

## CONCURRENCE IN SENATE AMENDMENTS

AB 825 (Petrie-Norris, et al.)

As Amended September 10, 2025

Majority vote

**SUMMARY**

Authorizes the California Independent System Operator (CAISO) and the electrical corporations whose transmission is operated by the CAISO to use voluntary energy markets governed by an independent regional organization (RO), provided that specific requirements are met.

**Senate Amendments**

Strike all provisions of the bill, and instead replace the contents with provisions related to the transfer of energy market oversight and control to an independent regional organization.

Specifically:

- 1) Authorizes the CAISO and the electrical corporations that are participating transmission owners whose transmission systems are operated by the CAISO, to use voluntary energy markets governed by an independent RO, provided that specific criteria are met, notwithstanding the requirements in law for the CAISO to manage related energy markets conducting its operations consistent with applicable state and federal laws and consistent with the interests of the people of the state. Specifically, the independent RO is required to:
  - a) Be a nonprofit corporation whose governance document includes a corporate obligation to respect the authority of each state to set its own procurement, environmental, reliability, and other public interest policies and exercise oversight over its regulated entities.
  - b) Maintain a public policy committee of their governing board that engages with states, local power authorities, and federal power marketing before it approves a tariff change for filing at the FERC.
  - c) Maintain a relationship by their governing board with, and seeks input from, a body of state regulators to receive the views of state regulators.
  - d) Make funding available for a consumer advocate organization that represents the interests of one or more consumer advocate offices authorized in state law, including the Public Advocates Office (PAO).
  - e) Maintain an office of public participation to provide information and education to members of the public.
  - f) Maintain access to independent market analysis to minimize overall costs to end-use customers, in addition to any independent market monitoring activity required by a FERC order.
  - g) Ensure market data is available to the CPUC and PAO and the other states' commissions and public advocates' offices, to the same or greater extent as existed on December 31, 2024, subject to reasonable confidentiality provisions.

- h) Provide a stakeholder process designed to provide nonbinding advice the governing board of the independent RO.
  - i) Conduct meetings and make decisions in an open process with transparent, documented rationales, and all meetings of the governing board of the independent RO are publicly noticed and (except executive sessions) available to remote participants and subject to open record requirements.
  - j) Ensure the CAISO continues to operate the energy markets, subject to market rules determined by the independent RO as accepted by FERC.
  - k) Has market rules that continue to provide GHG emissions information and protocols sufficient to enable entities subject to CARB's rules to demonstrate compliance.
  - l) Offers all services on a voluntary basis with each participant retaining its decision-making autonomy regarding the extent of its participation.
  - m) Ensure the tariff approved by FERC for the independent RO provides a procedure for unilateral withdrawal by any participant, with reasonable prior notice and without any penalties and unreasonable costs.
- 2) Authorizes the CAISO on or after January 1, 2028, to implement tariff modifications accepted by the FERC to operate energy markets governed by an independent regional organization, if the CAISO governing board adopts a resolution, as specified, finding that each of the statutory requirements has been, or will be, adopted by the independent RO.
- 3) Authorizes the CAISO governing board to adopt the resolution if the CAISO satisfied specified requirements prior to adopting the resolution, including:
- a) The meeting is open to the public, available to remote participants, recorded, and posted on the CAISO website.
  - b) The CAISO issues a notice of the meeting and proposed findings not less than 90 days before the meeting.
  - c) The notice explains the basis for finding that each of the enumerated requirements will be met.
  - d) The notice provides opportunity for written comments, including from the CPUC, PAO, and CEC, and the CAISO issues written responses to any comments not less than 20 days before the meeting.
  - e) Requires the CAISO to offer to provide testimony as to its proposed findings to the legislative committee in each house with primary jurisdiction over electrical corporations.
- 4) Requires the CPUC to make a determination, through a formal decision in an existing or new proceeding, that the statutory requirements have been met before electrical corporations may participate in an energy market governed by an independent regional organization.
- 5) Specifies that this section does not diminish the CPUC authority to direct an electrical corporation to withdraw from an energy market governed by an independent regional

organization, and authorizes the CPUC to order such withdrawal on its own motion through a proceeding or any other commission process, including if the CPUC identifies activities of the independent regional organization that would undermine or jeopardize its authority regarding resource adequacy, integrated resource planning, or procurement under specific provisions of the Public Utilities Code.

