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

**Senator Benjamin Allen, Chair
2025 - 2026 Regular**

Bill No:	AB 2182	Hearing Date:	6/24/2026
Author:	Irwin		
Version:	4/13/2026 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Sarah Smith		

SUBJECT: Electrical corporations: Industrial Decarbonization and Energy Efficiency Program

DIGEST: This bill requires certain large investor-owned electric utilities (IOUs) to file advice letters at the California Public Utilities Commission (CPUC) to establish the Industrial Decarbonization and Energy Efficiency Program in the Governor's Office of Business and Economic Development (GO-Biz). This bill specifies that the Industrial Decarbonization and Energy Efficiency Program shall provide grants to industrial and manufacturing facilities using an allocation of ratepayer funds collected for existing energy efficiency incentives. This bill also clarifies that projects eligible for funding under this bill include, but are not limited to, energy efficiency, industrial process heat recovery, and carbon capture projects.

ANALYSIS:

Existing law:

- 1) Requires the California Energy Commission (CEC) to establish a comprehensive program to achieve greater energy savings in California's existing building stock. (Public Resources Code §25943)
- 2) Creates a non-bypassable charge on electricity and natural gas consumption to fund cost-effective energy efficiency and conservation activities. (Public Utilities Code §§381 and 890)
- 3) Requires the CPUC to identify all potentially achievable, cost-effective electricity and natural gas efficiency savings and establish energy efficiency targets and ratepayer-funded programs for IOUs. Requires a gas corporation to first meet its unmet resource needs through all available natural gas efficiency and demand reduction resources that are cost effective, reliable, and feasible. (Public Utilities Code §§454.55 and 454.56.)

- 4) Requires the CPUC to authorize an IOU to provide incentives for the cost of energy efficiency programs based on all estimated energy savings, including energy savings from bringing existing buildings into compliance with mandatory building energy codes established by the CEC. Existing law authorizes IOUs to recover costs for these incentives in rates. Existing law also directs the CPUC to allow an IOU to take into consideration the overall reduction in normalized metered energy consumption (NMEC) as a measure of energy savings of the IOU's energy efficiency program. States that the CPUC may adjust the energy efficiency procurement targets to reflect energy efficiency savings achieved in meeting or exceeding mandatory energy efficiency codes for existing buildings. (Public Utilities Code §381.2)
- 5) Defines "industrial process heat recovery" as a process that captures and reuses heat that would otherwise not be used, without any additional fuel input, thereby reducing the process's electricity demand.

This bill:

- 1) Requires electrical corporations with more than three million customer accounts in California to file a Tier 2 advice letter at the CPUC to establish the Industrial Decarbonization and Energy Efficiency Program.
- 2) Requires GO-Biz to approve grants from the Industrial Decarbonization and Energy Efficiency Program for the purposes of funding projects that may include the following:
 - a) Energy efficiency projects using commercially available technologies that reduce energy consumption by at least 20% compared to the replaced technology, and result in reduced emissions of greenhouse gases (GHG).
 - b) Projects for industrial process heat recovery.
 - c) Carbon capture technologies, subject to any limitations or eligibility criteria established by the large electrical corporation to ensure cost-effectiveness and reduced emissions of GHG that are sited, installed, or expanded at the eligible facility.
- 3) Requires the IOUs funding the Industrial Decarbonization and Energy Efficiency Program to administer the grants, including collecting applications, validating data, evaluating grant eligibility, and disbursing grant payments.
- 4) Requires programs established by this bill to be funded using an allocation of ratepayer funds collected for existing energy efficiency programs.

- 5) Requires IOUs and GO-Biz to prioritize grants for projects that do all the following:
 - a) Deliver durable and verifiable reduced emissions of GHG.
 - b) Reduce overall electricity or fuel consumption.
 - c) Improve electrical grid efficiency or reduce peak demand impacts.
- 6) Specifies that grants awarded by GO-Biz may fund up to, and shall not exceed, 50% of a project's documented costs.
- 7) Prohibits grant awards from exceeding the amount of ratepayer revenues collected from the manufacturing and industrial facility's energy efficiency charges.
- 8) Specifies that moneys that have not been awarded to an eligible project within five years may be made available to other eligible facilities on a first-ready, first-served basis. Awards made from these remaining funds shall not count towards the maximum cumulative grant limit.

