “[An Overview of State Data Center-Related Tax Incentives](#)”, NAIOP Commercial Real Estate Development Association (Winter 2024/2025).

The state’s authority over where individual data centers are built is relatively limited. Beyond general statewide requirements—such as air-quality rules, CEQA review, and energy-efficiency standards—California does not directly approve or deny most data-center siting decisions. Instead, its influence is exercised indirectly through electricity rates, reporting requirements, load-forecasting processes, and regulatory mechanisms that guide utility planning and shape the costs and conditions under which new projects are developed. Together, these touchpoints form the practical extent of California’s policy leverage over data-center expansion.

Utilities and Data Centers

Investor-owned utilities are considered “natural monopolies” and, as such, are tightly regulated by the California Public Utilities Commission, meaning the CPUC can significantly shape how utilities interact with data centers. In particular, the Commission establishes frameworks for rate design, cost recovery, infrastructure planning, and the rules governing how utilities process new load. The section that follows looks specifically at two aspects of the state-utility-data center relationship: interconnection requests and data reporting.

Utility Interconnection Requests

As noted in the previous background memo, California’s utilities operate under a statutory “duty to serve,” meaning they are generally obligated to provide electric service to customers who request it, regardless of the customer’s purpose, so long as doing so does not compromise grid stability or violate safety requirements. In ordinary circumstances, this obligation fits within established processes. However, the recent surge of data center interconnection requests—unprecedented in both scale and concentration—has strained these processes and exposed gaps in the state’s ability to oversee very large new loads.²⁵

Although straightforward for routine commercial or industrial customers, this process becomes substantially more complex for data centers because of the sheer size of the requested load and the infrastructure upgrades involved. PG&E, for example, determined that many of the incoming requests could no longer be managed through the standard engineering pathway and instead required extensive, project-specific review, multi-departmental coordination, and early-stage planning for distribution and transmission upgrades.

²⁵ For discussion, see S. Borenstein, “[Is there a “Duty to Serve” Hyperscale Loads?](#)”, *Energy Institute Blog* [UC Berkeley] (Dec. 2, 2024); cf. the [background memo](#) for the Nov. 20, 2025 Little Hoover Commission hearing on Data Centers and California Electricity policy, pp. 19-20.

These challenges were the primary motivation behind PG&E’s request for the creation of Rule 30, which establishes a framework for a more streamlined interconnection process when applicants meet certain requirements—particularly regarding upfront funding of necessary upgrades and providing firm load commitments.²⁶ And, as mentioned above, Texas is already using early-stage tools to support planning around data center load.

This raises a broader question: to what extent could California use interconnection-related filings, including those associated with Rule 30, to help regulate data center development from the start? If thoughtfully designed, these filings could potentially give policymakers earlier insight into anticipated demand, help identify cumulative regional impacts, and enable more proactive and coordinated oversight of large-load development—well before construction actually begins.

Electricity Consumption Reporting

Utilities typically report data on electricity consumption to the state in aggregated form, reflecting long-standing assumptions that usage patterns within and across sectors are relatively stable and predictable.²⁷ This approach has generally worked well for most sectors, where no single customer meaningfully alters statewide trends. More recently, IOUs have begun providing anonymized, 15-minute interval meter data, which allows California Energy Commission analysts to infer data-center consumption patterns to some degree while preserving customer confidentiality.²⁸

Commissioners may wish to query the representative from the CEC about the effectiveness of this data. Aggregation becomes less useful when a small number of facilities—such as large data centers—can shift demand forecasts on their own. The meter-level data is presumably more useful, but because it is not linked to known customer-types, its ability to help guide forecasting and planning is less clear.

²⁶ The clearest explanation of Rule 30 will be found in PG&E, [Application for Approval of Electric Rule No. 30 for Transmission-Level Retail Electric Service: Supplemental Testimony](#) [A.24-11-007] (Sep. 18, 2025), also cited above. Documents related to the Rule 30 proceeding can be found [here](#). For an list of recommended improvements to Rule 30, see The Utility Reform Network, [Testimony of the Utility Reform Network Addressing Proposed Rule 30 Ratepayer Impacts and Related Issues](#) [CPUC Proceeding A.24-11-007] (Jun. 30, 2025), pp. 10-11.

²⁷ Aggregated electricity data is reported through the CEC’s Quarterly Fuel and Energy Report (QFER). This data can be found [here](#).

²⁸ For an overview of how the CEC uses interval meter data, see C. Petersen, “[Item 4: Information Item –Update on Interval Meter Data Analysis](#)”, Business Meeting of the California Energy Commission (Sep. 11, 2024).

These considerations parallel the debate surrounding [AB 222](#), which proposed enhanced data-center reporting requirements. Supporters argued that more transparency will help policymakers and improve accountability, while opponents warned that such reporting unfairly singles out individual customers.²⁹

Data Centers and California’s Regulatory and Planning Bodies

California relies on several agencies—along with the California Independent System Operator—to manage the policies, planning processes, and regulatory tools that shape how large new electricity loads such as data centers are integrated into the grid. Each entity plays a distinct role, from regulating utilities and overseeing rates to forecasting statewide demand and planning transmission infrastructure:

Entity	Core Responsibilities	Policy Levers Relevant to Data Centers
California Public Utilities Commission (CPUC)	Regulates investor-owned utilities (IOUs); oversees rates, tariffs, cost-recovery mechanisms, utility procurement, capital investments, and implementation of statutory requirements.	<ul style="list-style-type: none"> • Designs and approves rate structures and customer classes (including those affecting large-load customers). • Oversees utility interconnection policies (e.g., Rule 30). • Approves IOU capital projects needed to serve large loads (substations, feeders, related upgrades). • Can require reporting frameworks and data submission by utilities. • Oversees programs that may shape costs (demand-response, load-management, etc.).
California Energy Commission (CEC)	Conducts statewide demand forecasting; oversees power-plant siting; sets building and appliance efficiency standards; conducts system-level planning studies.	<ul style="list-style-type: none"> • Produces load forecasts that guide CAISO’s and IOUs’ long-term transmission planning. • Reviews new power-plant siting that may support grid capacity. • Establishes efficiency standards affecting baseline building loads. • Facilitates coordination with utilities (IOUs and POUs) to understand new large loads, including data centers.

²⁹ The bill analyses from the Assembly Committee on Utilities and Energy and the Senate Judiciary Committee are particularly helpful. Both can be found [here](#).

<p>California Independent System Operator (CAISO)</p>	<p>Plans and operates most of the state’s transmission grid; conducts the Transmission Planning Process (TPP); oversees transmission-level interconnections.</p>	<ul style="list-style-type: none"> • Determines whether and when large new loads can be accommodated. • Identifies and approves transmission upgrades and network investments. • Manages interconnection processes for large projects requiring transmission-level service. • Uses CEC forecasts and utility data to prioritize planning decisions.
<p>California Air Resources Board (CARB)</p>	<p>Sets statewide air-quality and climate standards; oversees statewide emissions rules and the activities of air-quality regulators.</p>	<ul style="list-style-type: none"> • Establishes overarching requirements that govern emissions sources relevant to data-center equipment (e.g., generators, stationary engines). • Issues climate-related regulations (e.g., reporting, diesel-engine standards) that shape what equipment data centers can use. • Provides statewide uniformity across local permitting through regulatory guidance.

III. Core Questions on Data Centers and the Grid

Commissioners may find it helpful to consider how policy can help address specific practical issues California faces as data center development accelerates. The following questions highlight key areas where state agencies, utilities, and industry leaders can offer insight into how California can plan for large new electrical loads in a way that is reliable, fair, and aligned with statewide goals.

A. Costs, Rates, and Fairness

1. How can California support growing data center demand without increasing electricity rates for customers?
2. How can the state prevent ratepayers from bearing the cost of new infrastructure needed for data centers?
3. What kinds of electricity rates for data centers would be both fair to them and sufficient to cover the full range of system costs, including wildfire-related expenses?
4. How can the state provide more regulatory and rate stability for data centers during a period of rapid policy change?

B. Grid Planning, Infrastructure, and Reliability

5. How can California make the most of its existing grid capacity before building new infrastructure for data centers?
6. How can new data center load be integrated in ways that improve the grid for everyone?
7. How can the state avoid stranded assets when planning for large, long-term data center loads?
8. How can new transmission lines, substations, and backup generation built for data centers be designed to serve broader public needs as well?
9. How can California support large new loads without putting energy reliability at risk?
10. How should California set clear expectations for reliability and resource adequacy for very large data center loads?

C. Clean Energy, Climate, and Environmental Impacts

11. How can California meet rising data center demand without compromising its clean-energy and climate goals?
12. How can California limit pollution in nearby communities from the backup generators used at data centers?
13. How can California better align data center siting decisions with statewide planning for transmission, reliability, and environmental goals?

D. Forecasting, Data, and Transparency

14. How can California improve its ability to accurately forecast future data center electricity demand?
15. What types of data reporting from data centers would be fair to industry while giving policymakers the information they need?

E. Technology, Innovation, and Engineering Solutions

16. How can the state encourage data centers to adopt technologies—such as advanced cooling, storage, or on-site clean power—that reduce their impact on the grid?
17. How can technologists, utilities, regulators, universities, and data center experts work together more effectively on engineering and policy solutions?

F. Interconnection, Permitting, and Process

18. How can California speed up interconnection and permitting decisions while maintaining a high standard of review?

G. Economic and Workforce Impacts

- 19.** How can the economic benefits of data centers—jobs, investment, and tax revenue—be shared fairly across regions and communities?
- 20.** How can California develop the workforce needed to support rapid grid expansion and large data center development?

