SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2182 (Irwin) - Energy efficiency: financing options: custom agricultural and industrial efficiency projects

Version: June 25, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: E., U. & C. 17 - 0
Mandate: Yes
Consultant: Ashley Ames

Bill Summary: This bill would delete the requirement on the California Public Utilities Commission (CPUC) to develop and maintain eligibility rules for custom energy efficiency projects and would instead direct the CPUC to replace its ex ante review process for custom agricultural and industrial efficiency projects with a process ensuring that incentives are provided for those projects, as specified.

Fiscal Impact:
- The CPUC estimates ongoing costs of $1.5 million each year for the first four years and $448,000 annually thereafter (ratepayer funds) for staff to perform research and analysis, including new technology review, and make recommendations for projects and programs, relative to the target sectors, which may include conducting cost-effectiveness review, as well as contract costs for evaluations of custom agricultural and industrial programs and all associated tasks, including demonstrating projects exceed building code and developing methodologies to evaluate measurable benefits.

Background: 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.

Proposed Law: This bill would:

1. Declare legislative intent that the CPUC implement Public Utilities Code §381.2 in a cost-effective and time-efficient manner.

2. Require the CPUC, as part of approving the next Tier 2 advice letters submitted after January 1, 2027 by program administrators for mid-cycle review under CPUC Decision 21-05-031 (May 20, 2021), to revise the rules adopted for custom agricultural and industrial efficiency projects to replace the CPUC's ex ante review process with a process that ensures provision of incentives for custom agricultural and industrial efficiency projects that exceed existing California Building Standards Code requirements and provide measurable benefits to the electrical grid.

3. Prohibit the CPUC from adopting any project approval criteria for custom agricultural and industrial efficiency projects beyond the criteria specified in §381.2.

4. Define "benefits to the electrical grid" to include avoided transmission and distribution costs or reductions in peak load demands that support reductions in utility costs, and provide that the paragraph would not result in cost shifts between rate classes.

5. Delete the existing requirement that the CPUC develop and maintain rules for custom energy efficiency projects including eligibility criteria and other metrics for determining project eligibility.

6. Delete the existing provision preserving the CPUC's authority to evaluate projects or programs for the purpose of prospectively adjusting projects or programs for industrial and agricultural processes, facilities, systems, and equipment.

7. Narrow the purpose of postinstallation review to determining whether a project was carried out consistent with the application, deleting the authority to use that review to obtain information on whether eligibility criteria or metrics should be revised.

8. Delete the obsolete July 1, 2019 operative date for the custom project provisions, and make other technical and conforming changes.

9. Provide that no state reimbursement is required.

Related Legislation:

SB 943 (Becker, 2025) would require 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.

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.

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