Background

The CPUC's energy efficiency "Rolling Portfolio." In 2015, the Legislature passed SB 350 (De León, Chapter 547, Statutes of 2015), which established new clean energy, clean air and GHG emissions reduction goals. These goals included setting a target to achieve a doubling of energy efficiency in existing buildings by 2030. The bill required the CPUC to establish energy efficiency incentives to support the doubling of energy efficiency. In 2016, the CPUC adopted a decision (D.16-08-019), establishing the rolling portfolio to support multi-year energy efficiency projects and planning. Prior to the establishment of the rolling portfolio, projects completed over several years could face start and stop uncertainty at the end of three-year investment cycles.

Rolling portfolio incentives are funded by ratepayers in the form of non-bypassable public purpose program (PPP) charges. Each utility maintains a separate budget for its energy efficiency incentives; however, multiple parties administer incentive programs. In 2018, the CPUC adopted a decision (D.18-01-004), which made several changes to the rolling portfolio, including requiring utilities to have at least 60% of their energy efficiency portfolio budgets designed and implemented by third party implementers by the end of 2022. Entities can submit proposals to obtain incentives under the rolling portfolio. Program administrators and the CPUC play roles in approving funding for incentives. Generally, energy efficiency incentives are provided as reimbursement after the completion of a project.

The ongoing saga of industrial efficiency ex-ante review. Prior legislation (AB 802, Williams, Chapter 590, Statutes of 2015) established a mechanism for evaluating the energy savings achieved by energy efficiency projects, including projects for commercial buildings. This evaluation establishes a baseline that can be used to measure energy savings against that baseline. Currently, this methodology is not applied to agricultural and industrial buildings due to the custom nature of agricultural and industrial energy efficiency projects. Instead of using a baseline program where metered energy savings can be measured against historic metered consumption, industrial efficiency projects undergo an ex-ante review at the CPUC. The ex-ante review process is intended to ensure that ratepayer incentives are cost-effective and provide incentives to make upgrades beyond those savings that would be achieved by simply replacing old technologies with new stock. This process of determining what technology turnover occurs naturally has also included establishing what types of technology replacements are considered “industry standard practice.” The ex-ante review excludes measures that are considered standard practice from efficiency incentives because the incentives are aimed at encouraging deeper upgrades beyond what would be achieved without ratepayer incentives. While this process has prevented the use of ratepayer incentives for some industrial efficiency projects that would not provide greater grid benefits or reduce energy consumption, some industrial projects have experienced difficulty getting incentives for above-code efficiency upgrades that achieve energy savings due to disputes over what constitutes “industry standard practice” in the highly customized industrial sector.

Bill follows multiple efforts to increase industrial decarbonization and electrification. Increasingly, energy efficiency has shifted from emphasizing solely reductions in electricity consumption to supporting multiple types of measures to shape load to better match resource availability and price signals. This shift reflects ongoing efforts to decarbonize certain commercial and industrial processes through electrification and other fuel-switching activities. Increased electrification will increase overall load; however, demand responsive technologies, energy storage, and other efficiency measures can mitigate the impact of new loads and reduce the need for more resource procurement and distribution upgrades. Limiting these utility costs can save ratepayers funding in the long-term. The Legislature is considering multiple measures aimed at modifying utility rates and rate structures to encourage increased electrification in the industrial manufacturing sector while preventing cost-shifts to other customers. In addition to these bills, the CPUC has opened a proceeding (R.26-04-009) to consider changes to rates and rate structures to address costs for serving large electrical loads while preventing cost-shifts. In the CPUC’s decision initiating this proceeding, the decision states the following regarding the proceeding’s goals for the large commercial and industrial sector:

More broadly, existing rate structures for large commercial and industrial customers may not provide accurate price signals to encourage beneficial electrification or reward load flexibility. This proceeding will consider whether rate designs for these customers can be improved to better support the state's electrification and greenhouse gas reduction goals.

Bill would establish a new program at GO-Biz using existing efficiency funds.

This bill would require GO-Biz to establish a new efficiency grant program using ratepayer funds collected from certain industrial manufacturing ratepayers. This bill would also require the IOUs to identify those PPP charges collected from manufacturers eligible for this bill's grant program and track each of these customers' use of PPP charges for energy efficiency incentives. It is not clear that establishing a new program at GO-Biz would create a more efficient process for providing efficiency incentives. Even in circumstances where GO-Biz would review and approve project eligibility, GO-Biz lacks prior experience managing ratepayer incentives. Additionally, the CPUC would remain responsible for setting many of the rules regarding surcharge collection and oversee IOUs' balancing accounts from which incentives are disbursed. This bill also specifies that IOUs would be the sole program administrators for the incentive program established at GO-Biz. This could limit efficiency program administration options by eliminating the participation of existing community choice aggregators (CCAs) and community-based administrators that already oversee efficiency programs.