Appendix A: Rate Design Approaches for Data Centers/Large Loads

At its November hearing, the Commission heard from Natalie Mims Frick, whose team at the Lawrence Berkeley National Laboratory synthesized how states have designed electricity rates/tariffs for new data centers and other very large loads.³⁰ This synthesis appears below in tabular form:

Category	Purpose	Example Provisions
Eligibility	Defines the conditions under which data centers may connect to the grid.	<ul style="list-style-type: none"> • Minimum load requirement • Minimum monthly payment requirement • Data center–specific tariff structures • Requirement that large-load customers pay interconnection study costs • Credit-rating requirement for participation
Contract Size	Specifies electricity purchase obligations and other provisions that reduce financial risk to utilities and ratepayers.	<ul style="list-style-type: none"> • Obligation for customers to pay for a defined percentage of proposed demand • Upfront infrastructure payments to mitigate utility risk • Clear rules on ability to resize or revise contracts • Provisions for behind-the-meter generation and storage • Requirements to maintain a defined ratio between average and peak load
Contract Duration	Establishes the length and flexibility of agreements.	<ul style="list-style-type: none"> • Defined contract terms that balance risk to ratepayers with ramp-up provisions and flexibility • Exit fees for early termination
Energy Source	Identifies any requirements relating to the source of electricity.	<ul style="list-style-type: none"> • Clean energy sourcing requirements
Other Provisions	Captures additional design considerations.	<ul style="list-style-type: none"> • Marginal pricing mechanisms to reflect actual utility costs • Defined customer contributions to public programs (e.g., clean energy, economic development, affordability initiatives)

³⁰ A. Satchwell, N. Mims Frick, P. Cappers, et al., [Electricity Rate Designs for Large Loads: Evolving Practices and Opportunities](#), Lawrence Berkeley National Laboratory (Jan. 2025).



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**Little Hoover Commission Study to Review
Data Centers and California Energy Policy, Pt. I
Hearing Date: November 20, 2025**

This memo provides background for the Little Hoover Commission’s November hearing on data centers and California electricity policy. The hearing will explore how the rapid growth of large data centers—and their unprecedented demand for energy, driven by an increasingly digital and AI-powered society—is reshaping California’s electricity landscape.

Commissioners will hear from researchers, utility representatives, and advocates about the growing challenges and opportunities tied to hyperscale data center development. The discussion will cover several key issues: how much electricity these facilities are expected to use, whether California’s transmission and generation infrastructure can meet that demand, and what the effects might be on ratepayer costs and the environment. The hearing will also look at how California’s regulatory approach compares with other states and explore potential policy responses to balance economic growth, grid reliability, and affordability.

I. What Data Centers Are—and Why They Matter for California

California’s electricity rates have been rising quickly for several years, far outpacing most of the rest of the country.¹ More recently, however, rates have begun climbing sharply in other states as well, with many pointing to the proliferation of data centers and in particular the training and use of artificial intelligence as a primary driver behind these increases.²

Pedro Nava, Chair	Phillip Chen, Assemblymember	Roger Niello, Senator
Anthony Cannella, Vice Chair	Gil Garcetti	Liz Ortega, Assemblymember
Dion Aroner	José Atilio Hernández	Janna Sidley
David Beier	Jason Johnson	Ethan Rarick, Executive Director
Christopher Cabaldon, Senator	Gayle Miller	

A report by Carnegie Mellon and North Carolina State University predicts that electricity rates will, on average, rise 8 percent by 2030 and up to 25 percent in data-center heavy Virginia.³ Still, it can be difficult to separate the effects of data centers from other cost drivers, including deferred maintenance and investments to harden infrastructure against extreme weather—both significant factors in California.⁴

Data centers—especially massive hyperscale facilities—represent a major new challenge for California’s energy infrastructure. The state’s response to the unprecedented scale of their energy requirements is still taking shape, and policymakers will need to act quickly to capture economic benefits while guarding against higher energy costs, stranded assets, and negative environmental impacts. Understanding what data centers are and how they operate is an essential first step. This section introduces their main features, advantages, and drawbacks before turning to broader energy and policy implications.

Introduction to Data Centers

As digital applications have become more complex—from artificial intelligence and data analysis to streaming and social media—much of the computing power, storage, and software that support them has shifted from local devices to high-powered servers housed in data centers.⁵ By accessing these centralized resources over the Internet, devices such as personal computers and smartphones can perform tasks that far exceed their own hardware’s capacity.

There are several types of data centers. Enterprise data centers are owned and operated by a single organization for its own use.⁶ In contrast, colocation data centers are shared facilities where multiple organizations rent space, power, and an Internet connection but provide their own equipment. Cloud computing provides users with remote access to applications and the computing power housed in data centers without the need to purchase and maintain these tools.

Data centers are also often categorized by size—micro, medium, large, and hyperscale—which can likewise be equated with energy consumption.⁷ This is because large centers with more servers and energy-intensive chips require more electricity both to power and to keep them cool. Smaller data centers may serve individual buildings or even remote locations with limited Internet access and have minimal energy requirements.⁸

Larger data centers serve very large numbers of users and can support a wide range of intense computing processes including AI training and use. Current hyperscale centers typically require at least 100 megawatts of electricity—enough to power 80,000 homes—and 1 gigawatt (1000 megawatts) data centers are currently being planned.⁹

Hyperscale centers are often located in relatively rural locations due to their size; for example, the world’s largest data center is currently located in Inner Mongolia.¹⁰ In some cases, however, delayed response—known as “latency”—can be a challenge. To reduce this, edge data centers are built close to where computing is needed for real-time processing like transportation, smart cities, or remote medicine.¹¹

It is possible to conduct some computing processes in tandem across multiple small facilities. That said, integrated hyperscale computing facilities are ideal for achieving efficiency, procuring the energy necessary for intensive processes, and maximizing computing power through “chip to chip networking” for sophisticated operations such as training AI models.¹² For this reason, individual large facilities containing very large numbers of servers and chips have become increasingly desirable. This trend toward ever-larger facilities can be seen in Figure 1 below:¹³

Figure 1: Data Center Size Trends (2010-2028)

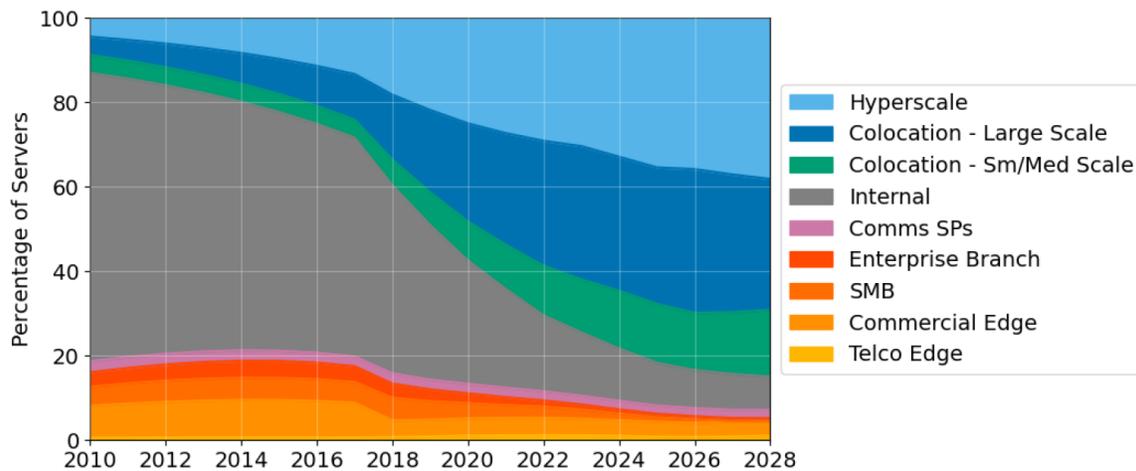


Figure 4.1. Distribution of servers by data center type.

Source: Lawrence Berkeley National Laboratory

Several factors influence where data centers are located. From a physical standpoint, they require abundant power, water, and space, and in some cases colder climates are preferred to help reduce cooling costs.¹⁴ Access to nearby fast Internet connections is important. For

example, locations in Silicon Valley and Hillsboro, Oregon are both located near high-speed Internet cables.¹⁵

Policy considerations also play a role, as data centers are attracted to areas with lower electricity rates, tax incentives, and a favorable regulatory environment, such as streamlined permitting.¹⁶ Companies may also look at the energy mix and options: some are drawn to renewable power, while others prefer to self-generate.¹⁷ Finally, because outages are highly disruptive, regions with stable and reliable power are especially desirable.¹⁸

Figure 2: U.S. Data Center Markets

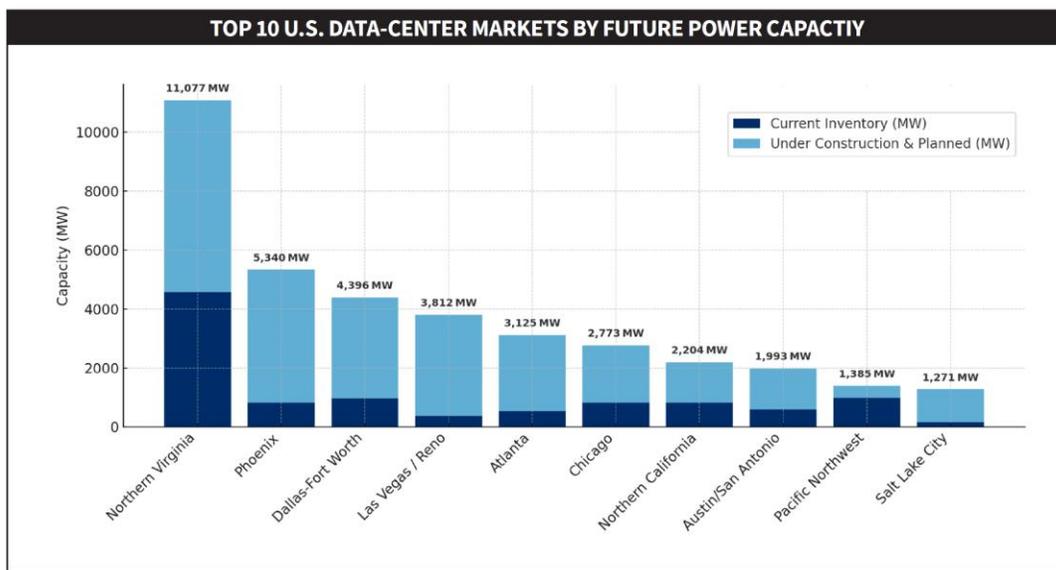


Figure 1. Top 10 US data center markets by future power capacity (including current inventory and under construction & planned). Data source: Upwind and JLL 2024 Data Center Report.⁴

Source: Stanford University Precourt Institute for Energy¹⁹

In California, data center development has been concentrated in Santa Clara and Los Angeles—both served by municipal utilities that offer significantly lower power rates and are located near fast fiber-optic cable connections.²⁰ More recently, Pacific Gas & Electric has received a surge of requests for service to new data centers, and its projections have risen sharply over the course of 2025 based on proposals in its project pipeline.²¹ Because the state regulates investor-owned utilities like PG&E, it will be essential to prepare for this influx of new demand through thoughtful rate design and regulatory oversight.