- 6) Requires the CAISO to maintain the necessary technical capability to operate energy markets in a manner that enables electrical corporations, local publicly owned electric utilities (POUs), and other market participants to withdraw from the markets governed by the independent RO and instead the CAISO would provide separate market services for those entities.
- 7) Requires, beginning one year after the implementation of the independent RO's markets, and annually thereafter, the CAISO, in consultation with the independent RO, to report to the CPUC, CEC, and the legislative committees with primary jurisdiction over electrical corporations. Requires the CPUC and CEC to review each report required and to publicly post an acknowledgement to their internet websites.
- 8) Requires the CAISO to annually develop, publish, and submit to the Legislature by February 1, a report on certain activities of the CAISO and, if applicable, an independent RO, including:
  - a) Any changes to its federal tariff sought and those changes approved by the FERC.
  - b) The status of policy initiatives and recurring processes considered by the CAISO during the prior year.
  - c) Actions undertaken by the CAISO governing board and, if applicable, the governing board of the independent RO whose electricity market California entities participate in.
  - d) An assessment of market activity during the prior year by any independent market monitor and, if applicable, independent market analysis maintained by an independent RO used by the CAISO.
  - e) Actions undertaken within the transmission planning process of the CAISO and the implementation of approved projects.
- 9) Requires the independent RO, if the CAISO uses a voluntary energy market governed by the independent RO, to provide the CAISO with the information required for the required annual report.
- 10) Requires the chair of the board of governors and the chief executive officer of the CAISO to annually appear before the appropriate policy committees of the Legislature to present the annual report as this bill provides.
- 11) Requires the CAISO, on or before December 31, 2026, to conduct and complete a study of the impacts of implementing the use of voluntary energy markets governed by an independent RO on the retention and creation of jobs in California, including impacts on jobs constructing and maintaining powerplants in California.

- 12) Requires the CAISO to continue its functions and responsibilities as a BA as they existed before enactment of this bill. Prohibits the CAISO from changing its BA from what existed on December 31, 2024, except under specified conditions, including combining with other California BAs.
- 13) Specifies that except for managing energy markets, this bill does not change the responsibilities of the CAISO in statute, including managing the transmission grid, planning for transmission expansion, reliability, and resource adequacy.
- 14) Specifies that the authorization to participate in energy markets governed by independent RO does not change any requirements related to the RPS program and the policy of the state to reach specified targets for zero-carbon and renewable energy resources, including 100% zero-carbon and renewable energy resources by 2045.
- 15) Specifies that the independent RO is not a California BA, and the geographic footprint of the independent RO is not a BAA.
- 16) Prohibits electrical corporations from participating in any additional products and services offered by the independent RO unless the authorized by the CPUC.
- 17) Authorizes the CAISO to act as a vendor, through a contract with the independent RO, of specified services, including: market operation, generation dispatch, transmission operation, reliability coordination, BA compliance or operation, or other electrical system services.
- 18) Repeals Article 4 (related to defunct Power Exchange), Article 5 (concerning intention for a regional compact), and Article 5.5 (intent for the transformation of the CAISO to a regional organization) from the Public Utilities Code, along with Section 352 (prohibit the CAISO from entering into a multistate entity or regional organization) and subdivision (f) of Section 337 (related to Section 352 becoming operative).
- 19) Requires the CPUC and the CEC to coordinate to revise any relevant rules, regulations, or guidance to ensure that the transition to a regional energy market governed by the CAISO or the independent RO does not expand the types of transactions that meet the portfolio content category 1 (Bucket 1 resources) of the RPS program requirements, as compared to the transactions that would otherwise meet those requirements on December 31, 2025.
- 20) Imposes a state-mandated local program as certain provisions of this bill would be part of the Public Utilities Act which requires that a violation of action implementing those requirements would be a crime.
- 21) Provides that no reimbursement is required by the state to local agencies for costs mandated by the state because the only costs are incurred because the act would create a new crime.

## EXISTING LAW

- 1) Establishes that the U.S. FERC has exclusive jurisdiction over the transmission of electric energy in interstate commerce. Also, establishes the process and procedures for establishing transmission of electric energy in interstate commerce by public utilities, i.e., the rates, terms, and conditions of interstate electric transmission by public utilities. (Federal Power Act Section 201, 205, 206 (16 USC 824, 824d, 824e))

- 2) Establishes and vests the California Public Utilities Commission (CPUC) with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)
- 3) Establishes and vests the California Public Utilities Commission (CPUC) with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)
- 4) Provides for the restructuring of the electricity industry and creates several entities: the Energy Oversight Board (defunct), the Power Exchange (defunct) and the CAISO. (Public Utilities Code Section 334 et seq.)
- 5) Establishes the California Independent System Operator (CAISO) governing board with five members appointed for three-year terms by the governor and subject to confirmation by the Senate. (Public Utilities Code Section 337 et seq.)
- 6) Establishes the CAISO as a nonprofit public benefit corporation and requires it to ensure the transmission grid is operated efficiently and reliably, consistent with the planning and operating reserve standards established by the Western Electricity Coordinating Council (WECC) and the North American Electric Reliability Council (NERC). (Public Utilities Code Section 345)
- 7) Tasks the CAISO with management of the transmission grid and related energy markets to ensure the reliability of electric service and to protect the health and safety of the public. (Public Utilities Code Section 345.5)
- 8) Specifies governance and operational rules for the CAISO, including transparency requirements, open stakeholder processes, and compliance with federal standards, and establishes oversight processes through reporting, accountability measures, and open decision-making requirements. (Public Utilities Code Sub Section 346–348.5)
- 9) Requires the Power Exchange to provide an efficient, competitive auction that is open on a nondiscriminatory basis to all suppliers and designed to meet the loads of all exchange customers at efficient prices, and authorizes the Power Exchange governing board to create appropriate technical advisory committees composed of market and nonmarket participants to advise the governing board on relevant issues. (Public Utilities Code Section 355)
- 10) Authorizes the CAISO to become a regional organization, consistent with state and federal law, subject to the approval of the Legislature by statute. Provides that modifications to CAISO's articles of incorporation, bylaws, or other corporate governance documents do not become effective unless approved by CAISO, the California Public Utilities Commission (CPUC), the California Energy Commission (CEC), and the California Air Resources Board (CARB), signed by the Governor, and enacted by statute by the Legislature. Requires CAISO, on or before December 31, 2018, to prepare proposed governance modifications to facilitate its transformation into a regional organization and to provide them to the Governor and the appropriate policy and fiscal committees of the Legislature. (Public Utilities Code Section 359)