Bill may primarily impact only two of the state's largest IOUs. This bill specifies that electrical corporations with at least three million customer accounts are subject to this bill's requirements to file a Tier 2 advice letter to establish this bill's efficiency program. Currently, only two electrical corporations have at least three million customer accounts: Pacific Gas and Electric (PG&E) and Southern California Edison (SCE). This bill would not require San Diego Gas and Electric (SDG&E) fund or provide incentives for this bill's efficiency program. SDG&E has filed an application (A.25-04-014) to withdraw from the ratepayer-funded energy efficiency programs. The CPUC has opened proceeding to consider this application; however, it has not reached a conclusion on whether SDG&E will be allowed to withdraw from these PPP obligations.

Need for Amendments. This bill contains provisions that could result in the provision of ratepayer-funded incentives for projects that do not necessarily provide energy efficiency benefits or benefits to ratepayers. This bill specifically includes carbon capture projects as projects eligible for incentives funded by ratepayer funds collected for energy efficiency projects. While carbon capture may have benefits for emissions reduction, it is not clear that these projects would provide any energy savings or ratepayer benefit. As currently drafted, this bill

would establish a new energy efficiency grant program within GO-Biz using ratepayer funds collected for existing energy efficiency programs. Establishing a new program at an office with limited experience administering ratepayer-funded incentives may unnecessarily delay the provision of commercial and industrial energy efficiency incentives. Additionally, funding for energy efficiency programs remains in IOU balancing accounts overseen by the CPUC, even in circumstances where other parties review and approve projects. This bill may also limit the ability of entities that already oversee energy efficiency programs to continue to administer these programs by limiting program administrators to only IOUs. *For these reasons, the author and committee may wish to amend this bill to remove provisions establishing a new grant program at GO-Biz, and instead modify the existing CPUC commercial and industrial energy efficiency program to do the following:*

- *Require the CPUC to revise its review process for industrial efficiency incentives by January 1, 2028, to replace the existing ex-ante review with a review process providing incentives for industrial efficiency projects that exceed existing energy code requirements and achieve either 1) a 20% reduction in normalized metered energy consumption or 2) provide measurable benefits to the electrical grid.*
- *Specify that benefits to the electrical grid include avoided transmission and distribution utility costs and reduction in peak load demands.*
- *Remove this bill's restrictions on third-party energy efficiency program administrators.*
- *Remove provisions of this bill providing energy efficiency incentives for carbon capture projects.*

Dual Referral. Should this bill be approved by this committee, it will be re-referred to the Senate Environmental Quality Committee.

Prior/Related Legislation

SB 943 (Becker, 2025) requires the CPUC to establish a limit on volumetric surcharges for those industrial customers that add new electrical load for the purpose of decarbonizing certain industrial processes. The bill is pending in the Assembly Appropriations Committee.

AB 2109 (Carillo, Chapter 700, Statutes of 2024) limits some non-bypassable or departing load surcharges on electric bills from applying to an industrial customer's load reduction resulting from an industrial customer's use of industrial process heat recovery technologies.

AB 209 (Committee on Budget, Chapter 56, Statutes of 2022) among other provisions, required the CEC to establish the INDIGO program to provide financial incentives for industrial decarbonization projects that provide benefits to the electrical grid, reduce GHG emissions, support the state's clean energy goals, and exceed compliance requirements.

SB 1131 (Hertzberg, Chapter 562, Statutes of 2018) required the CPUC to authorize IOU incentives for customized energy efficiency projects based on nationally recognized standards and establishes new requirements and timelines for the CPUC's review of these projects.

SB 370 (Hertzberg, 2017) would have required the CPUC to authorize IOU incentives for industrial and agricultural energy efficiency projects based on NMEC. The bill would also have established requirements and timelines for the CPUC review of projects' eligibility for incentives. The bill was subsequently amended into a different subject matter.

AB 802 (Williams, Chapter 590, Statutes of 2015) required the CPUC to authorize IOU incentives and assistance for building energy efficiency measures that support the CEC's energy efficiency standards for existing buildings and to allow IOUs to recover reasonable costs of those incentives and assistance through rates.

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

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

SUPPORT:

California Large Energy Consumers Association (Sponsor)
California Efficiency + Demand Management Council
California Manufacturers and Technology Association
Clean Air Task Force
U.S. Green Building Council California

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: 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.

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