Date of Hearing: April 8, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
AB 2182 (Irwin) – As Introduced February 19, 2026

SUBJECT: Electrical corporations: Industrial Decarbonization and Energy Efficiency Program

SUMMARY: Requires on or before August 1, 2027, each large electrical corporation, as defined, to file a Tier 2 advice letter with the California Public Utilities Commission (CPUC) establishing an Industrial Decarbonization and Energy Efficiency Program with funding allocated from energy efficiency charges collected from industrial or manufacturing facilities that meet specified requirements.

Specifically, **this bill**:

1) Defines:

   - Large electrical corporation as an electrical corporation with more than 3,000,000 customer accounts in California

   - An eligible facility is an industrial or manufacturing facility that:

      a) Takes bundled, direct access, or community choice aggregation electrical service within the service territory of a large electrical corporation.

      b) Is enrolled in a medium or large energy customer electric tariff, including TOU-8, B-19, B-20, or successor tariffs.

      c) Meets a minimum peak load requirement of 500 kilowatts or more.

      d) Is not identified as a residential, state, or local government customer.

   - As an eligible project, a project that includes, but is not limited to, all of the following:

      i) Energy efficiency projects using commercially available technology that reduce energy consumption by at least 20 percent compared to the replaced technology, or that achieve industry standard or greater energy efficiency, based on manufacturer specifications or other documentation approved by the large electrical corporation.

      ii) Projects for industrial process heat recovery.

      iii) Behind-the-meter solar generation, wind generation, energy storage, or other eligible renewable energy resources that are sited, installed, upgraded, or expanded at the eligible facility.

      iv) Electrification of industrial production process equipment that results in reduced emissions of greenhouse gases.

v) Carbon capture, utilization, and sequestration technologies, subject to any limitations or eligibility criteria established by the large electrical corporation to ensure cost-effectiveness and reduced emissions of greenhouse gases.

2) Requires the CPUC to act on a Tier 2 advice letter filed on or before November 1, 2027.

3) Requires each large electrical corporation to allocate an amount for its program equal to the amount it collects from eligible facilities for energy efficiency pursuant to commission approved tariffs.

4) Requires each program to prioritize grants for eligible projects that do any of the following:

a) Deliver durable, verifiable reductions in greenhouse gas emissions.

b) Reduce overall electricity or fuel consumption.

c) Improve electrical grid efficiency or reduce peak demand impacts.

5) Requires each large electrical corporation to administer the program, including establishing eligible project intake and data validation requirements, evaluating the eligibility of facilities and projects, and administering grant payments.

6) Requires the Governor's Office of Business and Economic Development (GO-Biz) to provide independent review and approval of grants awarded pursuant to each program and authorizes GO-Biz to clarify eligibility criteria to ensure the program serves eligible facilities with significant potential for energy savings and reductions in greenhouse gas emissions.

7) Requires that grants shall fund up to 50 percent of the documented costs of the eligible project.

8) Provides that each eligible facility's cumulative grant awards shall not exceed the total amount collected from the eligible facility.

9) Provides that moneys not awarded to an eligible project within five years may be made available to other eligible facilities on a first-come, first-served basis.

10) Specifies that moneys made available and awarded to an eligible facility shall be excluded from the maximum allowable cumulative grant award limit.

EXISTING LAW:

1) Requires California Air Resources Board (CARB) to prepare and approve a Scoping Plan for achieving the maximum technologically feasible and cost-effective reductions in GHG emissions and to update the Scoping Plan at least every five years. (Health & Safety Code (HSC) § 38561)(h))

2) Vests the CPUC with regulatory authority over public utilities, including electrical corporations. (Cal. Const., art. XII)

3) Requires that all charges demanded or received by a public utility be just and reasonable. (Public Utilities Code § 451)

4) Requires the CPUC to administer ratepayer-funded energy efficiency programs and authorizes the collection of funds through a separate rate component. (Public Utilities Code § 381)

5) Authorizes third parties to administer energy efficiency programs subject to CPUC approval. (Public Utilities Code § 381.1)

6) Requires the CEC to establish various clean energy programs, such as the industrial grid support and decarbonization program, to provide financial incentives for the implementation of projects at industrial facilities to provide significant benefits to the electrical grid, reduce emissions of greenhouse gases, and achieve the state's clean energy goals. (Committee on Budget, AB 209, Chapter 251, Statutes of 2021, Public Resources Code § 25662-25665.1)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Committee on Appropriations.

