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

AB 2516 (Petrie-Norris) - California Grid Manufacturing Initiative

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Urgency: No
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Policy Vote: E.,U.&C. 13-3, B.,P.&E.D.8-2
Mandate: Yes
Consultant: Ashley Ames

Bill Summary: This bill would establish the California Grid Manufacturing Initiative within the Energy Unit in the Governor's Office of Business and Economic Development (GO-Biz), in coordination with various state entities, to aggregate statewide demand, coordinate procurement, and incentivize in-state manufacturing of critical electricity grid components, as specified.

Fiscal Impact:

- GO-Biz estimates ongoing costs of $3.9 million in the first year and $900,000 annually thereafter (General Fund) to perform an industry and market assessment of grid component manufacturing and recommend appropriate forms of state assistance, facilitate bond financing, provide loans and conduct pre-bond work, monitor approved projects, provide regulatory and siting assistance, and coordinate the initiative's entities, among other things. Of this amount, $3 million would be one-time contract costs.
- IBank estimates ongoing costs of $1.6 million to $2.9 million annually (General Fund) to perform the functions required to issue revenue bonds, service loans until repayment or maturity, and handle loan workouts. IBank notes the range reflects uncertainty about market size, with the low end assuming relatively few suppliers seeking financing and the high end a large market of suppliers.
- IBank estimates one-time costs of $1.5 million (General Fund) for legal, financial, and engineering and feasibility consulting services to assess the current in-state manufacturing base, out-of-state manufacturers that might be incentivized to establish operations in California, and current and forecasted market needs, pricing dynamics, and supply chain status.
- IBank estimates that an initial funding appropriation of at least $500 million to $1 billion (General Fund) would be needed, whether to establish a bond to be used as leverage or to make direct loans, with the amount depending on the estimated size of the grid manufacturing pipeline within the state.
- Ongoing costs of an unknown but significant amount, possibly in the low millions of dollars annually, for the California Public Utilities Commission (CPUC) to implement the provisions of this bill. CPUC workload could include needing to develop a process to identify critical electricity grid components, assess the statewide need for those components over a 10-year period and update the assessment at least every five years, determine for each component whether to require electrical corporations to engage in joint procurement, review and approve projected purchasing needs, approve proposed joint purchase agreements, and administer cost recovery and ratepayer credits (ratepayer funds).

- To the extent that this bill impacts energy rates, it could result in costs or savings to the state as a ratepayer (various funds). The State of California is an electricity customer, purchasing roughly one percent of the electricity sold by the state's utilities. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down. By authorizing the CPUC to allow recovery of costs incurred under the initiative that it finds just and reasonable, this bill could increase costs recovered in rates; by requiring the CPUC to ensure that savings below prevailing market prices are credited to ratepayers, it could also reduce costs recovered in rates.

Background: California's grid expansion depends on components — transformers, conductors, switchgear, substation equipment — that have become scarce and expensive. Procurement runs utility by utility, financed through utility capital budgets and recovered in rates, with no state role in aggregating demand or supporting in-state manufacturing capacity. The state has recently established a related financing structure at GO-Biz, where the Energy Unit and IBank administer a continuously appropriated revolving fund for transmission projects.

Supply chain constraints and component costs. Demand for transformers in the United States has risen sharply while domestic production has not kept pace. Lead times for certain large power transformers reach two to four years, with reported backlogs well over 144 weeks and average timeframes around 125 weeks. Prices have increased roughly 45 to 95 percent since 2019, and demand for generator large step-up transformers rose 274 percent between 2019 and 2025. These conditions can delay transmission upgrades and the interconnection of generation and storage projects, and the resulting delays and costs ultimately affect ratepayers.

Fragmented procurement. Procurement in California is undertaken utility by utility, with each developing its own load forecasts, issuing its own solicitations, and executing its own contracts. Smaller and less predictable volumes may weaken utilities' negotiating position for capital-intensive, long-lead equipment, and variable specifications may require customized production runs that raise per-unit costs. The absence of coordinated forward-looking commitments may also constrain manufacturers' willingness to invest in expanded capacity.