Hosting Data Centers: Pros and Cons

The desirability of data centers is a matter of intense debate. Starting with the positives, data centers may provide financial benefits—an economic boost that does not add traffic or an influx of new residents.²² This can come in the form of a temporary increase in construction jobs, economic activity, and tax revenues. Improvements to grid and Internet infrastructure may also benefit the community in addition to the data centers themselves.²³

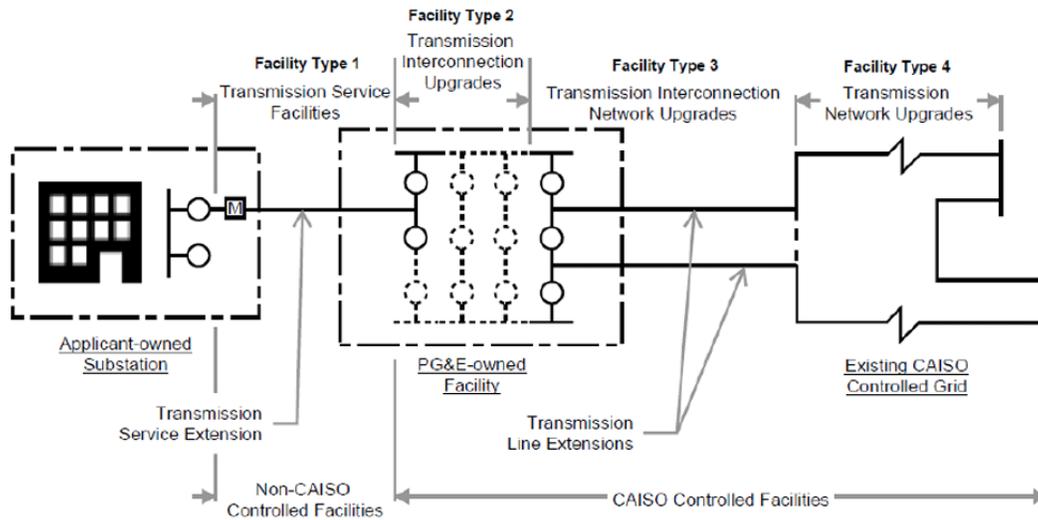
In the case of edge computing, data centers could support state-of-the-art industries and services.²⁴ Data centers could also fill in empty downtown buildings, as seems to have happened in Los Angeles. Finally, California might wish to provide favorable conditions for data centers both to grow the industry and to induce tech companies to remain in the state.²⁵

That said, some of these economic benefits may be offset by incentives—such as sales or property tax reductions and exemptions—offered to attract data center development. It should be noted that many states do not provide detailed reporting on the revenues generated or incentives granted, making it difficult for policymakers to assess and adjust their approaches.²⁶

Data centers come with several additional drawbacks. Depending on their size, data centers can take up significant amounts of land and consume large volumes of water for cooling. And their presence can create environmental and quality-of-life concerns for nearby communities due to noise and the use of polluting backup generators.²⁷ The large footprint of hyperscale centers can disrupt ecosystems and take up space that is difficult to reclaim once foundations are poured. And unlike other forms of development, data centers do not generate large numbers of local jobs once construction is finished.²⁸

Data centers also come with energy-related benefits and drawbacks. In terms of affordability, energy experts have argued that, by spreading fixed costs over greater overall consumption, they have the potential to lower electricity prices for all customers. In addition, retaining large data centers in California also allows the state to channel this demand into its clean energy portfolio, rather than shifting it to states with less sustainable energy mixes.²⁹ And, while data centers may increase peak demand, they can also contribute to grid stability if their operations are managed strategically.³⁰

Figure 3: Types of Data Center Infrastructure



Source: Pacific Gas & Electric/CPUC

That said, as the diagram above shows, data centers require significant new infrastructure—power plants, transmission lines, and substations—that all utility customers must help fund under current cost-recovery models.³¹ If data center owners successfully lobby for favorable rate designs, customers could face higher bills due to rising electricity demand and the absence of support in covering fixed costs such as wildfire mitigation.³² And, if future data centers become less energy-intensive or operators go bankrupt or relocate their servers to other states, California could be left with stranded assets—meaning infrastructure costs borne by customers without corresponding benefits.³³

II. Data Centers and California Energy Policy

Data centers consume vast amounts of electricity and require significant infrastructure to support interconnection to the grid. This leads to several policy concerns: the ability to meet rapidly rising demand, the impact of new load on affordability, the impact on California’s environmental goals, and the risk of stranded assets. This section will explore these and other energy-policy related issues.

Data Center Electricity Demand

Energy demand from data centers has grown rapidly in recent years and is projected to continue rising. A Lawrence Berkeley National Laboratory report estimates that, by 2028, data centers could account for between 6.7 and 12 percent of *total* U.S. electricity consumption.³⁴

Figure 4: Data Center Electricity Demand

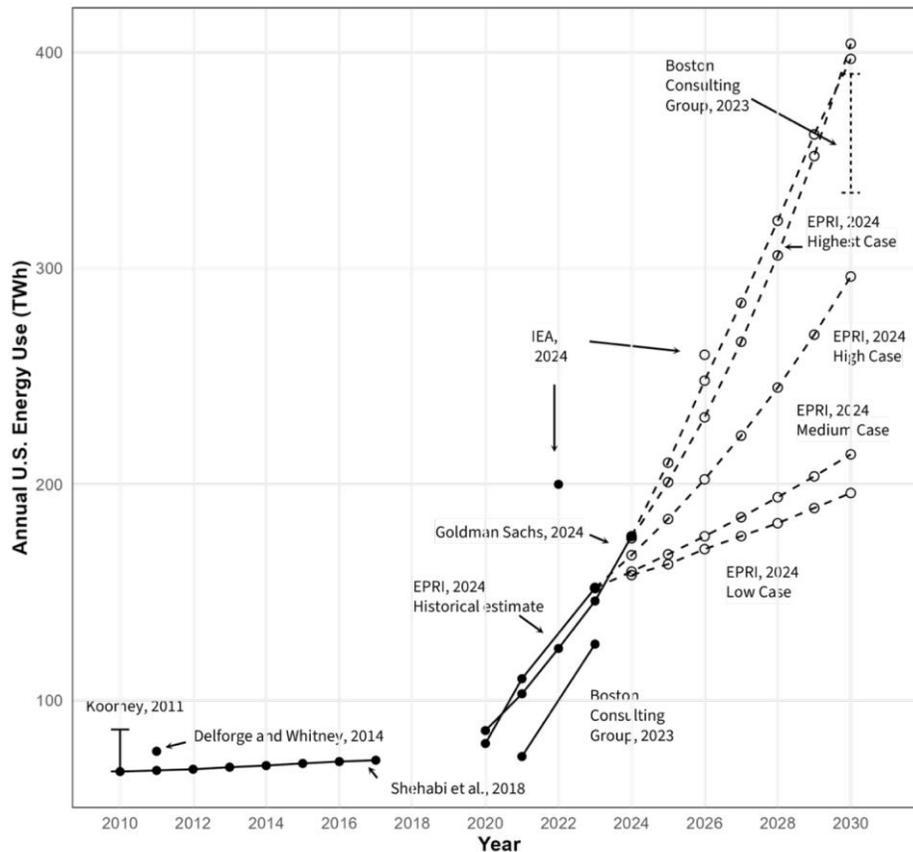


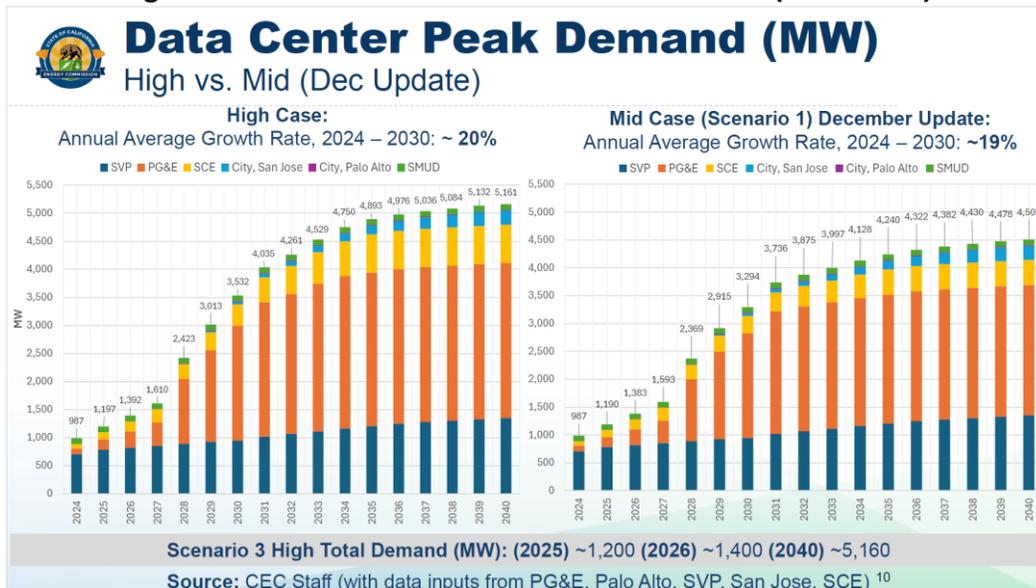
Figure 1.1. Academic and industry historical estimates of U.S. data center energy use. Plot also includes future projections from those sources. Historical estimates are shown with solid lines, and projections are shown with dashed lines.