BACKGROUND:

Energy Efficiency Comes First. California's energy efficiency (EE) programs originated in the 1970s, when investor-owned utilities (IOUs) began implementing demand-side management (DSM) programs in response to rising energy costs and reliability concerns following the 1970s energy crises, including the 1973–1974 oil embargo.[1] These early programs focused on reducing electricity demand through energy conservation and efficiency measures and were administered under the CPUC oversight. Over time, the CPUC developed methods to evaluate these programs, including the use of cost-effectiveness tests, and formal evaluation measurement and verification (EM&V). By the early 1990s, DSM programs grew rapidly and were being used to reduce demand and defer the need for new generation resources.[2] In 2003, the state adopted the Energy Action Plan, which established the "loading order," prioritizing energy efficiency and demand reduction ahead of new generation. This policy was later reinforced by AB 2021 (Levine, 2006), Chapter 734, Statutes of 2006, which requires utilities to meet unmet energy needs with all available energy efficiency and demand reduction resources that are cost-effective, reliable, and feasible. The CPUC subsequently developed a more formal structure for administering these programs.

Energy Efficiency Policy Manual. Through Decision (D.) 01-11-066 in 2001, the CPUC adopted the Energy Efficiency Policy Manual, establishing rules governing the design, administration,

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[1] Natural Resources Defense Council (NRDC), *California's Energy Efficiency Success Story*, July 3, 2013, https://www.nrdc.org/resources/californias-energy-efficiency-success-story

[2] Report to the Chairman, Environment, Energy and Natural Resources Subcommittee, Committee on Government Operations, House of Representatives, "ELECTRICITY SUPLY Utility Deman-Side Management Program Can Reduce electricity Use; pp.2; October 1991

and evaluation of utility energy efficiency programs.[3] Acting as the operating framework for California's energy efficiency portfolio system, the manual builds on prior CPUC policies and provides direction on how programs are proposed, reviewed, and implemented. It outlines expectations for cost-effectiveness, program eligibility, evaluation, measurement, and verification (EM&V), and clarifies the roles of utilities and other program administrators. It also establishes requirements for program planning, approval, and reporting, providing a consistent plan for administering and overseeing ratepayer-funded energy efficiency activities across different utilities.

Energy Efficiency Portfolios. In 2009, the CPUC adopted a Decision 09-09-047 to evaluate energy-efficiency programs as a portfolio, meaning they were evaluated collectively rather than on a program-by-program basis.[4] This allowed utilities to manage individual programs within an overall approved budget, provided that the portfolio met established savings and cost-effectiveness requirements. The decision approved approximately $3.1 billion in total budgets for the investor-owned utilities for the 2010–2012 program cycle.[5] To evaluate proposed portfolios, the CPUC relied on projected savings values, known as ex ante estimates, to determine whether portfolios would meet required savings targets and pass cost-effectiveness tests. The decision focused on whole-building approaches, continuous improvements and coordination with local governments. While the decision established portfolio structures and savings goals, it did not fully resolve how savings would be calculated and verified across different types of programs. With an emphasis on whole building approaches, the decision inherently lacked capability to either quantify interactive effects between measures or to capture savings in complex/integrated projects.