- 11) Expresses the intent of the Legislature that the CAISO transform into a regional organization to support the development of regional electricity transmission markets in the western states and to improve the access of consumers served by CAISO to those markets, only when such transformation is in the best interest of California and its ratepayers. Directs CAISO to prepare proposed governance modifications to facilitate its transformation into a regional organization, and provides that those modifications do not become effective unless specific requirements are met, including enactment of a statute by the Legislature. (Public Utilities Code Section 359.5)
- 12) Establishes the California Renewables Portfolio Standard (RPS) Program, which requires the California Public Utilities Commission (CPUC) to set a renewables portfolio standard mandating all retail sellers, as defined, to procure a minimum quantity of electricity products from eligible renewable energy resources, as defined, at specified percentages of the total kilowatthours sold to their retail end-use customers during designated compliance periods. The program, consistent with the goals of procuring the least-cost and best-fit eligible renewable energy resources that meet project viability principles, further requires all retail sellers to procure a balanced portfolio of electricity products from eligible renewable energy resources, referred to as the portfolio content category requirements. (Public Utilities Code Section 399.11 et seq.)
- 13) Establishes the policy of the state that eligible renewable energy resources and zero-carbon resources supply 90% of all retail sales of electricity to California end-use customers by December 31, 2035, 95% of all retail sales of electricity to California end-use customers by December 31, 2040, 100% of all retail sales of electricity to California end-use customers by December 31, 2045. Requires the CPUC and CEC, in consultation with CARB, to take steps to ensure that a transition to a zero-carbon electric system for the state does not cause or contribute to greenhouse gas (GHG) emissions increases elsewhere in the western grid. (Public Utilities Code Section 454.53)

## COMMENTS

*The U.S. power grid* – Electricity generated at power plants moves through a complex network of high-voltage transmission lines, substations, and lower-voltage distribution transformers before reaching homes and businesses. Local electricity grids are interconnected into larger regional networks, which support reliability and allows electricity to flow where it's needed most. The electric grid has three main components:

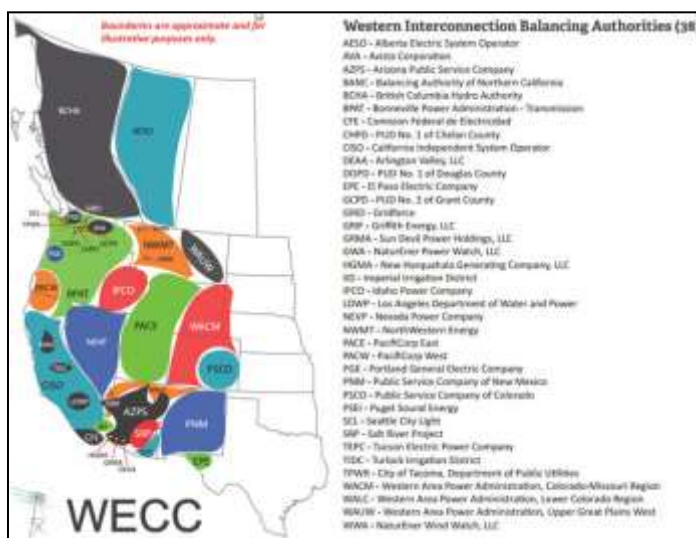
- 1) Generation – power plants and renewable facilities that produce electricity.
- 2) Transmission – the bulk power system that carries electricity long distances at high voltage.
- 3) Distribution – the lower-voltage system of lines and transformers that delivers electricity to end-use customers. Substations connect transmission and distribution by stepping high-voltage electricity down to lower levels for use on local distribution lines.

Because local and regional grids are linked together, the U.S. grid is often described as “an interconnected network” rather than a single system. This interconnection supports resilience by allowing other lines or generators to step in if one goes down, keeping supply and demand balanced. The United States electric power system in the Lower 48 states is made up of three

main alternating current grids or "interconnections," which operate largely independently from each other:

- 1) The Western Interconnect (Figure 1, below) – the area west of the Rocky Mountains, stretching north into Canada and south to Baja California in Mexico, consists of 38 BAs. All electric utilities in the Western Interconnect are electrically tied together during normal system conditions and operate at a synchronized frequency of 60 hertz (Hz). BAs within the Western Interconnect include the CAISO, the Balancing Authority of Northern California (BANC), Los Angeles Department of Water and Power, the Turlock Irrigation District, and the Imperial Irrigation District, as well as several outside California. Generation capacity of the Western Interconnect makes up approximately 20 percent of all capacity in the United States and Canada.
- 2) The Eastern Interconnect – the area east of the Rockies and a portion of northern Texas, which consists of 36 BAs.
- 3) The Electric Reliability Council of Texas (ERCOT) – covers most of Texas and consists of a single BA.

