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**SENATE COMMITTEE ON ENERGY, UTILITIES AND  
COMMUNICATIONS**

**Senator Josh Becker, Chair  
2025 - 2026 Regular**

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| <b>Bill No:</b>    | AB 1280          | <b>Hearing Date:</b> | 7/15/2025 |
| <b>Author:</b>     | Garcia           |                      |           |
| <b>Version:</b>    | 6/2/2025 Amended |                      |           |
| <b>Urgency:</b>    | No               | <b>Fiscal:</b>       | Yes       |
| <b>Consultant:</b> | Sarah Smith      |                      |           |

**SUBJECT:** Energy

**DIGEST:** This bill expands the eligibility of certain industrial decarbonization and thermal energy storage projects in the Climate Catalyst Revolving Loan Fund administered by the Infrastructure and Economic Development Bank (I-Bank), the Long-Duration Energy Storage Program administered by the California Energy Commission (CEC), and the CEC’s Industrial Grid Support and Decarbonization Program (INDIGO). This bill also restricts funding for certain industrial decarbonization projects in these programs to those projects that meet certain labor and community benefit standards, as specified.

**ANALYSIS:**

Existing law:

- 1) Requires the California Air Resources Board (CARB) create and update the scoping plan, identifying strategies to achieve the maximum technologically feasible and cost-effective greenhouse gas (GHG) emission reductions. (Health and Safety Code §38560)
- 2) Defines “best available control technology” as emission limitation technology that will achieve the lowest achievable emission rate for the source to which it is applied. (Health and Safety Code §40405)
- 3) Establishes the Climate Catalyst Revolving Loan Fund Program at the IBank and specifies the projects eligible for funding from the program. Existing law requires the IBank to develop a climate catalyst financing plan to support eligible projects. Existing law requires the IBank to confer with specific agencies on the categories of eligible climate catalyst projects. (Government Code §63048.91 et. seq.)
- 4) Establishes the Long Duration Energy Storage Program at the CEC to provide financial incentives for projects at eligible storage facilities that have power

ratings of at least one megawatt (MW) and are capable of providing at least eight hours of continuous electricity for purposes of providing critical capacity and grid services. (Public Resources Code §25640 et. seq.)

- 5) Defines a storage facility eligible for incentives under the Long Duration Energy Storage Program as an energy storage system interconnected to the California electrical grid or to a California balancing authority. Existing specifies that eligible storage facilities include, but are not limited to, any of the following:
  - a) Compressed air or liquid air technologies.
  - b) Flow batteries, advanced chemistry batteries, or mechanical energy storage.
  - c) Thermal storage or aqueous battery systems.
  - d) A hydrogen demonstration project. (Public Resources Code §25642)
- 6) Excludes pumped storage and lithium-ion storage projects from eligibility in the Long Duration Energy Storage Program. (Public Resources Code §25642)
- 7) Establishes the INDIGO program at the CEC to provide incentives for eligible industrial decarbonization projects that provide benefits to the electrical grid, lower GHG emissions, support the state's clean energy goals, and exceed compliance requirements. (Public Resources Code §25662)
- 8) Authorizes the CEC to adopt eligibility guidelines for the INDIGO program, and specifies that eligible projects must include, but are not limited to projects that deploy technology that does at least one of the following:
  - a) Enhance electrical grid reliability and enable industrial facility participation in utility load reduction programs, as specified.
  - b) Electrify processes that use gas or other fossil fuels.
  - c) Incorporate energy storage or renewable energy resources.
  - d) Increase energy efficiency.
  - e) Develop and deploy novel decarbonization technologies and strategies, as specified. (Public Resources Code §25662.2)
- 9) Excludes projects that benefit oil and gas production from receiving INDIGO incentives. (Public Resources Code §25662.2)
- 10) Specifies that projects are only eligible for incentives through INDIGO if the project uses technologies that exceed the best available control technology. (Public Resources Code §25662.2)

This bill:

- 1) Expands the categories of climate catalyst projects to include projects that decarbonize industrial facilities use of heat and power, including, but not limited to projects that deploy industrial heat pump and thermal energy storage. This bill designates the CEC as the agency with which IBank must consult on financing plans for these industrial decarbonization projects.
- 2) Requires IBank to prioritize industrial decarbonization projects that achieve direct and indirect emissions reductions at specific facilities, reduce criteria pollutants, and improve progress toward air quality attainment standards.
- 3) Prohibits IBank from financing an industrial decarbonization project unless the entity completing the project does the following:
  - a) Enters into a project labor agreement (PLA) that meets specified labor requirements.
  - b) Includes a community benefit fund or community benefits agreement with the surrounding community and affected stakeholders.
- 4) Clarifies that consultation with CEC and IBank does not constitute approval of a decarbonization project by CEC or IBank.
- 5) Defines “thermal energy storage” as storage of thermal energy for direct use for heating or cooling at a later time in a manner that avoids the need to use electricity at that later time.
- 6) Requires the CEC to establish and implement an Industrial Facilities Thermal Energy Storage Program within the Long-Duration Energy Storage Program to provide financial incentives for projects at industrial facilities that decarbonize those facilities’ use of heat and power.
- 7) Authorizes the CEC to adopt guidelines for the purposes of the Industrial Facilities Thermal Energy Storage Program to ensure program resources support high-road jobs, community benefits, and the transition from fossil fuels to clean energy.
- 8) Modifies prioritization criteria for the Long Duration Energy Storage Program to prioritize projects that use renewable energy for load-shifting and reducing renewable generation curtailment.