*Energy Savings, Baselines, and Ex Ante Review***.** Energy savings are measured using a baseline, which is based on the level of energy use associated with existing equipment, standard industry practice, or applicable codes and standards. Baselines are generally established in one of three ways: the energy use of existing equipment being replaced, standard industry practice for the type of equipment or process involved, or the minimum efficiency level required under applicable codes and standards. Savings are calculated as the difference between that baseline and the energy use after the upgrade. To support consistent savings estimation across programs, the CPUC uses the Database for Energy Efficient Resources (DEER) as a source of baseline assumptions and savings values for standardized measures where the equipment type and expected savings do not vary significantly from project to project, such as HVAC equipment upgrades.[6] The CPUC also requires that savings estimates be developed and reviewed as part of program planning and approval**,** using supporting documentation that describes the assumptions and methodologies used to estimate savings, a process commonly known as ex ante review. These ex-ante estimates are simply deemed/forecasted savings before program implementation and may work well for simple projects but often end up being an overgeneralization that does not reflect variability across different projects. For projects not covered by DEER, program

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[3] CPUC; "D.01-11-066; https://docs.cpuc.ca.gov/published/FINAL_DECISION/11469.htm
[4]CPUC; Decision Approving 2010–2012 Energy Efficiency Portfolios; Decision 09-09-047, Issued Sept. 24, 2009, at pp 2-4 https://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/110007.PDF
[5] Ibid at pp 5
[6] CPUC; Decision 05-04-051; April 21, 2005;
https://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/45783.htm

administrators must develop project-specific or custom baseline assumptions and document them in workpapers submitted to Energy Division staff for review.[7]

Current Energy Efficiency Portfolios. In 2023, the CPUC approved energy efficiency portfolios for the 2024–2027 program cycle and business plans through 2031 and authorized approximately $4.3 billion in funding.[8] The decision requires program administrators to organize portfolios into three categories: resource acquisition, market support, and equity. It also limits the combined share of funding for market support and equity programs to no more than 30 percent of total portfolio budgets. This reflects the CPUC's focus on cost-effective programs that deliver measurable energy savings and support reliability and load reduction, while allowing limited funding for market support and equity efforts. The decision also changes how program performance is tracked. In addition to cost-effectiveness, it adopts specific indicators for equity and market support programs, including tracking participation by underserved and hard-to-reach customers and reporting demographic data.

COMMENTS:

1) *Author's Statement.* According to the author, "The industrial energy efficiency program administered by the CPUC is misaligned with the decarbonization needs of large industrial and manufacturing facilities. The metrics used to evaluate projects do not accurately reflect much of the older equipment currently used in California's industrial facilities and therefore, underrepresent the potential benefits of energy efficiency upgrade projects. Realigning the program could accelerate energy efficiency and decarbonization projects at industrial facilities, delivering significant emissions reductions and helping to support California-based businesses. AB 2182 restructures the industrial energy efficiency program to better support upgrades and decarbonization projects for large industrial customers using only funding contributed by those same customers. Energy efficiency improvements and decarbonization investments by California's largest electricity users would deliver significant emissions reductions, free up grid capacity needed to meet growing electricity demand and help maintain the competitiveness of California-based manufacturers."

2) *This Bill*. AB 2182 requires each large electrical corporation, particularly PG&E and SCE, to file a Tier 2 advice letter with the CPUC to establish an Industrial Decarbonization and Energy Efficiency Program. The bill specifies that the program is to be funded from existing energy efficiency (Public Purpose Program) charges collected from eligible industrial or manufacturing facilities, as provided, and redirects those funds into a program dedicated to that same customer class.

   The legislation defines an "eligible facility" as an industrial or manufacturing facility that meets specified criteria. Eligible facilities must take bundled, direct access, or community choice aggregation service within the service territory of a large electrical corporation and be served on medium- or large-customer tariffs, including TOU-8, B-19, B-20, or successor tariffs. These tariffs are time-of-use rate schedules applicable to customers with relatively

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[7] CPUC; Decision; Decision 11-07-030; July 14, 2011; pp 10–13; https://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/139861.pdf

[8] California Public Utilities Commission, *Decision Adopting Energy Efficiency Portfolios for 2024–2027 and Business Plans Through 2031*, Decision (D.) 23-02-040 (February 16, 2023); https://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=502956567&utm_source

high electricity demand, where prices vary by time of day and peak usage. The eligible facilities must also have a minimum peak load of 500 kilowatts or more and must not be residential, state, or local government customers.