**Figure 1** – Western Interconnect with List of BAs



Many entities interface to ensure bulk power system reliability:

- 4) The Federal Energy Regulatory Commission (FERC) is the federal agency that regulates the transmission and wholesale sale of electricity and natural gas in interstate commerce and regulates the transportation of oil by pipeline in interstate commerce. FERC also approves and enforces reliability standards developed by NERC.
- 5) The North American Electric Reliability Corporation (NERC) is a not-for-profit international regulatory authority whose mission is to ensure the reliability and security of the bulk power system in North America. NERC develops and enforces mandatory reliability standards, monitors the system, and educates and certifies system operators.

- 6) Regional Entities carry out responsibilities delegated by NERC to ensure bulk power system reliability within their geographic footprints. The Western Electric Coordinating Council (WECC) is the Regional Entity responsible for the Western Interconnection, which covers most of the western United States, parts of Canada, and northern Mexico.
- 7) Reliability Coordinators (RCs) monitor the grid in real-time and interact with individual operators and other RCs to maintain reliable operations.
- 8) BAs are responsible for maintaining the balance between electricity supply (generation and imports) and demand (load) within their footprint.
- 9) ISOs and RTOs (terms which are used synonymously throughout this analysis, except when specifically referring to California's ISO, or CAISO) coordinate, control, and monitor portions of the electric grid. ISOs and RTOs may also operate wholesale electricity markets. The Western Energy Imbalance Market (WEIM) is a voluntary, real-time market operated by CAISO that enables participating utilities and balancing authorities across the West to buy and sell electricity on a sub-hourly basis, helping reduce costs and integrate more renewable energy.

*Balancing Authorities (BAs)* – The actual operation of the electric system is managed by entities called BAs. A "balancing authority" is responsible for managing the transmission of high-voltage electricity across long-distance transmission lines. The BA ensures in real-time that power system demand and supply are finely balanced. If demand and supply fall out of balance, the result can be local or system-wide blackouts. BAs also must manage transfers of electricity with other BAs. The NERC issues mandatory reliability standards for BAs which are approved by the FERC. Most BAs are electric utilities that have taken on the balancing responsibilities for a specific portion of the power system; however in some regions, utilities join RTOs/ISOs that function as BAs for their designated area. In California, the CAISO serves as the BA for roughly 80 percent of the state's electric load, while some municipal utilities, such as the Los Angeles Department of Water and Power (LADWP) and the Sacramento Municipal Utility District (SMUD), operate as their own balancing authorities.

*RTOs/ISOs* – Nine RTOs/ISOs operate bulk electric power systems across much of North America. RTOs/ISOs are independent, membership-based, nonprofit organizations that ensure reliability and optimize supply and demand bids for wholesale electric power. RTOs/ISOs first developed in the 1990s to accommodate FERC policy encouraging competitive generation and open access to transmission. RTOs/ISOs dispatch power by feeding both day-ahead and real-time bids into complex optimization software. These entities are often compared to air traffic controllers because they manage the electron traffic on a power grid they do not own. RTOs/ISOs have different types of members, including: independent generators, transmission companies, load-serving entities, integrated utilities that combine generation, transmission and distribution functions, and power marketers and energy traders. RTOs/ISOs operate a region's electricity grid, administer the region's wholesale electricity markets, and provide reliability planning for the region's bulk electricity system. The principal behind the RTO/ISO structure is that everyone interested in participating can do so in a nondiscriminatory fashion.

*CAISO* – The CAISO is a nonprofit public benefit corporation established by California statute in 1998 as part of the state's electricity market restructuring. It operates the bulk of California's high-voltage transmission grid—about 80% of the state's electric load—as well as a portion of Nevada's grid. CAISO is responsible for managing real-time electricity flows, balancing supply



and demand, and operating the state's wholesale energy markets. CAISO serves as both a transmission operator and a balancing authority (BA). CAISO is regulated by the FERC for market operations and tariff approval, as well as by NERC for reliability standards compliance. Unlike other RTOs and ISOs, CAISO's governance is unique: its board of governors is appointed by the Governor of California and confirmed by the State Senate, a structure established in statute to ensure direct state oversight.

*CAISO's WEIM* – As part of its management of the wholesale electric market, the CAISO also operates a voluntary WEIM. The WEIM is a real-time bulk power trading market involving 22 participants across 10 western states (representing 79% of the load of the Western Interconnection) that trade the difference between the day-ahead forecast of power and the actual amount of energy needed to meet demand in each hour. Energy trade in the WEIM is limited and intermittent. Currently, the WEIM handles generation that a participating LSE considers surplus at the last minute.