Source: Lawrence Berkeley National Laboratory

The California Energy Commission (CEC) has attempted to predict data center electricity demand for the state using a hybrid model that combines historical data with current utility applications.³⁵ According to the CEC’s model, peak data center load is projected to increase between 3 and 5 times by 2045 compared to today’s roughly 1,000 megawatts of demand. This is similar to the California Independent System Operator’s (CAISO’s) own forecasts.³⁶

While the CEC’s methodology is sound, it is constrained by limited access to reliable, state-level information. National models can draw on data such as the number of chips imported into the United States, but similar data are not available within California.³⁷ As a result, the CEC must rely on the best information it can obtain. Legislation introduced in 2025 ([AB 222, Bauer-Kahan](#)) would have required data centers to disclose their electricity consumption and for resulting cost shifts to be assessed, but the bill failed to advance out of the Assembly.

Figure 5: CEC Data Center Peak Demand Forecast (2024-2040)



Source: California Energy Commission

Growth predictions made by utilities are even higher. In February 2025, Pacific Gas & Electric reported that data centers would add 5.5 gigawatts of new demand between now and 2035. By May—just three months later—that figure had risen to 8.7 gigawatts. And, in late July, the utility reported that it is “proactively working to serve 10 gigawatts (GW) of new electricity demand from data center projects over the next ten years” and that this amount of energy is enough to power 7.5 million households—more than half of the homes in the entire state.³⁸ This is equivalent to four times the generating capacity of the Diablo Canyon Nuclear Power Plant.

In its announcements, PG&E has sought to reassure customers and policymakers by stating that the existing grid is largely underutilized and has projected that each additional gigawatt of data center load could lower customer bills by one to two percent per month. That said, significant

new infrastructure will be required. And, in any case, to prevent overbuilding and avoid shifting unnecessary costs to ratepayers, policymakers will need access to precise figures relating to data center electricity demand than are currently available.

Current Data Center Rate Policy

Under California’s current rate design, large data centers pay relatively low electricity rates because they bypass the distribution portion of the grid. This structure reflects the principle of “cost causation,” according to which “[r]ates for each class of customer are proportionate to the costs of serving that class of customer”.³⁹ Large data centers are typically transmission-level customers, receiving service at voltages between 50 and 230 kilovolts. Because they do not use the lower-voltage distribution system, their rates are significantly lower than those paid by distribution-level customers, who pay both transmission and distribution-related expenses.

Depending on time of use, data center customers in PG&E’s B20 industrial rate class receiving “transmission firm” service pay between 10 and 18 cents per kilowatt hour plus a demand charge that reflects the maximum power draw over 15 minutes on a month-to-month basis. Customers in the B20 industrial “secondary firm”—meaning they pay for distribution-level service—pay between 12 and 21 cents per kilowatt hour. While this may not seem like a big difference, transmission-level customers like data centers are in fact paying between 14 and 17 percent less than customers receiving distribution-level service—a significant loss of potential revenue given the amount of electricity consumed by data centers.

Moreover, the primary drivers of California’s rising electricity rates—wildfire-mitigation infrastructure costs, further inflated by the NEM cost shift—are embedded in the distribution portion of rates.⁴⁰ Because data centers are billed at the transmission level only, they do not contribute to these costs under current rate design. Thus, while large new data center loads may help lower per-unit costs for generation, transmission, and certain public-benefit programs, their rates will not address all aspects of California’s broader electricity-cost problem.

Rule 30 (Pacific Gas & Electric)

California has recently taken steps toward greater efficiency in processing large interconnection requests by partially approving Pacific Gas and Electric’s proposed Electric Rule 30 in July 2025.⁴¹ Prior to this action, applicants seeking transmission-level service—such as data

centers—were required to obtain case-by-case approval from both the CPUC and CAISO, since such large retail interconnections were historically rare.

Under the interim version of Rule 30, applicants can fund the required transmission-level infrastructure upfront in order to proceed with construction. The CPUC’s approval allows these projects to move forward more quickly while deferring decisions about cost allocation, interest, and refund eligibility. If the expected load materializes, the applicant may later be reimbursed for some or all of those costs through rates.

It should be emphasized that Rule 30 is about speeding up data center interconnections rather than limiting costs to customers. That is, data center owners will be reimbursed for funding transmission infrastructure Types 1-3 and will be paid back with interest: “Refunds on Advances and/or Actual Cost Payments will include interest at the Interest Rate for the period of time the Advance and/or Actual Cost Payment is made until the facilities are operational”.⁴²

Data center owners may also provide advance funding for Type 4 transmission infrastructure but are not obligated to do so since this infrastructure provides common benefits for all customers. If they opt not to, this infrastructure will be built at public expense using traditional mechanisms for generating capital (shareholder investment, loans). If data centers provide it, they can accelerate their applications but will not be paid interest on the loan.

Recent Legislative Action

California lawmakers have struggled so far to pass bills addressing electricity issues related to data centers. The failure of [AB 222 \(Bauer-Kahan\)](#) has already been mentioned. In its original form, [SB 57 \(Padilla\)](#) would have required the CPUC to establish a special rate structure for data centers designed to protect residential and small business customers from cost shifts, help utilities provide power at reasonable rates, and advance environmental goals. It also would have required data centers to enter into a 12-year energy purchasing contract and pay an “exit fee” if those contracts were broken. All these provisions were removed through amendments. The current version, recently signed by Governor Newsom, instead directs the CPUC to analyze the costs associated with new data centers and identify opportunities to mitigate cost shifts.

Other relevant 2025 bills include [SB 58 \(Padilla\)](#), which would have provided data centers with tax exemptions if they met obligations in part relating to renewable energy procurement. And [AB 1095 \(Papan\)](#) would have assigned renewable energy credits to data centers that recycle

waste heat energy under the Renewable Portfolio Standard program. Both of these bills failed to advance out of their respective chambers.

Approaches to Data Centers and Energy Policy

In the absence of well-developed state policy, California policymakers may look to other states for ideas on how to craft regulatory and rate-related policies for data centers (often referred to as *large load additions*). Researchers at Lawrence Berkeley National Laboratory published a review in January 2025 of rate design approaches for data centers that have been adopted or proposed across different states.⁴³ The authors organized these approaches by focus area, which are summarized below using simplified or modified wording:

Figure 6: Rate Design Approaches for Data Centers/Large Loads

Category	Purpose	Example Provisions
Eligibility	Defines the conditions under which data centers may connect to the grid.	<ul style="list-style-type: none"> • Minimum load requirement • Minimum monthly payment requirement • Data center–specific tariff structures • Requirement that large-load customers pay interconnection study costs • Credit-rating requirement for participation
Contract Size	Specifies electricity purchase obligations and other provisions that reduce financial risk to utilities and ratepayers.	<ul style="list-style-type: none"> • Obligation for customers to pay for a defined percentage of proposed demand • Upfront infrastructure payments to mitigate utility risk • Clear rules on ability to resize or revise contracts • Provisions for behind-the-meter generation and storage • Requirements to maintain a defined ratio between average and peak load
Contract Duration	Establishes the length and flexibility of agreements.	<ul style="list-style-type: none"> • Defined contract terms that balance risk to ratepayers with ramp-up provisions and flexibility • Exit fees for early termination
Energy Source	Identifies any requirements relating to the source of electricity.	<ul style="list-style-type: none"> • Clean energy sourcing requirements
Other Provisions	Captures additional design considerations.	<ul style="list-style-type: none"> • Marginal pricing mechanisms to reflect actual costs • Defined customer contributions to public programs (e.g., clean energy, economic development, affordability initiatives)

Source: Lawrence Berkeley National Laboratory

Data Center Energy Policy Profiles: Oregon, Ohio, Texas

Oregon: Oregon recently enacted [HB 3546](#), known as the POWER Act (Protecting Oregonians With Energy Responsibility), which directs the Oregon Public Utility Commission to establish a special electricity rate for “large energy use facilities” like data centers “that mitigate[s] the risk of other classes of retail electricity consumers paying unwarranted costs.” Oregon appears to be the first state in the nation to explicitly require such rate design; that said, the details of the rate have not yet been finalized. In this sense, Oregon’s new law parallels the original intent of California’s SB 57, which would have directed the CPUC to develop a special electricity rate for data centers.

Ohio: In July 2025, the Public Utilities Commission of Ohio (PUCO) approved a tariff requiring new large data centers (more than 25 megawatts) to commit to purchasing 85 percent of their subscribed electricity usage for 12 years, regardless of actual consumption.⁴⁴

This policy was adopted in response to dramatic projections for new data center demand in Central Ohio—an anticipated 5 gigawatts increase by 2030 and as much as 30 gigawatts of initial interconnection requests. Despite intense industry lobbying, the 85 percent purchase requirement was adopted as a mechanism to protect Ohio ratepayers.⁴⁵ Since implementing the tariff, load requests have dropped by more than half, which its utility sees as a sign that “the data center tariff is working” by incentivizing more accurate load requests.⁴⁶

Texas: The State of Texas is experiencing rapid growth in data centers, including large projects such as the planned Stargate facility in Abilene.⁴⁷ Following widespread winter outages in 2021, state policymakers have made grid reliability a central priority.⁴⁸ In June 2025, Texas enacted [Senate Bill 6](#), which directs regulators to interconnect large loads “in a manner designed to support business development in this state while minimizing stranded infrastructure costs and maintaining system reliability.”

The law mirrors California’s proposed Rule 30 by requiring developers of large facilities—those exceeding 75 megawatts—to commit to covering study fees and the up-front costs of new grid infrastructure, with the possibility of reimbursement once the project becomes operational or capacity is reallocated.⁴⁹

SB 6 authorizes Texas’ main utility (ERCOT) to require that high energy use customers reduce consumption or deploy on-site backup generation during declared energy emergencies. It also

mandates disclosure of whether a company has made additional interconnection requests both in and outside of the state, and requires proof of site control (i.e., a demonstration of ownership or leasing rights to the proposed site). Lastly, it directs Texas' utilities commission to evaluate its process for assessing transmission-related costs and how they are recouped.