- 9) Restricts Long Duration Energy Storage Program funding for projects using contracted construction work to only those projects that are covered by a PLA, as specified.
- 10) Modifies eligibility criteria for the INDIGO program to expressly include projects that incorporate thermal energy storage and electrify processes that use gas or other fossil fuels to produce heat for industrial processes.
- 11) Clarify the eligibility of carbon capture projects to expressly include projects that use carbon capture of process emissions for mineral carbonation.
- 12) Restricts INDIGO funding for projects using contracted construction work to only those projects that are covered by a PLA, as specified.
- 13) Adds the following to prioritization criteria the CEC must use when providing financial incentives from the INDIGO program:
  - a) The project is located in an under-resourced community or in an area out of compliance with the applicable federal Clean Air Act.
  - b) The project includes a community benefit fund or agrees to pursue a community benefits agreement with the surrounding community and other affected stakeholders.

## Background

*Industrial processes are major sources of emissions.* While the transportation sector is the largest source of GHG emissions in California, the industrial sector is the second largest source of these emissions. Industrial processes contributed approximately 23% of California's emissions in 2020. Oil refineries and hydrogen production facilities represent the largest emitters in the industrial sector; these facilities produce 36% of the industrial sector emissions. California's efforts to reduce emissions from the power sector have helped reduce emissions from electricity by 44% over 20 years; however, emissions from the industrial sector have only dropped 20% over the same period.

Many industrial facilities are covered entities for the purposes of the Cap-and-Trade program, and the Scoping Plan already includes a high-level discussion of pathways to decarbonization of industrial processes, including heat processes. The 2022 Scoping Plan update notes that multiple emissions reduction strategies are likely needed to achieve the greatest feasible emissions reductions from the industrial sector. The update states:

“Decarbonizing industrial facilities depends upon displacing fossil fuel use with a mix of electrification, solar thermal heat, biomethane, low- or zero-carbon hydrogen, and other low-carbon fuels to provide energy for heat and reduce combustion emissions. Emissions also can be reduced by implementing energy efficiency measures and using substitute raw materials that can reduce energy demand and some process emissions. Some remaining combustion emissions and some non-combustion CO<sub>2</sub> emissions can be captured and sequestered. The strategy employed will depend on the industrial subsector and the specific processes utilized in production.”

*Status of Climate Catalyst, Long Duration Energy Storage, and INDIGO programs.* All of the programs impacted by this bill were established through budget legislation between 2020 and 2022. Below is a description of each of these programs:

- The Climate Catalyst Revolving Loan Program authorizes the I-Bank to provide financial support for infrastructure projects that work toward the state’s climate goals. The Climate Catalyst fund is available to a variety of projects that further the state’s climate goals.
- The Long Duration Energy Storage Program is administered by the CEC, and it provides financial incentives for projects that have power ratings of at least one MW and are capable of reaching a target of at least eight hours of continuous discharge of electricity. The goal of the program is to encourage energy storage to build resiliency in the grid and avoid generation issues during hours of peak energy usage in the state. The existing Long Duration Energy Storage Program utilizes funding from Cap-and-Trade revenues to support projects that provide grid resiliency and emissions reductions, but the program does not currently extend eligibility to deployment of thermal energy storage in the industrial sector.
- The INDIGO Program is also administered by the CEC and provides incentives for industrial projects that offer benefits to the electric grid, reduce emissions, and local air pollution. Prior budget legislation provided \$90 million to INDIGO but the funds have since been exhausted.

*Bill expands several decarbonization funding opportunities, but resources for those programs are unclear.* This bill establishes new requirements for several bills aimed at providing incentives for technologies that support the grid and help decarbonize certain industrial processes. These new requirements include limiting funding for certain incentives to only those projects that meet certain labor and community benefit standards. While incorporating community benefit and labor

protections into these programs may be beneficial, the realization of those benefits may depend on expanding funding for the affected decarbonization programs. Since the establishment of these programs, funding opportunities have declined. Budget reductions and federal clawbacks have limited funding opportunities for expanding incentives in the Climate Catalyst Fund and the CEC's industrial decarbonization programs.