*Extended Day Ahead Market (EDAM)*. In addition to the WEIM, the CAISO is launching a voluntary EDAM in 2026 with the participation of PacifiCorp and Portland General Electric and additional participants, including LADWP and Balancing Authority of Northern California (BANC), committed to join in 2027. The EDAM is designed to deliver additional benefits to those realized in the WEIM through greater reliability coordination and resource optimization. The EDAM design was jointly approved in February 2023, and the associated tariff has been approved by the FERC. These tariff provisions aim to improve renewable integration and market efficiency through day-ahead scheduling and unit commitment across a larger area for expanded regional activity in the extended day ahead market that may not require governance changes of the CAISO. The expanded market is designed to improve reliability by enhancing regional situational awareness and enabling participants to share surplus renewable energy across the Western grid.

*Pathways Initiative*. Since July 2023, when energy regulators from five Western states—Arizona, California, New Mexico, Oregon, and Washington—issued a joint letter calling for a stakeholder-led process to design durable, independent governance for Western energy markets, the Pathways Initiative has gained significant momentum. That letter highlighted the need for a framework that respects state authority, strengthens public-interest protections, and creates a governance structure that is both independent and broadly supported across the West. In response, a diverse coalition of stakeholders—including environmental advocates, labor, publicly owned utilities (POUs), community choice aggregators (CCAs), and others—has coalesced around what is now called the West-Wide Governance Pathways Initiative.

This effort, led by stakeholders from the eleven states in the Western Interconnection (Arizona, California, Colorado, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming), seeks to establish a new, independently governed entity capable of delivering a broad suite of voluntary wholesale electricity market services across the largest possible regional footprint.

Unlike earlier proposals to transform CAISO into a multi-state Regional Transmission Organization (RTO), the Pathways Initiative focuses specifically on expanding and separating the governance of CAISO's energy market functions, while leaving CAISO's transmission, reliability, and balancing authority responsibilities intact. Central to this plan is the creation of an

independent Regional Organization (RO) to oversee CAISO's market functions, advanced through a three-step framework—Step 1, Step 2, and Step 3.

- 1) Step 1: This step is ongoing and elevates the authority of the Western Energy Market (WEM) Governing Body (GB) from joint authority with the CAISO Board of Governors (BoG) to primary authority over the WEIM and the EDAM. This change can occur under existing law but requires changes to the CAISO by-laws to allow both the CAISO BoG and the WEM GB joint filing authority under the Federal Power Act Section 205 dispute resolution process at FERC.<sup>1</sup> The joint bodies met again on November 7, 2024, and approved the next legal step for implementation.

*Step 1 Trigger.* Step 1 implementation would be deferred until triggered by the addition of incremental EDAM load meeting the following requirements, which have not been triggered:

- a) Execution of implementation agreements by utilities representing non-CAISO BA area load equal to or greater than 70% of the CAISO BA area load.
- b) Geographic diversity of the incremental load additions beyond PacifiCorp, BANC, and LADWP, including at least one new participant from the Southwest and one from the Northwest (excluding California participants).
- i) *Step 1 Dispute resolution modifications.* A pivotal change to the dispute resolution requires that the CAISO, in the event that dispute resolution procedures do not resolve the dispute and either CAISO BoG or WEM GB votes in favor of a proposal that the other opposes, must make a “dual filing” (commonly known as a “jump ball”) with FERC pursuant to its Section 205 rights. The dual filing would present both the CAISO BoG proposed tariff and the WEM GB proposed tariff as “co-equal” proposals, with no preference for either proposal indicated in the filing. FERC would not be required to consider whether the then-existing filed rate is unlawful and may adopt any or all of the CAISO BoG or WEM GB proposed market rules. This requirement for co-equal filings would also apply in circumstances where either the CAISO BoG or the WEM GB believes a tariff change is necessary, but the other body does not, and in non-time-critical exigent circumstances.

- 2) Step 2: This step includes forming a new, fully independent RO that would have sole authority over the WEIM and EDAM. If implemented, the Step 2 proposal would enable the West to create a suite of voluntary wholesale electricity market services as Pathways Initiative stakeholders and participants desire without relying on the actions of any one state or BA. Step 2 consists of five areas that make up the primary building blocks of the

---

<sup>1</sup> Section 205 is the key provision of the Federal Power Act under which “public utilities” (generally, jurisdictional transmission owners, independent system operators, and regional transmission organizations), make filings at FERC seeking approval of organized wholesale market rules and related services. Any party may file a protest to a public utility filing under Section 206 of the Federal Power Act. The standard of review by FERC for filings under Section 205 (and therefore the legal burden borne by the filer) is a demonstration that the filing is just and reasonable. In contrast, the standard of review by FERC for Section 206 filings is substantially higher—the protestant must establish that an applicable tariff provision is unjust and unreasonable, before ever reaching the question of whether a potential alternative is itself just and reasonable, or somehow more just and more reasonable than the protested provision originally filed under Section 205.

new RO: RO Scope and Function, RO Formation, RO Governance, Public Interest Protections, and Stakeholder Engagement Process. The Pathways Initiative Step 2 proposal envisions the RO launching as a policy-setting organization for the establishment and oversight of market rules for the WEIM and EDAM, these include:

- a) The RO will have full independent governance authority over market rules, with sole Section 205 rights, and ultimate authority over the associated business practice manual provisions.
- b) Market operations will continue to be performed and overseen on a day-to-day basis by the CAISO within the scope of its existing corporate authority, with varying levels of input from the RO. While the RO would not have direct day-to-day supervision of market operations, the RO would have audit rights and responsibilities to ensure the CAISO as market operator is following the tariff and business practices.
- c) The RO and CAISO rules will remain in a single integrated FERC tariff. The existing CAISO tariff is expected to need a stakeholder process to enable clarification and/or reorganization to ensure accountability and responsibility is clear for each organization, as well as understanding the classification of existing provisions as sole RO authority, sole CAISO authority, or shared authority.
- d) The CAISO's existing financial responsibility, liability, and compliance responsibilities related to the market will not migrate to the RO immediately, reducing the time and cost required for RO start up.
- e) The CAISO will remain the counterparty to existing market contracts, such as Participating Generator Agreements and Scheduling Coordinator Agreements.
- f) Market operator staff will retain emergency operational authority under FERC oversight, during actual emergency conditions in the market, as it does today.
- g) The Pathways Initiative Launch Committee has taken a high-level cut at what might be an initial RO budget. Based on a host of assumptions, the RO will have initial limited staffing with an estimated annual cost of \$1.25 to \$1.5 million, which could increase to \$10 to \$14 million over time as the organization develops.

### 3) Step 3: Creating a path to a voluntary RTO.

*Renewable Portfolio Standard (RPS).* California's RPS requires all retail sellers of electricity—including investor-owned utilities, electric service providers, and community choice aggregators (CCAs)—to procure a minimum quantity of electricity products from eligible renewable energy resources. The RPS currently requires 52% of total retail electricity sales in California to come from eligible renewables by December 31, 2027, and 60% by December 31, 2030, on the path to the state's broader goal of 100% clean electricity by 2045 under SB 100. The statute also requires that portions of these targets be met through specific portfolio content categories, commonly referred to as "RPS buckets." There are three categories of RPS buckets:

- a) Category 1: Renewable energy and renewable energy credits (RECs) from the facilities with a first point of interconnection within a California BA, or facilities that schedule electricity with a California BA on an hourly or sub-hourly basis. Retail sellers are required to procure 75% or more of Category 1 resources.
- b) Category 2: Renewable energy and RECs with incremental electricity, and/or substitute energy, from outside a California BA. Generally, Category 2 RECs are generated from out-of-state renewable facilities and require a Substitute Energy Agreement that details the simultaneous purchase of energy and RECs from a RPS-eligible facility.
- c) Category 3: Renewable Energy Credits (RECs) purchased without the electricity itself — allowed only in limited amounts.
- d) RECs that do not include the physical delivery of the energy that generated the REC. Generally, Category 3 RECs are associated with the sale and purchase of the RECs themselves, not the energy. Retail sellers may not procure more than 10% of their portfolio from Category 3.

Preference is given first to Category 1, then Category 2, and lastly Category 3.

*Purpose for the bill.* AB 825 draws on the recommendations of the West-Wide Governance Pathways Initiative by authorizing California to participate in a new, independent RO. Established on a voluntary basis, this organization would oversee the rules for regional energy markets designed to deliver benefits to customers across all participating states and entities. California's participation would remain voluntary, and the state would retain full authority over its own energy policies—including climate and clean-energy policies, procurement, transmission planning, and resource adequacy requirements.

*Prior Legislative Actions:* SB 350, SB 100, ACR 188 Studies, AB 538 and SB 540 -- In the last few years, California's electric grid has faced enormous challenges, leading to energy supply shortages and rotating outages, increased frequency of climate-driven extreme heat, drought, and wildfires, escalating electricity rates, and clean resource deployment delays. All these challenges are concurrent with the electric grid transitioning to a clean energy future. As such, western grid regionalization has been raised as a potential path to address these related concerns. In passing SB 350 (De León, Chapter 547, Statutes of 2015), the Legislature expressed its intent that California Independent System Operator (CAISO) conduct studies of the impacts of a regional market enabled by governance modifications that would transform CAISO into a multistate, regional entity, a process colloquially known as regionalization. CAISO completed the studies in 2016, finding, among other things that by 2030 regionalization could provide \$1 billion to \$1.5 billion in annual benefits to California ratepayers.<sup>2</sup> However, transmission constraints and market barriers limit California and other western states' abilities to share excess wind, solar, and hydropower during emergencies, impacting reliability and creating blackouts.

In 2018, the Legislature established the policy that all of the state's retail electricity be supplied with a mix of RPS-eligible and zero-carbon resources by December 31, 2045, for a total of 100% clean energy. It additionally required the CPUC, in consultation with the CEC, California Air Resources Board (CARB), and all California balancing authorities, to issue a joint report to the Legislature by

---

January 1, 2021, reviewing and evaluating the 100% clean energy policy. The first SB 100 report acknowledged that regional coordination would be “*a key component of California’s strategy to realize its renewable energy and GHG emission reduction goals.*” The report notes the need for continued studies, in general, and the numerous approaches to western coordination, including WEIM, EDAM, and others, without explicit mention of a regionalized RTO. The SB 100 Report will next be issued in 2025, with future work focused on system reliability,<sup>3</sup> among other considerations.

Also in 2018, AB 813 (Holden, 2018) was introduced to establish a pathway for the CAISO to transform its governance structure to operate as a multistate regional transmission system organization should certain requirements be met. The legislation died in Senate Rules Committee.