III. Additional Issues

This final section highlights additional issues that merit attention as California considers how to manage the growth of large data centers. In particular, it examines risks relating to stranded energy assets, environmental and siting challenges associated with new infrastructure, and the question of whether utilities have a “duty to serve” energy-intensive customers like hyperscale data centers.

The Risk of Stranded Assets

As California considers building significant new energy infrastructure to support data centers, policymakers must weigh benefits against long-term financial risks. In particular, if these facilities close, relocate, or become obsolete as technology advances, ratepayers could be left paying for “stranded assets”—power plants, substations, or transmission lines that no longer deliver benefits.

UC Davis economist James Bushnell compares the data center frenzy to past boom-and-bust cycles in railroads and the dot-com era, when miles of track and fiber-optic cables temporarily lacked owners but were eventually repurposed for public benefit.⁵⁰ If data centers shut down, ratepayers could be left paying for unused grid or fossil-fuel infrastructure. The “silver lining” could be new renewable generation capacity that serves the broader public.

There is also concern about the portability of data centers and the risk that they could leave the state, leaving behind long-term infrastructure investments that no longer serve their purpose. While Silicon Valley is the national—if not global—hub of the tech industry, its tech companies often threaten to leave California for states with more favorable incentives, tax structures, or regulatory climates.⁵¹

The same considerations, along with offers of cheaper energy or water rates, apply to data centers. Servers themselves are portable, and the centers that house them are essentially storage facilities albeit with sophisticated energy and cooling infrastructure. Even a backup

power plant built to support a facility could, in principle, be repurposed or sold. In short, companies could move data centers elsewhere, ending their energy consumption in California and depriving the state of the associated benefits.

Lastly, technological innovation could reduce the amount of energy required by data centers. Early computers required very large amounts of space and power to perform relatively little computing, whereas a modern smartphone can execute trillions of operations per second.⁵² Extrapolating from this, it is conceivable that the hyperscale data centers currently required to support artificial intelligence, as well as more routine functions such as streaming and data storage, could significantly diminish in scale over time.

For example, chipmaker NVIDIA has reported a “4,000-fold improvement in the GPU’s computational performance per watt of power” over the past decade, although the International Energy Agency has reported more modest rates of improvement.⁵³ The Chinese AI model DeepSeek-R1, released in January 2025, has achieved high performance “using a small fraction—perhaps as little as [2%](#)—of the chips, hardware—and energy” as comparable models.⁵⁴ The NovaSky team, which consists of students and faculty mentors at UC Berkeley’s Sky Computing Lab, trained its Sky-T1 reasoning model—whose performance matches or exceeds OpenAI’s o1 preview model—in 19 hours and for \$450 using open source data.⁵⁵

At the industry level, leading firms such as OpenAI, Google, and Anthropic now routinely offer “mini” models that deliver strong performance while using only a fraction of the compute required by their larger counterparts.⁵⁶ This risk of overbuilding, either due to technological advancement or an undue sense of AI-related hype, could thus result in needlessly large data centers or data centers that do not operate due to lack of demand, leaving ratepayers to foot the energy infrastructure bill over the long term.⁵⁷

However, some researchers interviewed by Commission staff claimed that the risk of stranded assets was low. They noted that rapidly growing AI demand would likely “fill in” any capacity freed up by efficiency gains. A similar pattern occurred in the early 2000s, when improvements in data center efficiency helped flatten overall energy use even as expanding capacity was quickly absorbed by the rise of cloud computing, social media, and streaming services.

Sustainability and Environment

California’s energy policies seek to balance affordability, equity, and sustainability. Providing energy infrastructure support for the rapid proliferation of data centers in the state represents a challenge to its ambitious carbon-reduction goals. The following chart maps out a number of climate-specific challenges relating to data centers, notes how they relate to electricity policy, and identifies open questions that Commissioners may wish to ask:

Figure 7: Environmental Policy Questions

Environmental Challenge	Connection to Electricity Policy	Potential Policy Questions
Impacts on Nearby Communities	Energy infrastructure for data centers may affect disadvantaged communities through air or water pollution, land use, or noise.	<ul style="list-style-type: none"> • How should regulators assess environmental-justice impacts when approving new infrastructure for data centers? • Could affected communities receive shared benefits such as local hiring or energy-efficiency investments?
Where Data Centers Get Their Power	Siting data centers in areas with more clean energy capacity reduces total emissions and is more sustainable.	<ul style="list-style-type: none"> • Should siting policies or interconnection approvals favor utilities with cleaner electricity supplies, or else require developers to offset emissions in dirtier areas?
Transparency About Energy Use and Emissions	Public reporting of data-center energy use and emissions remains limited.	<ul style="list-style-type: none"> • Should large data centers be required to disclose annual energy use, source mix, and emissions intensity? • Could this information feed into the state’s broader climate-tracking and planning tools?
How “Clean” Their Power Really Is	Data centers’ renewable claims often rely on annual accounting, but real emissions depend on the grid mix at the time power is used. ⁵⁸	<ul style="list-style-type: none"> • Should California move toward hour-by-hour carbon accounting for large electricity users? • Should power purchase agreements require that renewable energy be generated in the same time and place as it is consumed?

Building and Connecting to the Grid	New substations or transmission lines for data centers can trigger environmental review and permitting delays.	<ul style="list-style-type: none"> • How can environmental review processes be streamlined for projects powered by clean energy while still protecting communities?
Backup Power and Air Pollution	Generators used for reliability emit carbon dioxide and local pollutants.	<ul style="list-style-type: none"> • Should the state require cleaner backup systems? • Could utilities offer programs that incentivize data centers to provide clean backup power to the grid?
Making Energy Use More Flexible	Data centers can help integrate renewable power by adjusting when they draw electricity or by participating in demand-response programs.	<ul style="list-style-type: none"> • Could the state create time-flexible rate options for data centers that shift operations to periods of abundant renewable energy? • Should this flexibility count toward grid-decarbonization goals?
Cleaner Construction and Materials	Building materials and equipment manufacturing for data centers have large carbon footprints.	<ul style="list-style-type: none"> • Should low-carbon construction standards or procurement rules apply to data center projects that benefit from state-supported infrastructure?

A Final Thought: Do California Utilities Have a “Duty to Serve” Data Centers?

Utilities are “natural monopolies” and, without strict oversight, they could harm the public by refusing service for profit or due to bias, raising rates unfairly, or neglecting environmental, social, or labor standards. To prevent this, states regulate utilities and require them to provide non-discriminatory service to all customers in their territories—a principle known as the “duty to serve.” UC Berkeley economist Severin Borenstein has, however, questioned whether the duty to serve should apply to hyperscale data centers given their unprecedented energy demands.⁵⁹

In California, this duty is codified in law. [Public Utilities Code §451](#) requires every public utility to provide “adequate, efficient, just, and reasonable service” to “promote the safety, health, comfort, and convenience of its patrons, employees, and the public”, while [§453\(a\)](#) prohibits discrimination or preference in providing service: “No public utility shall, as to rates, charges, service, facilities, or in any other respect, make or grant any preference or advantage to any corporation or person or subject any corporation or person to any prejudice or disadvantage.”

This is relevant because data center advocates could claim discrimination if required to pay special rates or adhere to special regulations. In Borenstein’s discussion, he notes that Ohio’s American Electric Power required data center developers to commit to long-term power purchases to cover the cost of new infrastructure—an approach the developers called discriminatory, even though their departure would leave other customers paying for unused energy capacity. Ohio’s utilities commission approved the rate re-design in spite of these protests.⁶⁰

California policymakers will face a version of this as they consider how best to regulate the energy needs of a growing number of large data centers in their state. The challenge is to strike a careful balance—developing energy policies that enable data centers to fulfill their economic promise and support innovation across sectors, while ensuring that ratepayers are protected and the state’s ambitious environmental goals remain on track. In this way, California can position itself not only as a leader in clean energy and responsible technology policy, but also as a model for how to align the digital economy with the public interest.

¹ U.S. EIA, “[Retail Electricity Prices Closely Tracked Inflation Over the Last 10 Years](#)” (Sep. 11, 2024).

² E.g., J. Saul et al., “[AI Data Centers are Sending Power Bills Soaring](#)”, *Bloomberg* (Sep. 29, 2025).

³ M. Blackhurst et al., [Data Center Growth Could Increase Electricity Bills 8% Nationally and as Much as 25% in Some Regional Markets](#) [whitepaper], Carnegie Mellon University (Jul. 16, 2025). Cf. I. Penn and K. Weise, “[Big Tech’s A.I. Data Centers are Driving Up Electricity Bills for Everyone](#)”, *New York Times* (Aug. 14, 2025).

⁴ M. Al-Waheidi and H. Larson, “[An Energy Expert Explains Why Electricity Prices Keep Climbing](#)”, *NPR: Morning Edition* (Oct. 6, 2025).

⁵ S. Susnjara and I. Smalley, “[What Is Cloud Computing?](#)”, *IBM Think* (n.d.). Geeks for Geeks “[History of Cloud Computing](#)” website.

⁶ For a good overview of data center types and their energy needs, see M. Offutt and L. Zhu, [Data Centers and Their Energy Consumption: Frequently Asked Questions](#), Congressional Research Service (Aug. 26, 2025). See also CoreSite “[Five Types of Data Centers](#)” website.

⁷ Data Center Knowledge, “[Data Center Power: Fueling the Digital Revolution](#)” (Mar. 22, 2024). Cf. A. Shehabi et al., [2024 United States Data Center Energy Usage Report](#), Lawrence Berkeley National Laboratory (Dec. 2024), p. 37 *et passim*.