*Need for amendments.* This bill adds a number of new restrictions on funding for industrial decarbonization projects that do not have PLAs or community benefit agreements in place at the time those projects apply for funding. *To ensure that funding criteria is clear at the time an entity submits its application, the author and committee may wish to amend this bill to clarify that this bill's requirements apply only to those applications submitted after January 1, 2026, or a later date as specified by the IBank or the CEC in program guidelines.* This bill also includes various provisions that appear to conflict with recently enacted budget legislation (AB 137, Committee on Budget, Chapter 20, Statutes of 2025). *To eliminate chaptering inconsistencies, the author and committee may wish to amend this bill to ensure that this bill conforms with current budget legislation.*

*Dual referral:* This bill passed out of the Senate Business, Professions and Economic Development Committee on July 7, 2025 with a vote of 10-0.

### **Prior/Related Legislation**

AB 2083 (Berman) of 2024, would have required CEC to assess the potential achieving an 85% reduction below 1990 levels in emissions from industrial heat application processes by January 1, 2045. The bill was held in the Senate Appropriations Committee.

AB 841 (Berman) of 2023, would have required CEC to create a roadmap for electrifying industrial processes, including processes requiring heat, as specified. The bill was held in the Senate Appropriations Committee.

AB 205 (Committee on Budget, Chapter 61, Statutes of 2022), among its provisions, established the Long-Duration Energy Storage Program at the CEC, which provides financial incentives for projects that have power ratings of at least one MW and are capable of reaching a target of at least eight hours of continuous discharge of electricity in order to deploy innovative energy storage systems to the electrical grid, as specified.

AB 209 (Committee on Budget, Chapter 251, Statutes of 2022) among its provisions, established the INDIGO program, which provides incentives for

industrial projects that provide benefits to the electrical grid, reduce emissions and local air pollution.

AB 78 (Committee on Budget, Chapter 10, Statutes of 2020), among its provisions, established the Climate Catalyst Revolving Loan Fund at the IBank, which receives funds from non-state governmental entities and private sources to make loans for projects that further the state's climate goals.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

**SUPPORT:**

Earthjustice (Co-Sponsor)  
Industrious Labs (Co-Sponsor)  
350 Bay Area Action  
350 Humboldt  
350 Southland Legislative Alliance  
American Council for an Energy-Efficient Economy  
Asian Pacific Environmental Network  
BlueGreen Alliance  
Brightline Defense  
California Environmental Voters  
California State Association of Electrical Workers  
California State Pipe Trades Council  
Californians for Disability Rights  
Center for Community Action & Environmental Justice  
Central Coast Alliance United for a Sustainable Economy  
Clean Coalition  
Clean Power Campaign  
Climate Action California  
Climate Action Campaign  
Coalition for Clean Air  
East Yard Communities for Environmental Justice  
Elder Climate Action, NorCal  
Elder Climate Action, SoCal  
Los Angeles Alliance for a New Economy  
Los Angeles Cleantech Incubator  
Marin Clean Energy  
Natural Resources Defense Council  
People's Collective for Environmental Justice  
Physicians for Social Responsibility - San Francisco Bay Area Chapter  
San Francisco Baykeeper

Santa Cruz Climate Action Network  
Sierra Club California  
SoCal 350 Climate Action  
Sunflower Alliance  
Sustainable Mill Valley  
The Climate Center  
The Climate Reality Project - Silicon Valley Chapter  
The Climate Reality Project, Los Angeles Chapter  
Thermal Battery Alliance  
Third ACT Sacramento  
U.S. Green Building Council, California  
Vote Solar  
Western States Council Sheet Metal, Air, Rail and Transportation

**OPPOSITION:**

Associated Building Contractors of California  
Western Electrical Contractors Association

**ARGUMENTS IN SUPPORT:** According to the author:

The Inland Empire (IE) is home to over 4,000 warehouses, taking up 1 billion square feet of the region. Uncoincidentally, the IE ranks among the worst in the nation for air pollution, particularly ozone and particulate matter. While California's industrial sector helps to employ more than 1.1 million people and generates roughly 10% of the state's total economic output, it is also responsible for nearly 25% of all greenhouse gas emissions in California. Many of these facilities are concentrated in regions that already suffer from poor air quality and can have disproportionate health impacts on historically disadvantaged and environmentally burdened communities. Not to mention, many facilities are placed near resident neighborhoods and children's schools, exposing students and families to pollution, especially for students who walk to school. To improve air quality and help achieve our climate goals, AB 1280 would expand three existing state incentive programs to encourage new thermal energy storage projects without reducing in-state jobs or raising prices for consumers.

**ARGUMENTS IN OPPOSITION:** In opposition, the Western Electrical Contractors Association (WECA) states:

WECA staunchly opposes project labor agreements (PLAs), considering them wasteful and discriminatory. They strongly opposed this provision in



earlier I-Bank legislation and encourage you to remove this requirement from your bill. WECA, as a Merit Shop Employer Association, is committed to a fair and equal approach to contracting. Their members believe in rewarding employees based on performance and encouraging them to reach their highest level of achievement. Contracts should be awarded based on safety, quality, and value, regardless of labor affiliation. This approach fosters a healthy and competitive business environment.

**-- END --**