In 2022, the Legislature passed ACR 188 (Holden, Chapter 138, Statutes of 2022) which requested CAISO to conduct a report synthesizing the studies, policies, and papers on the potential benefits of expanded regional cooperation in California, with a focus on key issues that will most effectively advance the state’s energy and environmental goals. The report outlined a number of benefits of a regional RTO in the west, including greater cooperation and production cost savings; reliability; and greater resource and load diversity. On the other hand, the ACR 188 Report also noted that “larger and more comprehensive [RTO] structures expand the types of issues that need to be addressed, such as governance and principles for allocating the cost of new transmission.”

In 2023, AB 538 (Holden) was introduced with the goal of delegating to the CEC the ability to authorize the transformation of the CAISO into a multistate regional transmission system, if specified requirements are satisfied. This bill would have prohibited a California electrical transmission facility owner, a retail seller of electricity, or a local publicly owned electric utility (POU) from joining a multistate regional transmission system organization, if specified requirements are not met.

More recently in 2025, SB 540 (Becker) was introduced to authorize the CAISO and participating transmission owners, whose transmission systems are operated by CAISO, to use voluntary energy markets governed by an independent regional organization (RO), if specified requirements are met. These include: the independent RO is a nonprofit corporation whose governance document includes a corporate obligation to respect the authority of each state to set its own procurement, environmental, reliability, and other public interest policies and the governance documents and FERC approved tariff provides a procedure for voluntary withdrawal by any California electrical corporation and any other participating load-serving entity (LSE), among other requirements included in the bill.

By contrast, AB 825 is narrower in scope. Proponents contend the bill would not transform CAISO into a multistate RTO with governance independent of California, which would have transferred all CAISO functions—including balancing authority, transmission planning, cost allocation, reliability coordination, and energy market operations. Instead, AB 825 seeks to mainly shift oversight of energy market rules to an independent RO, with CAISO serving as a vendor to manage day-to-day market operations. Supporters argue this incremental approach is more protective of California’s clean-energy policies, particularly because CAISO would retain its balancing authority functions. They further suggest that creating an independent RO for energy markets—especially as the Extended Day-Ahead Market (EDAM) is scheduled to launch next year—will encourage participation from entities hesitant to join a market still governed by California. According to supporters, broader market participation under an independent RO

could reduce costs for utility customers, optimize clean-energy resources, improve system efficiency, and increase reliability.

*Safeguarding Market and Public Oversight.* AB 825 authorizes CAISO and its participating transmission-owning utilities to join voluntary energy markets operated by an independent RO, but only if the RO meets governance standards designed to support state authority, protect consumers, and ensure transparency. The RO must be a nonprofit corporation whose governing documents include an obligation to respect each state's authority to set its own procurement, environmental, reliability, and other public interest policies, and to oversee its regulated entities. To give states and regulators a formal role in market oversight, the RO's board must include a public policy committee that consults with states, local power authorities, and federal power marketing agencies before tariff changes are filed with FERC, and it must maintain an ongoing process for input from state regulators. To safeguard consumers and the public, the independent RO must provide funding for a consumer advocate organization, establish an office of public participation, and make market data available to commissions and consumer advocate offices in California and other states, subject to reasonable confidentiality protections. The RO must also ensure access to independent market analysis, complementing FERC's monitoring, so regulators and stakeholders can evaluate performance and guard against unnecessary costs to customers. In addition, it is required to operate with full transparency by conducting publicly noticed meetings that allow for remote participation, documenting the rationale for its decisions, and complying with open-record requirements, except where limited executive sessions are appropriate. These measures support oversight, maintain accountability, and ensure regional market governance is accountable to states, regulators, and the public.

*Maintaining State Authority.* This measure establishes a voluntary and accountable pathway for California's participation in a broader regional market. The bill authorizes, but does not require, CAISO and California's transmission-owning utilities to join an independent RO, and only if specific safeguards are satisfied. It also affirms California's right to withdraw if continued participation no longer serves the state's interests, while preserving the CPUC's authority to direct an electrical corporation to withdraw through its own proceedings if the regional organization's activities undermine or jeopardize its responsibilities. In this way, the legislation ensures California maintains authority over its core policy responsibilities, including resource adequacy, integrated resource planning, procurement, and clean-energy mandates. Through specific safeguards, withdrawal rights and CPUC oversight, AB 825 allows California to benefit from regional cooperation while safeguarding state authority.

*Take Corrective Actions.* This bill includes guardrails designed to ensure California can respond promptly to any developments in a regional market. Among these is a provision that requires CAISO to annually develop, publish, and submit a report to the Legislature detailing its activities and, if applicable, those of a RO. The report must include information such as changes to federal tariffs approved by FERC, the status of policy initiatives, actions taken by the CAISO or RO governing boards, and updates on transmission planning. The measure also requires that, if California participates in a voluntary market governed by a RO, that organization must provide CAISO with the information necessary for this report. By embedding these reporting and data-sharing requirements in statute, AB 825 ensures that California can identify potential conflicts with state priorities—such as rules that raise transmission costs, or slow progress toward SB 100 goals—early enough to take a corrective action.

