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Necessary conditions for scaling high-road manufacturing to achieve EPIC 5th's strategic goals

California Must Leverage Industrial Policy in its Energy Transition:

California is a global leader in climate policy, technology innovation, and clean energy deployment but too often, these technologies are commercialized and manufactured elsewhere. This tension is becoming more pronounced as ratepayers navigate an affordability crisis. Rising oil prices, electricity bills, and cost of living are felt nowhere more acutely than in California. At the same time, the state has focused far too much on regulating the old energy system with little effort spent on providing new affordable renewable alternatives to oil and gas. This is now posing a problem because the economic interests of people are being pitted against the climate fight they otherwise support. Polling shows that affordability is most Californians' top concern; they believe that the state is heading in the wrong direction despite climate regulation that has reduced the state's emissions.

CMGE believes that industrial policy and clean-energy manufacturing is the critical next step in building California's green economy and addressing these affordability concerns. It is an opportunity to grow good jobs across regions, invest in the state's tax base, socialize technologies that need widespread adoption, and connect climate action to economic development and more affordable locally made products—all solutions which will make the green energy transition materially impactful to ratepayers. As EPIC approaches its fifth investment plan, we are providing comments around the importance of high-road manufacturing to support EPIC's strategic goals and draft initiatives. Specifically, EPIC can achieve its strategic goals by:

Centering advanced, high-road manufacturing in California's industrial strategy to increase in-state production of clean technologies, meet increasing demands for power, and deliver cost-savings to ratepayers

Creating well-paying, union jobs to bring communities into this vision for growth

Providing access to patient capital and a range of financial tools to innovative, manufacturing startups to unlock a competitive energy marketplace and add new load to the grid

The Next Phase of Clean Tech Investment Must Center High-Road Manufacturing:

Climate change is driven by a model of production that is scientifically understood to threaten human health and the planet's long-term viability. Without an ambitious industrial policy to rapidly remake how we produce the essential infrastructure of our energy system, we remain unprepared to economically compete in the 21st century. This lack of economic competitiveness is most acutely felt by ratepayers; most Californians experience climate change as austerity. Wildfires and heat waves give way to inflated energy bills and higher insurance costs.

CEC EPIC 5 Public Comment

Full name*: Priyanka Mohanty

Email*: priyanka.mohanty@uawcmge.org

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Comment*:

California Must Leverage Industrial Policy in its Energy Transition

California is a global leader in climate policy, technology innovation, and clean energy deployment but too often, these technologies are commercialized and manufactured elsewhere. This tension is becoming more pronounced as ratepayers navigate an affordability crisis. Rising oil prices, electricity bills, and cost of living are felt nowhere more acutely than in California. At the same time, the state has focused far too much on regulating the old energy system with little effort spent on providing new affordable renewable alternatives to oil and gas. This is now posing a problem because [the economic interests of people are being pitted against the climate fight they otherwise support](#). Polling shows that [affordability is most Californians' top concern](#); they believe that the state is heading in the wrong direction despite climate regulation that has reduced the state's emissions.

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The Next Phase of Clean Tech Investment Must Center advanced, high-road manufacturing

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As other countries expand their productive capacity, the urgency of transforming California's system also grows. Local production will be critical to the state's management of its burgeoning AI sector. [California will host the third-largest concentration of data centers](#) in the country. Utilities are actively seeking long-duration storage, new battery capacity, and transmission infrastructure to support new load as automakers like Tesla, Ford, and General Motors [are shifting portions of their business models toward a battery storage](#) manufacturing industry in which they see growth opportunities. Data centers, and the massive energy production they demand, complicate California's energy transition by adding utility load growth for the first time in 50 years. They also present an opportunity: our first-in-class tech innovation sector can scale into local manufacturing for the emerging technologies required for new market realities, and in the process ensure the transition is accompanied with long-term job growth.

This type of innovative co-location also has the potential to deliver affordable, innovative options to consumers. This is critical to building political consensus around the transition in a state with the [greatest appetite for EVs](#) and a [huge need to store renewable energy for its grid](#). Just over a decade ago in the United States, [there were roughly a dozen vehicle options under \\$25,000](#). Today there are only four. In contrast, China's investment in a local manufacturing supply chain for batteries and EVs has resulted in [60% of its EVs being cheaper than their ICE counterparts](#) as [North American markets pay 44% more](#) for batteries than China. Domestic production can build new value chains focused on affordability. [Research from the University of Chicago attributes](#) the 90% reduction in battery prices from 2010-2020 to what it calls "Learning By Doing (LBD) through improved efficiency and reduced waste.

Ensuring EPIC Investments Create Quality Manufacturing Jobs

The case for quality manufacturing jobs has never been stronger as we stare down the prospect of [AI culling the workforce](#), [deteriorating job quality](#), growing [income inequality](#) and [laggard infrastructure](#). Policy that looks to make a key sector out of California's cleantech industry cannot be effective without a high-road framework guiding it. This requires a more symbiotic relationship between employers and workers that will require greater collaboration around wage growth, [workplace safety](#), promotion structures, and job training. An investment in the workforce translates into better products, [higher productivity](#), and [less turnover](#). Good accessible jobs are also necessary to build the political buy-in for the massive whole-of-economy energy transition required to decarbonize and compete globally.