The Transmission Infrastructure Accelerator. SB 254 (Becker, 2025) established the accelerator at GO-Biz, with the Energy Unit coordinating with the CPUC, CEC, CAISO, and IBank to develop a financing and development strategy for eligible transmission projects. The California Transmission Accelerator Revolving Fund sits in the State Treasury and is continuously appropriated, with IBank providing financing from it on the Energy Unit's behalf. The fund has two dedicated revenue sources: $325 million from Proposition 4, and 5 percent of electrical corporation consigned allowance revenues remitted under AB 1207 (Irwin, 2025), which Senate Budget Subcommittee No. 2 estimated could amount to roughly $120 million based on historical amounts, subject to CARB's pending cap-and-invest regulations. The accelerator is authorized until January 1, 2031. The Governor's Budget proposed $4.2 million from the fund and three limited-term positions for the Energy Unit to stand it up, within a broader package of 10 limited-term positions and roughly $25.7 million in program administration costs over five years across GO-Biz and IBank.

Revenue bond marketability. The IBank finances through taxable and tax-exempt revenue bonds, which are payable solely from identified revenue streams rather than the state's faith and credit. Marketability depends on that revenue stream.

Cost recovery for utility procurement. Section 451 of the Public Utilities Code requires that every charge demanded by a public utility be just and reasonable. Utility procurement of grid components is recovered in rates through general rate cases and other ratesetting proceedings, subject to the CPUC's review of whether the costs incurred were prudent.

Proposed Law: This bill would:

1. Require the Energy Unit within GO-Biz, in coordination with the CPUC, the State Energy Resources Conservation and Development Commission (CEC), the California Independent System Operator (CAISO), public utilities, and the California Infrastructure and Economic Development Bank (IBank), to establish the California Grid Manufacturing Initiative.

2. Require the Energy Unit to determine and provide appropriate forms of state assistance to address identified delays with critical electricity grid components, to incentivize new or existing in-state manufacturing of electricity grid components, and to provide support to joint procurements.

3. Require the CPUC, in consultation with the CEC and the CAISO, and in a new or existing proceeding, to develop a process to identify critical electricity grid components and to assess the statewide need for critical electricity grid components for the next 10-year period, as soon as practicable. Require the assessment to include identification of specific strategies to reduce delays and ratepayer costs associated with the procurement of critical electricity grid equipment. Require the CPUC, at least once every five years, to update the identification and assessment.

4. Require the CPUC to determine, for each critical electricity grid component identified, whether requiring electrical corporations to engage in the joint procurement of that component would further the purposes of this bill, and authorize the CPUC, if it makes that determination and also determines that electrical corporations would benefit from the joint procurement, to require electrical corporations to engage in a joint procurement to fulfill the projected purchasing needs of each participating electrical corporation, as provided. Authorize a local publicly owned electric utility to participate in the joint procurement with the electrical corporations.

5. State that, if electrical corporations are required to engage in a joint procurement of critical electricity grid components, as specified, not more than 12 months following the imposition of the requirement, the electrical corporations must take various mandatory steps.

6. Authorize the CPUC to authorize recovery of costs incurred under the initiative only to the extent it determines those costs are just and reasonable, cost effective, and aligned with state energy policy, and require the CPUC, to the

extent a joint procurement results in costs below prevailing market prices, to ensure that the difference is credited to ratepayers.

7. Authorize the Energy Unit to provide assistance to projects that establish or expand manufacturing capacity in California for critical electricity grid components, including:

    Engaging local public and private actors relevant to project development success.

    Supporting the applicant's efforts to secure necessary permits and other relevant authorities.

    Leveraging and coordinating relevant state incentives and supply chain facilitation services to ensure timely and cost-effective acquisition of physical components of the project.

    a. Require assistance to be conditioned on measurable public benefits, including high road job creation, community benefits, workforce development, affordability, and capacity expansion. Require the Energy Unit to evaluate projects based on:

        The extent to which the project will further the state's clean energy goals, including by reducing delays and costs.

        The extent to which the project will create long-term high road employment in California.

8. Authorize the Energy Unit to enter into production joint ventures with qualified private suppliers, as provided, and to provide:

    Low-cost loans, credit enhancements, bond financing, or any other form of financial assistance through IBank.

    Advance purchase commitments or mandatory offtake agreements.

    Site access, leasing of public land, or permitting assistance.