⁸ For example, the Ice Cube Neutrino Observatory operates a small, 150 server data center in Antarctica. See R. Miller, “The Data Center at the South Pole”, *Data Center Knowledge* (Jul. 23, 2010) [video link broken].

⁹ On hyperscale energy requirements and their household equivalents, see M. Offutt and L. Zhu, *op. cit.* On planned very large data centers, see R. Miller, “[The Gigawatt Data Center Campus is Coming](#)”, *Data Center Frontier* (Apr. 29, 2024).

¹⁰ P. Powell and I. Smalley, “[What is a Hyperscale Data Center?](#)”, *IBM Think* (n.d.).

¹¹ FiberLight, “[Edge Data Centers in the Era of AI: Powering Intelligent Infrastructure](#)” (May 14, 2025).

¹² D. Patel, D. Nishball, and J. Eliahou Ontiveros, “[AI Datacenter Energy Dilemma - Race for AI Datacenter Space](#)”, *SemiAnalysis* (Mar. 13, 2024).

¹³ A. Shehabi et al., *op. cit.*, p. 37.

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- ¹⁴ V. Chidambaram et al., *Powering the Future of US Data Centers*, Accenture (2025), p. 13. Cf. ¹⁴ F. Barringer, [Thirsty for Water and Power, AI-Crunching Data Centers Sprout Across the West](#), Bill Lane Center for the American West [Stanford University] (Apr. 8, 2025).
- ¹⁵ For a fascinating map of undersea Internet cables, see the TeleGeography [“Submarine Cable Map”](#) website.
- ¹⁶ For a good overview of why data centers have flocked to Northern Virginia, see L. Poon, [“The World’s Data Center Capital Has Residents Surrounded”](#), *Bloomberg* (Jul. 29, 2025).
- ¹⁷ C. Flanagan, [“How Data Centers Are Driving the Renewable Energy Transition”](#), *Forbes* (Mar. 13, 2023).
- ¹⁸ Western Energy Coordinating Council, [Western Assessment of Resource Adequacy 2024](#) [n.d.].
- ¹⁹ L. Min, W. Chueh, and I. Ehrenpreis, [Powering AI at Speed in California](#), Precourt Institute for Energy [Stanford University] (Sep. 2025), p. 7.
- ²⁰ See the Data Center Map [“California Data Centers”](#) website for an overview. Cf. M. Petersen, [“Power-hungry AI Data Centers are Raising Electric Bills and Blackout Risk”](#), *Los Angeles Times* (Aug. 12, 2024).
- ²¹ Pacific Gas & Electric Company, [“PG&E Data Center Demand Pipeline Swells to 10 Gigawatts with Potential to Unlock Billions in Benefits for California”](#) [press release] (Jul. 31, 2025).
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- ²⁴ P. Powell and I. Smalley, [“Edge Computing Use Cases: Eight Ways Organizations are Leveraging Edge Computing”](#), *IBM Think* (n.d.).
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- ²⁷ A.X. Chen, [“A.I. Is on the Rise, and So Is the Environmental Impact of the Data Centers That Drive It”](#), *Smithsonian Magazine* (Sep. 29, 2025).
- ²⁸ S. Bisaha, [“Data Centers Bring Money to Small Towns. But Do They Also Bring Jobs?”](#), *NPR: All Things Considered* (Apr. 10, 2025).
- ²⁹ J. Grubb, [“California Needs to Expand Clean-Energy Data Centers — Or We Risk Getting Left Behind”](#), *San Francisco Chronicle* (Aug. 28, 2025).
- ³⁰ J. St. John, [“One Way Data Centers Can Help the Grid? By Being Flexible”](#), *Canary Media* (Feb. 27, 2025).
- ³¹ Figure 4 is from PG&E, [Application for Approval of Electric Rule No. 30 for Transmission-Level Retail Electric Service: Supplemental Testimony](#) [A.24-11-007] (Sep. 18, 2025), p. 9. Under Rule 30, data centers requiring transmission-level interconnections will receive fast-tracked approvals if they provide up-front financing for electric infrastructure. That said, they will most likely be paid back—with interest—by ratepayers. Rule 30 is discussed in more detail below.
- ³² S. Borenstein, [“What Will Data Centers Do To Your Electric Bill?”](#), *Energy Institute Blog* [UC Berkeley] (Sep. 29, 2025).
- ³³ J. Bushnell, [“Is There Really an Energy Silver Lining to a Datacenter Bubble?”](#), *Energy Institute Blog* [UC Berkeley] (Oct. 13, 2025).
- ³⁴ A. Shehabi et al., *op. cit.*, p. 12.
- ³⁵ J. Chen, [2024 IEPR: Data Center Forecast](#) (n.d.), esp. pp. 10-11 for various demand scenarios. Figure 6 is from p. 10.
- ³⁶ CAISO [“Large Load”](#) website.
- ³⁷ Challenges to state-level data center demand predictions were identified during staff interviews with demand forecasting experts.
- ³⁸ Links to PG&E’s increasing 2025 predictions of new data center demand can be found [here](#) (Feb.), [here](#) (May), and [here](#) (July).
- ³⁹ Quoted text is from the “What are Customer Classes?” tab of the CPUC, [“Electric Rates”](#) website.
- ⁴⁰ Some fixed costs would be paid by data centers in the form of the non-bypassable charge, which contributes to the state’s wildfire fund and supports public purpose programs like the CARE and FERA low-income subsidies.

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- ⁴¹ The clearest explanation of Rule 30 will be found in PG&E, [Application for Approval of Electric Rule No. 30 for Transmission-Level Retail Electric Service: Supplemental Testimony](#) [A.24-11-007] (Sep. 18, 2025), also cited above. Documents related to the Rule 30 proceeding can be found [here](#).
- ⁴² PG&E, *Application for Approval*, p. 24. On Type 4 loans being repaid without interest, see p. 22.
- ⁴³ A. Satchwell, N. Mims Frick, P. Cappers, et al., [Electricity Rate Designs for Large Loads: Evolving Practices and Opportunities](#), Lawrence Berkeley National Laboratory (Jan. 2025).
- ⁴⁴ AEP Ohio [“Data Center Tariff”](#) website.
- ⁴⁵ S. Patel, [“Regulator Approves AEP Ohio’s Landmark Data Center Tariff”](#), *Power* (Jul. 10, 2025).
- ⁴⁶ Z. Skidmore, “AEP Ohio Slashes Data Center Pipeline by More Than Half – Report”, *Data Center Dynamics* (Oct. 1, 2025).
- ⁴⁷ T. Krantz and A. Jonker, [“What is the Stargate Project?”](#), *IBM Think* (n.d.).
- ⁴⁸ A. Martin, [“Texas Grid Operators and Regulators Iron Out New Rules for Data Centers”](#), *Inside Climate News* (Oct. 10, 2025).
- ⁴⁹ Overviews of the contents of SB 6 include: n.d., [“Texas Senate Bill 6 Significantly Expands Regulatory Oversight Over Large Loads in ERCOT”](#), McGuire Woods (Jul. 10, 2025). D. Chernicoff, [“Texas Senate Bill 6: A Bellwether On How States May Approach Data Center Energy Use”](#), *Data Center Frontier* (Jul. 2, 2025).
- ⁵⁰ J. Bushnell, [“Is There Really an Energy Silver Lining to a Datacenter Bubble?”](#), *Energy Institute Blog* [UC Berkeley] (Oct. 13, 2025).
- ⁵¹ See, for example, G. Radauskas, [“California Dreamin’ No More: State Facing Tech Jobs Exodus”](#), *CyberNews* (Apr. 12, 2024).
- ⁵² The ENIAC—the first programmable digital computer, used mainly for military purposes—was decommissioned in 1956. It weighed 27 tons, occupied 300 square feet, and consumed 150 kW of electricity, yet could perform only 5,000 additions per second.
- ⁵³ M. Offutt and L. Zhu, *op. cit.*
- ⁵⁴ J. Quigley, [“Load Growth Irrational Exuberance Crashes into DeepSeek”](#), Kleinman Center for Energy Policy Blog [University of Pennsylvania] (Jan.31, 2025). The in-quote hyperlink is original to this source.
- ⁵⁵ NovaSky Team, [“Sky-T1: Train Your Own o1 Preview Model Within \\$450”](#), *GitHub* (Jan. 9, 2025).
- ⁵⁶ For a general introduction, see n.d., [“The Rise of Mini Models in Artificial Intelligence: A New Era of Efficiency”](#), VisioTech (Sep. 24, 2024). For a more in-depth discussion, see R.D. Caballar, [“What are Small Language Models?”](#), *IBM Think* (n.d.).
- ⁵⁷ C. Chen, [“China Built Hundreds of AI Data Centers to Catch the AI Boom. Now Many Stand Unused”](#), *MIT Technology Review* (Mar. 26, 2025).
- ⁵⁸ Because this is a technical subject, some background reading may be helpful. See in particular: F Wang et al., [“Do ‘Green’ Data Centres Really Have Zero CO₂ Emissions?”](#), *Sustainable Energy Technologies and Assessments* 55 Pt. D (Oct. 2022).
- ⁵⁹ S. Borenstein, [“Is there a ‘Duty to Serve’ Hyperscale Loads?”](#), *Energy Institute Blog* [UC Berkeley] (Dec. 2, 2024).
- ⁶⁰ S. Wolfe, [“AEP Ohio Reaches Potential Settlement on Contested Data Center Proposal”](#), *Factor This* (Oct. 24, 2024).

ITEM 6a

CVPA ATTENDANCE ROSTER JUNE 2025- JULY 2026

CVPA JURISDICTION	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR*	APR	MAY	JUN
Indio	✓	✓	-	✓	-	-	✓	-	-			-	
La Quinta	✓	✓	-	✓	-	-	✓	-	-			-	
Riverside County	✓	✓	-	✓	-	-	✓	-	-			-	

Absent 
No Meeting -
Present ✓
Special meeting *

ITEM 6b

Coachella Valley Power Agency

March 16, 2026

STAFF REPORT

Subject: Conflict of Interest Guidance

Contact: Elysia Regalado, Deputy Clerk, (eregalado@cvag.org)

Recommendation: Information

Background: The CVPA is staffed through the Coachella Valley Association of Governments (CVAG). Over the years, CVAG's committee members have periodically requested clarification regarding the rules and regulations governing conflicts of interest during voting. This staff report provides a refresher on key requirements to support informed, transparent, and ethical decision-making.