While the specifics will vary by sector and occupation, [there is general agreement that a good, family-supporting job](#) pays a living wage; offers a stable schedule; provides benefits such as

health care, retirement, paid sick days, and paid family leave; offers wage increases as skills are acquired; provides safe and healthy working conditions; and complies with all workplace laws (e.g., wage and hour, employee classification, health and safety, anti-discrimination, workers' compensation, and right to organize laws).

These are the sort of jobs that buy communities into the scale up of clean energy solutions, creating the local support and political will necessary to continue operations rather than delay rollout. High road manufacturing has the potential to offer permanent jobs contributing to decarbonization and lower utility bills. [It's difficult to say the same for AI development](#). Engaging unions to ensure community involvement and benefit through quality jobs allows California to continue leading on grid resilience and adaptation without sacrificing its net-zero carbon goals.

Provide manufacturing start-ups access to patient capital

Despite [nearly two-thirds](#) of all U.S. venture capital investment flows through California, drawing innovation to an expansive private investment ecosystem, these investments operate largely in silos. Venture capital funds innovation and start-ups. Public grants support research, development, and demonstration projects. State agencies administer bonds, tax credits, and loan guarantees to companies certainly, but few in the manufacturing sector or in connection with earlier CA seed funding programs. Community lenders and institutional investors can provide working capital. Each plays an important role, but few operate as part of a coordinated industrial strategy. Companies attempting to scale face a fragmented financing landscape, navigating multiple agencies, financing programs, lenders, investors, and technical assistance providers. Each institution applies different underwriting standards, interest rates, timelines, and project evaluation.

As a result, while California excels at supporting innovation, many firms struggle to secure the capital required to move from demonstration projects to commercial-scale manufacturing. Manufacturing projects require larger capital investments, longer development horizons, facility construction, equipment purchases, workforce development, and customer acquisition before generating returns. Technologies are invented in California but often scale elsewhere. Equally often are the pool of start-ups that do not receive the technical assistance necessary and fail to scale entirely (a phenomenon often referred to as the start-up valley of death).

This has implications for several EPIC strategic goals. Soaring energy consumption demands solutions for adding new load to the grid in a cheap and efficient manner. Without a robust and competitive energy marketplace in California, the cost burden of industrial decarbonization will continue to be felt primarily by ratepayers. Having a wide range of clean energy solutions to deploy on both sides of the meter unlocks both affordability and grid reliability while expanding job creation. This requires coordinated and reinforcing public and private capital that can support innovative companies who commit to these types of sustainable business practices while they scale. We now have an opportunity to build this type of model in California. CMGE is building the California High-Road Financing Consortium, which would serve as a coordinating platform that aligns public and private capital around the growth of strategic climate manufacturing industries.

The Consortium would identify promising clean tech companies looking to manufacture in CA, conduct technical and financial diligence, assess financing gaps, coordinate investment opportunities, and help assemble capital stacks capable of supporting firms from demonstration through commercial scale-up. The Consortium would structure these financing packages around a single underwriting process, reducing transaction costs and improving coordination among capital providers. **A typical financing pathway might include public grants for technology development, bridge financing during the valley of death on the path to commercialization, reinforcing state grants and loan guarantees throughout the process, and then once having reached commercialization, industrial development bonds for long-term capital investment. This type of stacked financing will be necessary to grow our energy sector and could potentially be leveraged by EPIC 5.**

Recommendation:

The EPIC program has done an incredible job investing in the research and development programs that have established California as a hub for the build-out of the clean technology that we can use to decarbonize rapidly, reduce costs for ratepayers, and meet our state goals. But unless that funding is leveraged to grow the productive capacity of these technologies to be manufactured in the state, we lose out on the clear opportunity to grow good jobs for communities, build local tax revenue, and create a connection to the energy transition. Furthermore, without bridge funding between R&D and commercialization, the Valley of Death takes with it many of our most exciting and innovative clean technology companies. Not only should public taxpayer money be investing in the initial growth of our innovation ecosystem but it should also ensure that taxpayers and ratepayers experience the benefits that come from manufacturing those technologies at scale. The current best case scenario for innovative start ups is that they receive EPIC funding here in California and then scale their production elsewhere.

As EPIC thinks in particular about its goal to both advance the clean energy transition while protecting communities and enhancing clean energy technology supply chains, we recommend that EPIC investments moving forward think about how to use public capital to support companies in their scale up to manufacturing through either the financing consortium or other means in coordination with other financial tools that the state has (ex. CAEATFA, IBank). And these investments can't be made in a vacuum - to benefit ratepayers this funding must be tied to high-road commitments and criteria (i.e. union jobs, community benefits, similar to Opt-in Process by CEC) to ensure that people are bought into the politics of the energy transition and local communities that are not tech ecosystems can see job growth and economic benefit from the public investments that the state is making around the energy transition.