CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: TRANSPORTATION & ENVIRONMENT COMMITTEE

FROM: Jen Baker

SUBJECT: **Large-Load Energy Customer Development Status Report**

DATE: January 19, 2026

Approved

Date: 1/20/2026

RECOMMENDATION

Accept a status report on the City's Large-Load Energy Customer Development activities, including the Implementation Agreement with Pacific Gas and Electric Company and related electrical transmission and distribution infrastructure grid enhancement projects.

BACKGROUND

Reliable and timely access to electricity has become a defining constraint on San José's economic growth. Over the past several years, large employers—particularly data centers, advanced manufacturing, and other large-load users—have faced growing uncertainty around electric capacity, delivery timelines, and accountability. These customers are critical to the City's fiscal health: they generate significant General Fund revenue, create high-quality construction and permanent jobs, and typically require fewer ongoing City services relative to the revenue they produce. Ensuring San José can attract and retain these customers is essential to maintaining long-term fiscal stability.

In response to these challenges, the City undertook an extensive evaluation of its options for securing reliable electric infrastructure. This work culminated in a Special City Council meeting in March 2025, where the Administration presented the results of an 18-month exploration of a potential municipal electric utility and outlined a recommended path forward centered on performance, accountability, and speed to delivery.[1] At that meeting, the City Council authorized the Administration to pursue a formal implementation agreement with Pacific Gas and Electric Company (PG&E), while preserving the City's ability to revisit other options if performance expectations were not met.

Following that direction, the City and PG&E negotiated and executed an Implementation Agreement in July 2025.[2] The Agreement establishes clear roles, dedicated staffing, and enforceable performance measures to accelerate electric infrastructure delivery for large energy users in key growth areas of San José. It also reflects the City's priority to support large-load customers—defined as projects requiring 20 megawatts or more of service—because of their outsized role in driving economic activity and City revenue. Under the Agreement, PG&E funds City staff positions and process improvements to reduce delays, improve coordination, and provide greater certainty for major projects.

This partnership is particularly important given San José's strategic position within the regional transmission grid network. Major transmission investments, including the 2,000 MW of new LS Power transmission lines that will pass through San José by 2028, shape how and where large amounts of power can be delivered across the region. Coordinating local planning, permitting, and economic development with these regional assets is necessary to ensure San José can fully benefit from existing and planned infrastructure, rather than be constrained by it.

Together, the March 2025 City Council action and the subsequent Implementation Agreement established a structured, accountable framework for advancing electric infrastructure delivery in San José—one designed to support large-scale development, protect the City's fiscal interests, and ensure accountability over PG&E's performance.

ANALYSIS

This analysis section is divided into three sections. First, we provide an update on the City's progress toward City Council Focus Area – Growing Our Economy Goals related to infrastructure readiness. Second, we detail the progress made to accelerate electrical infrastructure improvements through our work with PG&E and LS Power. And lastly, we discuss the ongoing efforts to attract large energy users, such as Data Centers, to San José and the potential impacts they pose.

City Council Focus Area: Growing Our Economy – Infrastructure Readiness

The City's work to improve electrical infrastructure directly supports the City Council Focus Area of Growing Our Economy, particularly the goal of ensuring infrastructure readiness for major employers and new development. Within this Focus Area, three

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[1] March, 21, 2025 Special Council Meeting San José Municipal Electric Utility Exploration. (memo link: https://sanjose.legistar.com/View.ashx?M=F&ID=13933623&GUID=595A271F-15B6-47D9-BC2C-1E2F8B39F806)
[2] https://sanjoseca.govnita.com/api/workspace/Contracts/files/2094804896417/view

infrastructure readiness goals guide the City's efforts to attract and deliver large energy projects, including data centers and other high-load users.

Goal 2: Infrastructure Readiness	Status as of December 2025
Goal 2.1 Three data centers/large energy projects receive permanent power from PG&E by June 2026.	2 out of 3 (66% of Goal met)
Goal 2.2 Two new data center/large energy projects in the Building Plan Review phase by June 2026.	2 out of 2 (100% of Goal met)
Goal 2.3 Five new data center/large energy projects in the Planning Entitlement phase by June 2026.	2 out of 5 (40% of Goal met)

To advance these goals, the City established a cross-departmental Data Center Development Team, made up of staff from Planning, Building, Fire, Public Works, Energy, Water Supply, and the City Manager's Office of Economic Development and Cultural Affairs. The team, led by the Large-Load Energy Customer Development Lead in the City Manager's Office of Economic Development and Cultural Affairs, oversees all large energy projects in the City's development pipeline.

The team tracks each project from early planning through construction and meets regularly with developers to ensure a coordinated, City-wide approach. The primary objective is to move projects through entitlement and permitting without unnecessary delays so they are ready for PG&E energization on schedule.

The team also plays a key role in monitoring PG&E's performance under Goal 2.1. As of January 2026, PG&E has energized two of the three projects scheduled to receive permanent power this Fiscal Year (Goal 2.1 above). The remaining project is scheduled to be energized by June 2026. The Large-Load Energy Customer Development Lead meets with PG&E on a biweekly basis to review project status and identify potential risks or delays. On a quarterly basis, projects are formally scored to confirm whether PG&E is meeting the milestones established in the Implementation Agreement.

Electrical Infrastructure Improvements – Coordination with PG&E and LS Power

In parallel with efforts to attract large energy users, the City has focused on accelerating electrical infrastructure delivery through close coordination with PG&E and regional transmission developers, including LS Power. Under the Implementation Agreement, City staff meet biweekly with PG&E to track substation upgrades, transmission planning, and project-specific energization timelines. This coordination is intended to reduce uncertainty, surface risks earlier, and align City permitting and development timelines with PG&E's capital planning and construction schedules.