A full guidance memorandum from Best Best & Krieger is included as an attachment. Key highlights are summarized below:

- **Real Property Conflicts:** Ownership of property within 500 feet of a subject parcel creates a presumed conflict of interest. Property located more than 500 feet away may still present a conflict depending on the circumstances. Staff provides parcel maps and related information with each acquisition item, and Board members must recuse themselves from discussion and voting when a conflict exists.
- **Financial Contributions:** Campaign contributions of **\$500 or more** made within **12 months before or after** a proceeding by an individual or entity involved in the matter constitute a conflict, subject to limited exceptions. Board members must disclose such contributions and abstain from participating in related decisions.
- **Personal Financial Interests:** Board members must recuse themselves if they hold any financial interest that could be affected by the decision, including real property ownership, business investments, personal income, or spousal income.
- **Dual Roles and Service on Other Boards:** Serving in multiple public roles does not automatically require recusal. However, recusal is required when the matter involves real estate negotiations or potential litigation discussed in closed session. Board members are encouraged to be transparent about dual roles to avoid any appearance of bias.
- **Disclosure and Recusal Procedures:** Board members must publicly disclose the basis for a conflict of interest and fully recuse themselves, which includes leaving the room during deliberations and refraining from any participation in the item.

Staff also wishes to inform the Board of upcoming changes to the Ralph M. Brown Act that will take effect in 2026. While most of these changes are not expected to apply directly to CVPA because it is a joint powers authority, staff will continue to coordinate with Legal Counsel to ensure CVPA remains compliant with any provisions that do apply. A separate consent item on this agenda is recommending a resolution related to some of these Brown Act updates.

For reference, the Brown Act guide is available for review at the following link: [Ralph M. Brown Act](#)

Fiscal Analysis: There is no cost to the CVAG for this informational update

Attachment: Best Best & Krieger 2024 Key Insights Into Open Government & Ethics- *Avoiding Financial Conflicts- Should I Participate in this Decision?*



Avoiding **Financial Conflicts of Interest** — Should I Participate in this Decision?

The Political Reform Act of 1974 (Gov. Code Sections 81000–91014) forms the foundation for California’s financial conflict of interest laws for public officials. The purpose is to cover both actual and apparent conflict of interest situations between a public official’s private interest and their public duties.

The basic rule is that no public official shall make, participate in making, or in any way attempt to use their official position to influence a governmental decision if they know, or have reason to know, that they have a financial interest in the decision.

Who Should Avoid Financial Conflicts of Interest?

All decision-making public officials for local government agencies which includes every member, officer, and employee of a local government agency, as well as consultants to a local agency who meet certain criteria. Public officials may also include members of public agency boards, councils, commissions, and committees with decision-making authority.

If you are a public official who may make, participate in making, or in any way influence a public agency decision, this resource will help determine whether you have a potential financial conflict of interest that has to be addressed.

Do I Have a Financial Conflict of Interest Under the Political Reform Act?

Before making a decision or discussing a future decision of your public agency, try to answer the following questions:

1. Will you be “participating in a decision?”

You are “participating in a decision” of your public agency by doing any of the following:

- **Making an actual decision** — Voting, making an appointment, or taking an action that obligates or commits your public agency.
- **Contributing to the decision-making process** — Making a recommendation or participating in negotiations about the public agency decision.
- **Influencing the decision** — Making your position known, discussing the decision with other agency officials, providing reports, or influencing others (such as staff or consultants) who are involved in the decision-making process.

2. Does the decision affect one or more of your “financial interests?”

A financial conflict of interest can exist if the public agency decision you are participating in affects (positively or negatively) any of your “financial interests” as described in the Act and listed here:

- **Business Interest:** Any for-profit business entity in which you or your immediate family (spouse and dependent children) have a direct or indirect investment worth \$2,000 or more. You also have a financial interest in any business in which you are an employee, manager, officer, director, owner, partner or trustee, regardless of whether you have an investment or receive income from the entity.
- **Source of Gross Income:** A public official has a financial interest in any source of income that is either received by or promised to the official and totals \$500 or more in the 12 months before the decision. Income is very broadly defined as “a payment received” with few exceptions. Examples of income include salary, wage, advance, dividend, interest, rent, proceeds from any sale, gift, loan, forgiveness or payment of debt, or community property interest in income of a spouse. The FPPC regulations make it clear that a conflict of interest results whenever either the amount or the source of an official’s income is materially affected by a decision. Also, a decision that foreseeably will materially affect an official’s employer would generally necessitate a disclosure and disqualification, even if the amount of income received by the official was not affected. Common exclusions from income include loans from commercial lending institutions in the ordinary course of business made on terms available to the general public, campaign contributions, government salaries and benefits, monetary inheritances, and alimony or child support payments.
- **Gift Interest:** Any gift(s) — cash, goods or services — promised or given to you in the past 12 months by a person, business, or other entity totaling \$590 or more in value. The dollar limit is adjusted biennially in odd-numbered years based on the Consumer Price Index (CPI).
- **Real Property Interest:** Any real property interest, including ownership, mortgage, lease, easement or license, or option to acquire such interest in real property, located in the public agency’s jurisdiction owned directly or indirectly by you or your immediate family if the fair market value of the real property interest is \$2,000 or more. Month-to-month tenancies are not considered an interest in real property. Interest in real property also includes a pro rata share of a business entity’s real property or trust in which the public official or immediate family owns, directly or indirectly, a 10 percent interest or greater.

- **Personal Financial Interest:** Any personal expense, income, asset, or liability of you or your immediate family (spouse and dependent children).
- 3. Will the public agency decision have a reasonably foreseeable “material financial effect” on any of your financial interests?**

Participation in a decision that affects your financial interest creates a conflict of interest only if it is reasonably foreseeable (a realistic possibility) and the effect is “material.”

In general, if the financial effect can be recognized as a realistic possibility and more than hypothetical or theoretical, it is reasonably foreseeable. If the financial result can be expected only in extraordinary circumstances not subject to the public official’s control, it is not reasonably foreseeable. In determining whether a governmental decision will have a reasonably foreseeable financial effect on a financial interest other than an interest explicitly involved, described above, the following factors should be considered:

- a.** The extent to which the occurrence of the financial effect is contingent upon intervening events.
- b.** Whether you should anticipate a financial effect on your financial interest as a potential outcome under normal circumstances when using appropriate due diligence and care.
- c.** Whether you have a financial interest that is of the type that would typically be affected by the terms of the governmental decision.
- d.** Whether the governmental decision will provide or deny an opportunity, or create an advantage or disadvantage for one of your financial interests, including whether the financial interest may be entitled to compete or be eligible for a benefit resulting from the decision.

This is not an exclusive list of all the relevant facts that may be considered in determining whether a financial effect is reasonably foreseeable.

“Material” means important or significant, and often depends upon whether or not the interest is explicitly involved. For each financial interest you identified as potentially affected by the decision, review the corresponding analysis below to determine whether the effect is material.

- **Business, Source of Income, and Gift Financial Interests — Explicitly Involved:** If your financial interest is explicitly involved (i.e., the subject of or a named party in the decision), the financial effect of the decision on your financial interest is presumed to be material unless you can demonstrate that the decision will not have a financial effect on your financial interest.
- **Business, Source of Income, and Gift Financial Interests — Not Explicitly Involved:** A reasonably foreseeable financial effect on a business entity is material if it results in 1) a change in gross revenues or in the value of assets or liabilities by at least \$1 million or 5 percent of annual gross revenues, or 2) a change in business expenses of \$250,000 or more or of 1 percent of annual gross revenues and the change is at least \$2,500; or if the business entity owns property that is the subject of the decision or would be substantially effected by the decision.
- **Real Property Interest — Explicitly Involved:** When your real property interest is explicitly involved in a public agency decision, the reasonably foreseeable financial effect is presumed material. A real property interest is explicitly involved when the decision includes matters such as the property's zoning, annexation, sale, lease, licensed or permitted use, taxes, fees, or improved services to the property.
- **Real Property Interest — Not Explicitly Involved:** When the real property is not explicitly involved, a decision's reasonably foreseeable financial effect is presumed material if, among other things, any part of the property in which you have a financial interest is within a 500-foot radius of the real property involved in the decision, unless it is clear the decision will not have a measurable impact on your property. If your property is located more than 500 feet, but less than 1,000 feet, from the property line of the property involved in the decision, the financial effect is material if the decision would have certain specified impacts, such as changing the parcel's view, noise or traffic level, development or income-producing potential, best use, character, or market value.

If the real property in which you have a financial interest is 1,000 feet or more from the property involved in the decision, the financial effect of the decision on your real property interest is presumed not to be material unless the specific circumstance of the decision and the nature of your property interest make it reasonably foreseeable that the decision will have a significant financial effect on your real property interest. Factors include the development potential of the property, use of the property, and character of the neighborhood.

- **Real Property Interest — Leasehold Interest:** If you have a leasehold interest in real property as opposed to an ownership interest, your leasehold interest in the property is material if the decision changes the termination date of the lease, affects the potential rental value of the property, changes your actual or legally allowable use of the property, or impacts your use and enjoyment of the property
- **Personal Financial Interest:** The financial effect of a decision on your personal financial interest is material if the decision may result in you or your immediate family member receiving a financial benefit or loss of \$500 or more in any 12-month period due to the decision.

5. Does the decision affect your financial interests differently from the “public generally?”

Even if you answered “yes” to the first three questions, you have a financial conflict of interest only if the decision affects you differently from the public in general. The financial effect of a decision is indistinguishable from its effect on the public generally if you establish that a significant segment of the public is affected and the effect on your financial interest is not unique compared to the effect on the significant segment.