As such, these criteria capture large industrial energy users, including large manufacturers and processors (such as food, beverage, chemical, cement, glass, and metals production), refineries, paper and pulp mills, semiconductor fabrication plants, industrial-classified data centers, and large distribution or cold storage warehouses. Preliminary estimates suggest that a large number (several thousand) of industrial facilities may meet the applicable tariff thresholds. However, the additional bill requirement that facilities be industrial or manufacturing and not government-owned would narrow the eligible facilities.

Supporters of the bill point to challenges in the CPUC's current energy efficiency portfolio. In particular, savings are measured against a "standard practice" baseline, which assumes what a typical facility would install today under current codes and industry norms rather than the older equipment many industrial facilities are actually using. Therefore, replacing outdated equipment with newer, more efficient equipment may show little or no eligible savings if it does not go beyond that assumed standard. In addition, they note that most industrial projects require custom project review, including project specific baseline determinations, supporting studies, and detailed documentation to justify savings. This process can lead to disputes and requires significant time and resources, which can delay projects and discourage participation. Therefore, supporters contend that the CPUC's current energy efficiency structure has led large industrial customers to seek a separate program tailored to their needs, as proposed in this measure.

3) *Unknown Impacts.* AB 2182 would primarily affect PG&E and SCE, as it applies to large electrical corporations serving more than 3,000,000 customers. The bill would direct existing energy efficiency charges collected from certain large industrial and manufacturing customers into a new Industrial Decarbonization and Energy Efficiency Program serving that same customer class. In 2027, SCE's total energy efficiency budget is $351 million, while annual spending on its industrial programs ranges from approximately $20 million to $75 million. However, it is unclear how much of that funding is specifically for large industrial customers. Regardless, redirecting a portion of these funds into a separate program for the same customers raises questions about potential impacts on the budget of the broader energy efficiency portfolio. Absent offsetting adjustments, programs serving other customer groups could face reduced funding. It is also unclear whether existing portfolio requirements would need to be revised or whether alternative funding sources would be needed to backfill any resulting shortfall.

4) *Go-Biz. AB 2182 requires GO-Biz to provide independent review and approval of* grants awarded under the program. While GO-Biz administers programs such as the Cal Competes Tax Credit, a tax credit is a different mechanism than a direct grant and incentive program requiring technical evaluation of energy savings and emissions impacts. Industrial-scale energy efficiency and decarbonization projects can have system-wide implications, including impacts on load and grid operations that extend beyond an individual facility. Additionally, GO-Biz does not typically administer ratepayer-funded energy programs, which are subject to specific requirements related to cost-effectiveness, oversight, and alignment with state energy planning goals. The bill also does not establish clear requirements for tracking and

reporting program performance, and may overlap or be in conflict with energy efficiency and decarbonization metrics assessments established at the California Energy Commission.

5) *Tier 2 Advice Letters.* The CPUC advice letter process is governed by General Order 96 B, which establishes three tiers of review: Tier 1 advice letters are effective upon filing, subject to protest; Tier 2 advice letters are subject to Energy Division staff review and typically become effective after a 30 day review period unless suspended; and Tier 3 advice letters require CPUC approval through a formal Resolution.

   Tier 2 advice letters are generally used for matters requiring staff review that do not require a full CPUC proceeding. While they allow for protest and potential evidentiary hearings, Tier 2 advice letters are generally resolved through Energy Division staff disposition and are intended for more limited updates or implementation of previously authorized programs.