*Concerns on Impacts on State Clean Energy Policies.* Efforts to regionalize the CAISO have often raised concerns that such changes could weaken California's clean-energy framework—particularly the RPS and its emphasis on Category 1 renewable resources delivered directly into the state's grid. Critics of earlier proposals caution that transforming CAISO into a multistate entity could expose state policies to federal preemption under the Federal Power Act or to challenges under the Dormant Commerce Clause. They also warn that in a larger, federally regulated market footprint, California could lose the ability to require renewable electricity to be scheduled into a California balancing authority. In this scenario, utilities could be compelled to support coal generation—either through an RTO-run capacity market or by defending California's renewable and zero-carbon policies against challenges from other market participants or through intervention by FERC acting under direction from the White House.

Supporters of this bill contend that the legislation addresses long-standing concerns about regionalization in three key ways: (1) limiting the independent Regional Organization's authority strictly to market rules, (2) preserving all other CAISO functions—including transmission planning, balancing authority, and reliability coordination—under California's control, and (3) making it explicit that this legislation does not alter California's RPS requirements or the state's SB 100 mandate to achieve 100 percent clean electricity by 2045. They also emphasize that CAISO is already subject to FERC jurisdiction regardless of this measure.

*Regulatory Approval Before Participation.* AB 825 requires the CPUC to issue a formal decision, in an existing or new proceeding, confirming that all statutory requirements have been met before California's electrical corporations may take part in a market governed by a RO. This provision ensures that California will only enter a regional market once the CPUC has verified that the independent RO satisfies the safeguards established in the bill. By assigning this responsibility with the CPUC—the agency tasked with overseeing reliability, resource adequacy, procurement, and consumer protection—the measure ensures that participation by a California utility can occur only when it is consistent with the state's energy, reliability, and environmental goals.

### **According to the Author**

According to the author, "AB 825 strikes a balance by unlocking the benefits of a regional energy market while safeguarding California's critical public policy priorities. As we move toward achieving California's 100% clean energy goals, we must look at all possible solutions to improve reliability, reduce costs, and cut emissions in California. This bill is a win-win scenario for California—achieving cleaner energy, more reliable power, and real savings for ratepayers. The bill delivers the benefits of an expanded electricity market while protecting California's ability to set and enforce its own procurement, environmental, and electricity reliability policies."

### **Arguments in Support**

This measure is supported by a broad coalition of environmental organizations, technology companies, utilities, labor, and independent power producers, who emphasize the bill's economic, reliability, and climate benefits. Supporters point to a study conducted by the CEC showing that participation in a larger regional energy market could save Californians more than \$1 billion annually by improving efficiency and reducing the curtailment of renewable generation. They also cite research from Stanford demonstrating that regional coordination enhances reliability, with the potential to cut grid stress by up to 40 percent during periods of highest risk and thereby reduce the likelihood of blackouts. In addition, they argue that expanding access to renewable energy both within California and across the West will reduce

dependence on fossil fuels, improve air quality, and accelerate progress toward the state's long-term climate goals.

### **Arguments in Opposition**

This bill is opposed by numerous groups, including Consumer Watchdogs, the Climate Coalition and The Utility Reform Network (TURN). Opponents argue that AB 825 would cede California's authority over energy policy by repealing existing safeguards in state law and weakening protections included in SB 540. They warn that the legislation could increase greenhouse gas emissions and ratepayer costs during a period of climate and affordability crisis. TURN further contends that the bill lacks adequate safeguards to protect consumers if a regional organization or FERC takes actions that undermine state policies, citing federal efforts to prioritize coal, devalue clean energy, and weaken the independence of FERC.

### **FISCAL COMMENTS**

Given the significant amendments made to this bill and the unknown costs of implementation, its fiscal impacts remain unclear.

### **VOTES:**

#### **ASM UTILITIES AND ENERGY: 18-0-0**

**YES:** Petrie-Norris, Patterson, Boerner, Calderon, Chen, Davies, Fong, Mark González, Harabedian, Hart, Irwin, Papan, Rogers, Schiavo, Solache, Ta, Wallis, Zbur

#### **ASM APPROPRIATIONS: 11-0-4**

**YES:** Wicks, Arambula, Calderon, Caloza, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache

**ABS, ABST OR NV:** Sanchez, Dixon, Ta, Tangipa

#### **ASM UTILITIES AND ENERGY: 13-0-5**

**YES:** Petrie-Norris, Boerner, Calderon, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz, Zbur

**ABS, ABST OR NV:** Patterson, Chen, Davies, Ta, Wallis

#### **ASSEMBLY FLOOR: 57-5-17**

**YES:** Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Elhawary, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Pacheco, Papan, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Ward, Wicks, Wilson, Rivas

**NO:** DeMaio, Dixon, Ellis, Sanchez, Tangipa

**ABS, ABST OR NV:** Alanis, Castillo, Chen, Davies, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Lackey, Macedo, Ortega, Patterson, Ramos, Ta, Wallis, Zbur



**UPDATED**

VERSION: September 10, 2025

CONSULTANT: Lina V. Malova / U. & E. / (916) 319-2083

FN: 0002101