The City has held two quarterly check-ins to score PG&E's performance on meeting their obligated timelines for the 12 projects in the Implementation Agreement. As of January 2026, two projects have been energized and PG&E is on schedule, or has a path to get back on schedule, and energize the remaining 10 projects by 2030. The City is also coordinating with LS Power on the two high-voltage transmission projects (totaling 2000MW of capacity) that traverse San José and are critical to increasing regional capacity. These transmission investments are foundational to serving future large-load demand and improving grid reliability Citywide. As reported to the Community and Economic Development Committee on December 15, 2025, Focus Area Goal 2.5: Issue first full LS Power Utility Permit by June 2026 is on track. Construction should not impact 2026 Sports Events, and timelines have been adjusted to meet California Public Utilities Commission shifts in completing CEQA requirements. By aligning local land use planning, permitting, and economic development efforts with PG&E's distribution upgrades and LS Power's transmission investments, the City is working to ensure San José can fully benefit from regional infrastructure improvements while minimizing delays to priority projects.

Data Center Projects: Fiscal and Environmental Considerations

As the City continues to advance infrastructure readiness and attract large energy users, it is important to outline the benefits and concerns that data centers pose. These generally fall into three categories: fiscal benefits to the City, environmental concerns raised by residents and policymakers, and potential impacts on electricity rates.

Fiscal Benefits to the City

Large data centers represent a significant fiscal opportunity for San José, particularly through the Utility User Tax. Because data centers consume large volumes of electricity continuously, they generate stable and predictable Utility User Tax revenue that directly supports the City's General Fund. For example, a 50 to 99MW data center, once fully ramped up, could generate between $3 and $7 million in unrestricted annual revenue for City Services. Unlike many other forms of development, data centers do not add traffic, require limited public services once operational, and do not generate school or public safety demand at the scale of residential growth.

The City benefits from capturing economic activity that would otherwise be located in other states or regions. Retaining these projects locally allows San José to share in the financial upside of the digital economy while leveraging existing infrastructure investments.

To advance this opportunity, the Office of Economic Development and Cultural Affairs Large-Load Energy Customer Development Lead and Corporate Outreach Team are responsible for attracting data centers and other large energy businesses to San José. Since the execution of the Implementation Agreement with PG&E, staff have expanded outreach through a press conference highlighting the historic agreement,[3] publication of a dedicated webpage on SJEconomy.com,[4] participation in industry panels and conferences, and direct engagement with developers. To date, staff have met with more than 50 potential data center developers and represented the City's opportunity at several industry conferences.[5] As a result of these efforts, the City's data center pipeline—including inquiries and pre-application projects—has grown from 18 to 34 projects, an 88 percent increase. This increase is critical to meeting Focus Area Goal 2.3: Five new data center/large energy projects in the Planning Entitlement phase by June 2026. We expect to see more Planning Applications submitted in 2026.

Environmental Analysis and Local Safeguards

Across the country, residents have raised concerns about the environmental footprint of data centers—particularly related to water use, energy consumption, air pollution from backup generators, and noise. These concerns have prompted legislative hearings, including the recent Little Hoover Commission review, which highlights the need for careful siting, transparency, and regulatory oversight.

In San José, data center development is already subject to a comprehensive set of environmental requirements that significantly mitigate these impacts (see the **Attachment**: Environmental Requirements for Data Center Development in San José). All large data center projects undergo review under the California Environmental Quality Act [6], which evaluates air quality, greenhouse gas emissions, water use, noise, hazardous materials, and energy demand. Projects that meet defined thresholds are classified as "water-demand projects" and must demonstrate the availability of a reliable water supply under both normal and dry-year conditions. These projects must also demonstrate that recycled water was evaluated and, when reasonably available, will be used in lieu of potable water supplies.

The City's General Plan and Municipal Code also require the use of recycled water where feasible, contribution to recycled water infrastructure, and protection of groundwater recharge areas. From an energy standpoint, data centers in San José can receive between 65 and 100% carbon-neutral electricity through San José Clean Energy and must incorporate energy-efficient design and compliance with state and local air quality regulations governing backup generation. Taken together, these requirements place San José among the more tightly regulated jurisdictions for data center development, addressing many of the environmental concerns being debated nationally.

[3] https://www.sanjoseca.gov/Home/Components/News/News/6819/4699
[4] https://www.sjeconomy.com/how-we-help/programs-and-services/powering-san-jos-energy-infrastructure-for-data-centers
[5] Staff attended SEMICON West on October 7-9, 2025; the Data Center Investment Conference and Expo West on December 5, 2025; and Society for Information and Photonics Engineering: Photonics West on January 20-22, 2026
[6] For Data Center projects with backup generation exceeding 49MW, the California Energy Commission is the lead agency for CEQA review.

Electricity Rates

The rapid growth of data centers has raised legitimate questions about whether large new loads could increase electricity rates for other customers.

In California, this is actively under review by state regulators. Current rate structures generally require large transmission-level customers, such as data centers, to fund interconnection upgrades upfront, with reimbursement tied to actual usage and performance. The Commission materials emphasize that the key policy question is not whether data centers should be served, but how to ensure cost causation principles are upheld so that new infrastructure costs are not unfairly shifted to residential and small business customers.

For San José, continued coordination with PG&E, state agencies, and policymakers will be critical to ensuring long-term rate affordability and grid reliability. PG&E has stated that large load customers will help lower rates, and each new GW will lower rates by 1-2%.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the City Manager's Budget Office, and the Departments of Public Works, Energy, Planning, Building, and Code Enforcement, Environmental Services, and Fire.

/s/
JEN BAKER
Director of the City Manager's Office of Economic Development and Cultural Affairs

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ATTACHMENT

Environmental Requirements for Data Center Development in San José