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

**SB 943 (Becker) - Public utilities: electricity: transmission charge: industrial transition usage**

**Version:** March 23, 2026
**Urgency:** No
**Hearing Date:** April 13, 2026

**Policy Vote:** E., U. & C. 15 - 0
**Mandate:** Yes
**Consultant:** Ashley Ames

**Bill Summary:** This bill would enact two main policies intended to encourage electrification of large industrial process heat by authorizing changes in utility costs, specifically: (1) reconsideration of changes to transmission access charges (TAC); and (2) adjustments to nonbypassable charges for new load that electrifies industrial process heat.

**Fiscal Impact:**
- The California Public Utilities Commission (CPUC) estimates ongoing costs of approximately $200,000 to $500,000 annually (ratepayer funds) for two positions to evaluate, develop, and implement a potential tariff adjustment framework for eligible industrial transition usage, including cost-allocation analysis, rate design, utility implementation review, stakeholder engagement, and ongoing oversight.
- Unknown fiscal impact to the state as an electrical utility ratepayer. The State of California is an electric customer, purchasing roughly one percent of the state's electricity. As such, the state incurs costs if electricity rates. See staff comments for additional details on potential rate impacts.

**Background:** Industrial process heat is defined as heat energy (thermal energy) used for preparation or treatment of materials that produce manufactured goods. Process heat is reportedly the most significant source of energy use and GHGs in the industrial sector, accounting for about 50% of all onsite energy use and 30% of GHG emissions, according to the 2018 Manufacturing Energy and Carbon Footprint analysis. According to the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy (DOE OEERE), process heating systems are emission-intensive because fossil fuel combustion provides 95% of industrial heat across the manufacturing sector.

Electrification and solar thermal heat are best suited to industrial processes that have relatively low heat requirements, such as food processors, paper mills, and industries that use low-pressure steam in their processes. Approaches could include replacing fossil gas boilers with electric boilers, process heaters with industrial electric heat pumps, steel forging furnaces with induction heaters, and implementing other sector-specific processes.

Under current rate structures for industrial electricity and fossil gas in California, most projects to electrify a fossil gas-powered industrial process will face operating cost barriers and potential reliability concerns. There are fewer commercially available and economically viable electrification options to replace industrial processes that require higher-temperature heat. For these processes, onsite combustion may continue to be

needed, and decarbonization will require fuel substitutions to hydrogen or other low-carbon fuels. Fuel substitution and continued combustion will require monitoring and mitigation of any potential air quality impacts, especially in low-income and communities of color which already face disproportionate air pollution burdens. Industries in California with high heat needs include steel forging, glass manufacturing, and industries with calcination processes, such as manufacturing lime and cement.

*Nonbypassable charges.* The CPUC authorizes the electric utilities under its ratemaking jurisdiction to recover many of their costs through surcharges on each unit of electricity used by their customers. The CPUC, and in some cases statute, makes many of these charges nonbypassable, which means a customer must continue to pay the surcharges on each unit of electricity the customer consumes. Nonbypassable charges are assessed on a per kWh of usage basis, as such, customers who use large amounts of electricity pay more in nonbypassable charges. Generally, nonbypassable charges represent the obligations of all the utility's customers, regardless of the amount of electricity the utility supplies to any given customer. As such, all utility customers pay the charges (this includes customers of electrical corporations served by other load-serving entities (LSEs) such as Community Choice Aggregators (CCA).

*Transmission access charges (TAC).* TAC are those rates recovered under a FERC approved tariff by the CAISO on each megawatt hour of load and exports in order to recover transmission revenue requirements from participating LSEs within the CAISO balancing authority. These LSEs include investor-owned utilities, CCAs, electric service providers, some publicly owned utilities, and other entities, including the Bay Area Rapid Transit System (BART). In 2015, CAISO launched an initiative to consider options of potential modifications to the TAC structure. In 2018, CAISO proposed changes to the TAC that consisted in a hybrid approach that would utilize both peak demand and volumetric measurements of customer use to assess TAC charges. The CAISO stated that preserving a volumetric approach preserved cost-causation principle. However, the proposal also acknowledged that a volumetric-only approach is indifferent to when consumption occurs, which may not accurately reflect cost-causation, and the benefits users of the transmission receive from the transmission system. Many stakeholders weighed in on the proceeding, with mixed perspectives about the proposed changes, depending on how the proposal would affect their transmission rates. Ultimately, CAISO declined to proceed, perhaps due to other priorities for the entity, including expansion of the day-ahead market. Since then, there have been attempts to reconsider changes to the TAC which the CAISO has declined. Earlier this month, the Department of Water Resources, along with the State Water Contractors and other parties, submitted a request to the CAISO to once again reconsider the approach to changes to the TAC.

