



LARGE LOAD RATE DESIGN

By John Wolfram

The concept of large loads for electric utilities is not new. However, the current interest from large loads, particularly artificial intelligence data centers, is different for several reasons. First, the scale of these loads is much larger than anything in recent history. Second, the urgency for bringing these loads online is tremendous, so much so that the prospects are willing to pay significant amounts to interconnect more quickly. In other words, they are big, they want to be interconnected rapidly, and they are willing to pay for it.

In such dynamic circumstances, how can utilities manage this challenge? Many utilities are moving to establish large load tariffs to govern the rates, terms, and conditions for providing service to these large loads. Some of these terms are new but most just apply long-standing ratemaking principles in a tailored manner.

Fundamentals

A first step is to remember the broad goals of the utility, which historically have included assuring safety, service quality, and customer satisfaction; assuring the sound financial condition of the utility; assuring the prudence of utility costs; and maintaining rate stability, among other things.

While the following goals may not be new, the current climate is driving utilities to renew their emphasis on them:

- Ensure timely interconnection of large loads.
- Ensure that other customers do not subsidize large loads or otherwise be left “holding the bag” for costs incurred by the utility solely to serve large loads.

Any large load rate designs should support these goals.

Key Tariff Provisions for Large Load Rate Design

Large load tariffs should include the following terms and conditions.

- Longer Term Contract Duration

Large loads often require major investment in plant by the utility. Production and transmission facilities require a long lead time for construction and have long book lives – and thus should be supported by a contract that similarly includes a longer duration. A utility should not have to install production and transmission for a customer that may depart after a short period of time.

- Facility Payments

If a utility must construct power plants or transmission facilities solely to serve the large load, the large load should pay for those facilities. Other customers should not be required to pay for assets from which they derive no benefit.

- Exit Fees

The large load customers should be responsible for the costs to serve even if they depart after a short period of time. This ties to the prior two issues on contract duration and facility payments. This ensures that other customers do not have to pay for assets meant to serve large loads after those large loads leave.

- Minimum Bills

Minimum bills help the utility recover the fixed costs of serving large loads, even if or when the large loads do not consume energy. These have been a tool for industrial load rate management for many years and are even more important given the unprecedented size of these loads.

- Letters of Credit

The utility must have assurances that the large load customers will be able to cover the costs of service. Letters of credit or other credit assurances are a sound way for utilities to protect other ratepayers if the large load customer faces financial difficulties.

Conclusion

Utility ratemaking need not be reinvented to address the emerging needs of large loads. Instead, employing the tactics described herein can permit utilities to serve data centers in a way that supports the utility's financial wherewithal while also preventing adverse bill impacts for other customer classes. In this way utilities can be best positioned to bridge the span between the rate and regulatory frameworks of yesterday and tomorrow.

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