A significant segment of the public is at least 25 percent of:

- **Business Interest —** All businesses or nonprofit entities within your jurisdiction.
- **Real Property Interest —** All real property, commercial real property, or residential real property within your jurisdiction.
- **Individuals —** All individuals within your jurisdiction.

If you are elected to represent a specific district/area in the public agency, your “jurisdiction” is that district/area; otherwise, your jurisdiction is the agency’s jurisdiction.

A significant segment of the public is at least 15 percent of residential property within your agency’s jurisdiction if the only interest you have in the decision is your primary residence.

Specific rules exist for special circumstances involving public service and utility charges, general use or licensing fees, decisions with limited neighborhood effects, rental properties, required representative interests as part of a board or commission membership, states of emergency, and governmental interests.

What Should I Do if a Financial Conflict Exists?

1. Do not participate in the decision.

If you answered “Yes” to all four questions above, you most likely have a financial conflict of interest and you are prohibited from participating in the decision-making process. Do not participate in the discussion or render any opinion or advice, and do not act in any way that might influence the decision.

2. Disclosure and recusal are required.

State law requires you to publicly disclose your financial conflict of interest on the record and excuse yourself from the meeting while the matter is being considered in open session. You generally do not have to excuse yourself on consent calendar items unless the item is pulled, but must publicly disclose the type of your financial interest (i.e., business entity, real property, etc.) that gives rise to the conflict of interest.

3. Do not commit violations of the Political Reform Act (PRA)

Violation of the PRA can result in administrative fines, civil penalties, and criminal sanctions.

Other Conflict of Interest Laws

Two other key financial conflict of interest laws apply to public officials that you may encounter as either a board or council member, public employee, or consultant in the decision-making process:

1. Self-Interested Contracts (Government Code Section 1090)

This key law prohibits you, as a local official or employee, from voting on, discussing, or negotiating a proposed contract or sale with your public agency if you could receive some financial gain or loss from the contract or sale. Even if you abstain as a board or council member, the entire board or council is prohibited from entering into the contract unless an exception applies. Any contract signed by a public agency board or council in violation of Section 1090 is void. The rule is different if you are a decision-making employee not on the board or council. A public agency employee may disclose their financial interest in the public agency contract and be disqualified from any involvement, allowing the board or council to enter the contract legally. Violation of this law will void the contract or sale and may result in permanent forfeiture of office for elected officials. There are limited exceptions to this law that are beyond the scope of this resource.

2. Campaign Contributions (Government Code Section 84308)

If you are a directly elected or appointed public official, this law (known as the Levine Act) prohibits you from participating in proceedings involving licenses, permits, or other entitlements for use that affect a person, business, or other entity from which you have received a campaign contribution of more than \$250 within the preceding 12 months, and requires you to disclose on the record the receipt of any such contribution. In addition, this law prohibits you from accepting campaign contributions of more than \$250 from a party or participant in the proceeding for 12 months after a final decision is rendered in a proceeding.



Conflict in Government Contracts — Government Code **Section 1090**

Generally, government officials or employees with personal financial interests in a government contract cannot participate in or influence the creation of that contract. California Government Code section 1090 (“Section 1090”) prohibits members of the Legislature, state, county, district, judicial district, and city officers or employees (and certain consultants) from having a financial interest in any contract made by them in their official capacity or by any governmental body or board of which they are members.

A contract made in violation of Section 1090 carries with it serious consequences. With certain exceptions for independent contractors, a willful violation is punishable as a felony and the offending person may be banned from office for life. Prosecutors and the Fair Political Practices Commission (FPPC) can sue for civil penalties or impose administrative fines. Contracts made in violation of Section 1090 are void, even when the contract is to the advantage of the government agency. All benefits flowing from the contract obtained by the non-government entity may be restored to the agency (disgorged) without any offset to the other contracting party for goods or services provided.

Members of state or local governing bodies and state or local employees are generally subject to Section 1090. Consultants of an agency may be subject to Section 1090 if they have responsibilities for contracting decisions, act in a “staff capacity,” or are otherwise involved in the making of a government contract unless they fall under the exceptions outlined in Section 1097.6. If you believe that Section 1090 may apply to your situation, you should engage qualified legal counsel to help you navigate these issues.

Do I Have a Disqualifying Conflict of Interest Under Section 1090?

The FPPC is the state body responsible for ensuring that California state and local governments operate ethically under the requirements of the Political Reform Act. The FPPC applies a six-step analysis to determine whether an official or employee has a disqualifying conflict of interest under Section 1090.

1. Is the official or employee subject to the provisions of Section 1090?

All state, county, district, judicial district and city officers and employees are subject to the law. Independent contractors may be subject to Section 1090 as well unless they fall under the exceptions outlined in Section 1097.6, which went into effect on January 1, 2024. Now, independent contractors who enter into a contract with a public agency to perform one phase of a project and seek then to enter into a subsequent contract for a later phase of the same project are not “officers” under Section 1090 if their duties and services related to the initial contract did not include assisting the public agency with any portion of a request for proposals,

request for qualifications, or any other subsequent or additional contract with the agency. However, even if independent contractors assist the public agency with contracting matters, they may enter into a subsequent contract with the public agency for a later phase of the same project so long as: (1) their prior participation during an initial stage of a project was limited to conceptual, preliminary, or initial plans or specifications; and (2) all bidders or proposers for the subsequent contract have access to the same information, including all conceptual, preliminary, or initial plans or specifications.

2. Does the decision or action at issue involve a contract?

One looks to general principles of contract law to determine whether a contract is involved in a process or decision. Sections 1090 and 1097 require that all transactions be viewed in a broad manner and avoid narrow and technical definitions of “contract.” Under this law, “a contract” includes a request for proposal, MOU, construction contract, lease or other real property agreements, purchase orders and agreements, any exchange of goods or services for consideration whether in writing or not and grants of money or property or other things of value. Generally, a contract exists when two or more parties agree to exchange goods or services with the expectation that each will receive something of value in return.

3. Is the official or employee participating in the making of a contract?

“Making a contract” is broadly construed and includes any participation in the making of the contract including, but not limited to involvement in preliminary discussions, negotiations, compromises, reasoning, planning, drawing of plans and specifications, solicitation for bids and other actions. The understanding of “participation” is very broad and requires careful analysis. Also, in relation to a public body, such as a city council or district board, when members of a public board, commission or similar body have the power to execute contracts, each member is presumed to be involved in the making of all contracts by his or her board regardless of whether the member actually participates in the making of the contract. The presence of one person with a financial conflict of interest in a contract prevents the entire body from acting on that contract. Thus, when council or board members are involved, it is irrelevant whether or not they recuse themselves from the decision because the law usually presumes that the official was involved in entering the contract.

4. Does the official or employee have a “financial interest” in the contract?

A person has a financial interest in a contract if he or she might profit or suffer a loss from the contract in any way. Said another way, any kind of financial impact – good or bad – causes a conflicting financial interest. The impact need not even be certain. Although Section 1090 does not specifically define “financial interest,” the term is liberally and broadly construed to include indirect, as well as direct interests. An indirect interest often arises when an official or employee has a business or financial relationship with a person or entity who is contracting with the government entity. A person is conflicted under Section 1090 when their financial interest might in any way prevent the person from exercising absolute loyalty and undivided allegiance to the best interests of the public agency. Any separate, personal interest of an officer or employee in a government-made contract may constitute an indirect interest. An official has a conflict of interest when that official’s spouse has a financial interest in the making of the contract. This is because the law presumes that an official is financially interested in his or her spouse’s income or financial interest.

5. Does either a “remote interest” or non-interest apply?

By law, there are various statutory exceptions to Section 1090’s prohibition against an entire board or agency making a contract. Where the financial interest involved is deemed a “remote interest,” as defined in Section 1091, the contract may be made if: 1) the officer in question discloses his or her financial interest in the contract to the public agency, 2) such interest is noted in the entity’s official records and 3) the officer abstains from any participation in the making of the contract.

Section 1091 provides a list of 16 “remote interests.” These provisions are complex and one should not rely on the application of these exceptions without first consulting with counsel or seeking the advice of the FPPC.

Non-interests apply to all persons covered by Section 1090: Non-interests are set forth in Section 1091.5. There are 13 of these statutory non-interests. In essence, these constitute a legislative recognition that certain financial interests are so remote or speculative as to not require disqualification from participating in the making of a contract, or which are designed to serve or accommodate some other public policy, such as one’s interest in one’s own salary from a government entity or the receipt of public

services. A non-interest means a person is not disqualified from participating in the making of a contract. Some non-interests do still require the official to disclose the interest in the official records. Again, as with “remote interests,” these non-interest exceptions are complex and one should seek the advice of legal counsel or the FPPC before relying on one of these statutory exceptions.

6. Does the Rule of Necessity apply?

The Rule of Necessity applies only to government entities, not individuals. In very limited circumstances, a Rule of Necessity has been applied to allow the making of a contract that Section 1090 would otherwise prohibit. Under the Rule of Necessity, a government agency may acquire an essential good or service in an emergency when to delay the contract would be to the public detriment, or when no source other than that which triggers the conflict is available. When the Rule of Necessity applies, due to a conflict with an official on a multi-member board or body, the interested official must abstain from any participation in the decision.

What Are the Consequences if Section 1090 is Violated?

- With certain exceptions for independent contractors, a willful violation or aiding and abetting a willful violation of Section 1090 is punishable as a felony and carries a sentence of up to three years in state prison and a lifetime ban from holding office.
- A prosecutor or the FPPC can bring a civil action to collect civil fines of up to \$10,000 or three times the amount of the benefit received under the contract.
- The FPPC can impose administrative fines of up to \$5,000 per violation.
- The contract is void and suit may be brought to have the contract declared void.
- All proceeds, payments and profits received or obtained as a result of the contract must be returned to the government entity.
- Because most Section 1090 violations also violate the Political Reform Act’s prohibition against having a financial interest in a governmental decision, the full array of penalties available under that Act also apply, including misdemeanor criminal liability, civil penalties, administrative fines and injunctive relief.