**Proposed Law:** This bill would enact two main policies intended to encourage electrification of large industrial process heat by authorizing changes in utility costs. Specifically, it would:

1) Make several findings and declarations about the need to reduce GHGs, including from industrial sources, while minimizing leakage of industries leaving the state.

2) Authorize the CPUC to direct an electrical corporation with more than 100,000 service connections in California, when billing an industrial customer for separately metered new load to provide industrial process heat, to apply an adjustment factor to

the per kWh rate so as to limit the nonbypassable charge ratio, as specified, in furtherance of facilitating electrification of industrial energy use.

3) Establish as a policy of the state that allocation of costs to ratepayers for transmission and distribution resources should follow cost causation principles.

4) Require the CPUC, on or before January 1, 2028, to request the Independent System Operator to reconsider issues raised in its transmission access charge structure enhancements proceeding as potential reforms to its high-voltage transmission access charges.

5) Require the CPUC to develop recommendations for changes to high voltage TAC that would improve consistency with the CPUC's causation principles, to communicate the recommendations to the CAISO, and to request the CAISO to reopen its TAC structure enhancements proceeding to consider reforms to its high-voltage TAC.

**Related Legislation:**

AB 1280 (Garcia, Chapter 395, Statutes of 2025) added a new category of climate catalyst projects, thermal energy storage, to the list of those the Infrastructure and Economic Development Bank (IBank) is authorized to provide financial assistance in connection with, in consultation with the CEC and the CARB and according to specified requirements.

AB 2109 (Carrillo, Chapter 700, Statutes of 2024) prohibited some non-bypassable or departing load surcharges on electricity utility bills of industrial customers from applying to a reduction in electricity usage due to an industrial customer's application of industrial heat recovery technology meeting specified requirements.

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

SB 993 (Becker) of 2024, would have required the CPUC to consider establishing a new tariff to encourage new grid-responsive electricity consumption for electrolytic hydrogen production and electrifying industrial heat processes. The bill was held by the Senate Appropriations Committee.

SB 1018 (Becker) of 2024, would have exempted certain entities selling solar and wind electrical generation from the definition of an "electrical corporation" if those entities provide electric generation solely over private lines exclusively for electrolytic hydrogen production and electrifying industrial heat processes.

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 by the Senate Appropriations Committee.

AB 209 (Committee on Budget, Chapter 251, Statutes of 2021) implemented, via the 2021 Budget Act, and required the CEC to establish the INDIGO program to provide

incentives for projects at industrial facilities that provide significant benefits to the electrical grid, reduce emissions, and achieve the state's energy goals.

SB 596 (Becker, Chapter 246, Statutes of 2021) required CARB to develop a comprehensive strategy for the state's cement sector to achieve net-zero GHG emissions no later than December 31, 2045.

**Staff Comments:** This bill would authorize, but not require, the CPUC to direct electrical corporations to adjust the ratio of nonbypassable charges collected from new electric industrial heat process load, and would provide the CPUC with the authority to make changes, including suggesting an adjustment that would result in up to 25% of the nonbypassable charges that would otherwise be collected from this load. Adjustments to nonbypassable charges would necessarily result in less collection for those programs funded through these charges, including public purpose programs and the Wildfire Fund. However, the proponents contend this is electric load that would likely otherwise not come online due to the cost difference between fossil fuel (largely natural gas) and electricity to operate industrial manufacturing processes. They suggest this additional electric load reduces overall costs for customers, including for nonbypassable charges collected, particularly as this bill requires the marginal cost of providing service to be covered. Importantly, this bill provides the CPUC with discretion to adjust this amount

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