   AB 2182 requires utilities to establish the proposed program through a Tier 2 advice letter. However, the new program contemplated by this bill, including the redirection of existing portfolio funds to a new industrial only program, reflects a substantive change that was not included in the approved 2024 to 2027 energy efficiency portfolios or the proposed 2028 to 2031 portfolios. As such, a Tier 2 advice letter would not provide sufficient review to implement these changes, and a more comprehensive Commission review is warranted.

6) *Definition.* AB 2182 defines eligible projects to include behind-the-meter solar generation, wind generation, energy storage, and other renewable resources, as defined in subdivision (e) of Section 399.12, when installed or operated at an eligible facility. In doing so, the bill expands the types of eligible projects that may be funded through energy efficiency charges. These resources are not traditional energy efficiency measures, which are designed to reduce energy consumption, and they are generally supported through other incentive programs. *In this regard, the committee recommends striking the definition related to these new eligible projects.*

7) *Flexibility*. This measure provides that grants awarded pursuant to each program shall fund up to 50 percent of the documented costs of an eligible project. However, this provision may be interpreted as establishing a standard funding level, which could limit flexibility in setting grants. Funding should be based on project needs. More flexibility can allow funding to be distributed across a broader set of projects. Otherwise, some projects may receive more funding than needed, limiting the number of projects that can be otherwise supported with available resources. *Therefore, the committee recommends including language that clarifies that grants shall fund no more than 50 percent of the documented cost of an eligible project.*

8) *Clarifying Amendments.* This legislation contains some provisions that may benefit from additional clarity. *As such, the committee recommends other technical amendments that are clarifying in nature.*

9) *Related legislation.*

   AB 2508 (Hoover) would establish the Public Utilities Public Purpose Programs Fund and require the CPUC, upon appropriation by the Legislature, to allocate funds to support specified public purpose programs and programs administered by electrical regional energy networks. The bill further requires the Controller to transfer an unspecified amount annually,

beginning July 1, 2026, from the Greenhouse Gas Reduction Fund to the fund. Status: Assembly Committee on Utilities and Energy

10) *Prior Legislation.*

AB 2109 (Carrillo) requires the CPUC to exempt certain electricity usage reductions from nonbypassable charges when those reductions result from industrial process heat recovery technology. Status: Chapter 700, Statutes of 2024.

AB 1637 (Friedman) requires the CPUC to establish a program to provide financial incentives to large commercial and industrial customers that reduce peak electrical demand. Status: Chapter 469, Statutes of 2021.

SB 596 (Becker) would require the state board to establish interim targets for reductions in the greenhouse gas intensity of cement used within the state relative to the average greenhouse gas intensity of cement used within the state during the 2019 calendar year, with the goal of reducing the greenhouse gas intensity of cement used within the state to 40% below the 2019 average levels by December 31, 2035. Status: Chapter 246, Statutes of 2021.

SB 1072 (Dodd) requires the CPUC to authorize a demand flexibility program for large commercial and industrial customers to reduce electricity consumption during peak demand periods. Status: Chapter 225, Statutes of 2022.

AB 209 (Committee on Budget, Chapter 56, Statutes of 2022) required the CPUC to establish the Industrial Efficiency and Decarbonization Program at the CEC to provide financial assistance to industrial facilities for projects that reduce GHG emissions and improve energy efficiency, funded through the Greenhouse Gas Reduction Fund.

SB 32 (Pavley) requires the CARB to ensure that statewide GHG emissions are reduced to 40% below the 1990 levels by 2030. Status: Chapter 249, Statutes of 2016

SB 350 (De León) established the Clean Energy and Pollution Reduction Act of 2015, which directed the CPUC to establish an integrated resource planning process and required the doubling of statewide energy efficiency savings by 2030. Status: Chapter 547, Statutes of 2015.

11) *Double Referral.* This bill is double referred. Upon passage in this committee, it will be referred to the Assembly Committee on Natural Resources for its review.

REGISTERED SUPPORT / OPPOSITION:

Support

California Large Energy Consumers Association
Clean Air Task Force
Usgbc California

Support If Amended

California Efficiency + Demand Management Council

Opposition

None on file.

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