    Any other incentives determined by the Energy Unit.

    a. Require the Energy Unit to ensure that production joint ventures are awarded through a transparent, competitive, and merit-based process and structured to protect public funds, and to adopt conflict-of-interest policies governing employees and contractors involved in procurement decisions and joint venture negotiations, in accordance with the Political Reform Act of 1974.

9. Create the California Grid Manufacturing Initiative Revolving Fund in the State Treasury for the purpose of providing financial assistance pursuant to the initiative, and make the moneys in the revolving fund continuously appropriated for expenditure in accordance with the initiative, thereby making an appropriation.

10. Authorize IBank, on behalf of the Energy Unit, to issue revenue bonds to finance procurement and manufacturing of critical electricity grid components, and to provide financial assistance, including from the proceeds of those bonds, to a participating party, as defined, in connection with the financing or refinancing of a

project to establish or expand manufacturing capacity for critical electricity grid components. Require the proceeds of any bonds to be deposited into the revolving fund and used exclusively for the purposes of the initiative.

11. Require IBank to meet and confer with the Energy Unit for eligible projects, and provide that final authority to provide financial support to an eligible project resides with the Energy Unit.

Related Legislation:

SB 787 (McNerney, 2025) would have established a formal interagency memorandum of understanding framework and a Senior Counselor on Industrial Policy and Clean Energy Development at the CEC to coordinate California's clean energy supply chain development efforts across the battery, offshore wind, and building decarbonization sectors. The bill was vetoed.

SB 254 (Becker, 2025) established the California Transmission Infrastructure Accelerator at GO-Biz, requiring the Energy Unit, in coordination with the CPUC, the CEC, the CAISO, and IBank, to develop a financing and development strategy for eligible transmission projects. The bill created the California Transmission Accelerator Revolving Fund in the State Treasury, continuously appropriated for the support of eligible entities, and authorized IBank to provide financing from it. The program is authorized until January 1, 2031.

AB 1373 (E. Garcia, 2023) authorized the state to use the Department of Water Resources to centrally procure long lead-time clean energy resources, such as offshore wind and geothermal energy, to meet 2045 climate goals and ensure grid reliability.

SB 1174 (Hertzberg, 2022) required the CPUC to publish, in its annual RPS reports, a systemwide assessment of transmission project delays and their impact on in-development resources, work carried out through the interagency Tracking Energy Development Task Force of the CPUC, CEC, CAISO, and GO-Biz.

SB 852 (Pan, 2020) enacted the California Affordable Drug Manufacturing Act, directing the state to enter manufacturing and procurement partnerships that leverage California's purchasing power to address shortages and high prices in a concentrated market.

Staff Comments:

Seed money. According to IBank, "an initial funding appropriation from the General Fund of *at least* $500 million to $1 billion would be needed depending on the estimated size of the grid manufacturing pipeline within the state." IBank reports that this bill identifies no source of repayment for the revenue bonds it would authorize. Should repayment depend on the sale of grid components, IBank indicates that the bonds would amount to an aggregation of corporate sales, which investors would likely regard as speculative. Without identified revenue as the repayment source, IBank anticipates that bonds would be difficult to sell, which would eliminate the use of leverage and leave the Energy Unit and IBank to lend only from the corpus of any appropriated funds. If revenue bonds cannot be issued, IBank indicates that a significant General Fund appropriation would be needed to provide financial support, and that even where bonds could be issued, an appropriation would likely still be necessary to serve as credit enhancement and bolster investor confidence in a new program. IBank concludes that an initial General Fund appropriation of at least $500 million to $1 billion would be needed whether to establish a bond to be used as leverage or to make direct loans, with the amount depending on the estimated size of the grid manufacturing pipeline within the state. That figure rests on a desktop analysis of CAISO historical capital expenditure, with assumptions made to segment out transformer, substation, and switchgear infrastructure within CAISO-approved projects; IBank notes that a market and feasibility study would provide greater clarity on supply and demand forecasts and on the resulting funding estimate.

State mandate. Because this bill's provisions would become part of the Public Utilities Act, and a violation of a CPUC action implementing them would be a crime, this bill would impose a state-mandated local program. No reimbursement would be required because the only costs a local agency or school district would incur would result from this bill expanding the scope of an existing crime, within the meaning of Section 17556 of the Government Code.

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