SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Benjamin Allen, Chair
2025 - 2026 Regular

Bill No:	SB 1138	**Hearing Date:**	4/7/2026
Author:	Padilla		
Version:	2/18/2026 Introduced		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Load-serving entities: resource adequacy requirements

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to allow load-serving entities (LSEs) to satisfy 25% of their resource adequacy (RA) requirements by trading energy capacity with other LSEs.

ANALYSIS:

Existing law:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Requires the California Independent System Operator (CAISO), as a nonprofit, public benefit corporation, to conduct its operations consistent with applicable state and federal laws and consistent with the interests of the people of the state. (Public Utilities Code §345.5)

3) Requires the CAISO to ensure the efficient use and reliable operation of the transmission grid, as provided. (Public Utilities Code §345)

4) Requires the CAISO to perform a review following a major outage that affects at least 10% of customers of the entity providing the local distribution service, as provided. (Public Utilities Code §349)

5) Requires the CPUC, in consultation with the CAISO, to establish RA requirements for all LSEs and requires the CPUC in establishing those requirements to ensure the reliability of electrical service in California. Requires the RA program to facilitate the development of new generating, nongenerating, hybrid capacity and retention of existing generating, nongenerating, and hybrid capacity that is economical and needed for reliability. (Public Utilities Code §380)

6) Defines LSE, for that purpose, as an electrical corporation, electric service provider (ESP), or community choice aggregator (CCA). (Public Utilities Code §380)

This bill requires the CPUC to permit an LSE to demonstrate compliance with RA requirements by selling to, or otherwise making transactions with, another LSE to meet not more than 25% of its compliance obligation, on a short-term basis, and to permit those transactions to be denominated in the same unit of time used to denominate resource adequacy compliance requirements.

Background

Resource adequacy (RA). Following the California energy crisis of 2000-01, the California Legislature enacted legislation to prevent future incidents of widespread blackouts and rolling brownouts due to lack of electric generating capacity. Among the reforms adopted in response to the crisis was the adoption of Public Utilities Code §380 as an effort to better ensure reliability of electric supply. The statute directs the CPUC, in consultation with the CAISO, to establish RA requirements for all LSEs, including electric investor-owned utilities (IOUs), ESPs, and now includes CCAs, which did not exist at the time of the crisis.

The current RA program consists of system, local, and flexible requirements for each month of a compliance year. There are two types of filings: Annual filings (filed on or around October 31st) and Monthly filings (filed 45 calendar days prior to the compliance month). For the monthly filings, LSEs must demonstrate they have procured 100% of their monthly System and Flexible RA obligation. For the Annual filings, in October of each year, LSEs must demonstrate that they have procured 90% of their system RA obligations for the five summer months (May-September) of the following year, as well as 100% of their local requirements, and 90% of their flexible requirements for each month of the coming compliance year. The CPUC has adopted changes to RA program in recent years, including increasing the planning reserve margin from 15% to 17% by 2024 for all LSEs and in the case of electric IOUs upwards of 20-22% effective planning reserve margin. The CPUC has required a multi-year local capacity RA requirement and adopted local capacity requirements for the upcoming three years. The CAISO conducts a *Local Capacity Technical Analysis* to identify the minimum local resource capacity required in each local area to meet energy needs used a 1-in-10 weather year and N-1-1(emergency) contingency. The CPUC also assesses penalties on the LSEs who fail to satisfy their RA obligations, including limiting the expansion of CCAs if they are deficient in their RA requirements.

Slice-of-Day Framework. The CPUC is also amid a significant change to the RA program by implementing a slice-of-day framework that assesses the hourly use of resources. The CPUC has been developing the slice-of-day structure for a few years and in 2025 implemented the first year of the slice-of-day framework. The CPUC adopted a 17% planning reserve margin for the slice-of-day framework, consistent with previous planning reserve margins. to procure enough RA to meet load obligations in each hour rather than monthly. Under the slice-of-day framework, LSEs receive a 24-hour obligation for each of the 12 months of the year.

Comments

Need for this bill. According to the author:

> California ratepayers face rapidly rising costs, but rather than prioritizing efficiency and giving our load-serving entities (LSEs) such as IOUs, CCAs, and ESPs the tools needed to reduce costs, our regulators force them to overspend. For example, California's current RA program requires LSEs to buy energy capacity for the month even when they may only need one hour to meet their compliance requirement. This forces utilities to purchase far more energy capacity than they need – costs that are then passed to ratepayers. SB 1138 saves ratepayers millions on unnecessary costs by requiring the CPUC to update their rules and allow for transactions on an hourly basis, thereby limiting unnecessary purchases and reducing artificial market scarcity.

CCA's proposal for load obligation trading for RA compliance. California Community Choice Association (CalCCA) and its member CCAs have for several years requested changes at the CPUC to the RA program to allow for multi-LSE trading of hourly compliance requirements. The CPUC has generally rebuked these requests often citing the pending changes to the RA program from the implementation of the new slice-of-day framework, the added complexity, and administrative challenges of authorizing hourly trades. The RA program does allow for bilateral trade among LSEs. However, the CCAs believe hourly trading transactions among several LSEs would help reduce costs for all. They state that while LSEs can buy and sell RA products for the whole month, even though the obligations are unique to each hour. They allege that such a mismatch forces LSEs to purchase more RA than they need to meet their obligations which can create artificial scarcity that can drive up costs.

CPUC report on transactability. In response to the CCA's request for trading structure, the CPUC said it would evaluate the impacts of such a framework after the first year of the slice-of-day framework. This past month, the CPUC issued a

report, Report on Transactability within the Slice-of-Day Resource Adequacy Framework. The CPUC found that the limited evidence of need, uncertain magnitude of benefits, and heightened implementation risks, the staff concluded that the potential gains do not outweigh the added complexity and risk of unintended consequences. As such the staff recommended continued monitoring of market performance as the slice-of-day framework matures. However, the CCAs take issue with the CPUC's evaluation. They submitted comments in response to the report critical of the CPUC staff report's focus on ability rather than the costs to comply. They state that the report materially understates the avoided excess procurement and associated cost-savings that could be realized by load obligation trading.

Need for amendments. The CCAs' desire for trading among LSEs within the RA program has long been demonstrated. However, the CPUC has raised concerns about the approach, most especially the added complexity to the RA program. The CPUC's recent report on transactability also raises concerns about implementation risks. Though CCAs generally disagree with the report's findings, the need for some regulatory discretion seems important, particularly if the trading permitted by this bill results in undermining the RA program. The legislature may not wish to have to author a new bill to provide the CPUC with the needed ability to respond to unintended conditions. *In this regard, the author and committee may wish to amend this bill to afford the CPUC with the authority to adjust or eliminate the trading permitted by this bill within the RA program if it finds the trading undermines the reliability of the electrical system.*

Prior/Related Legislation

SB 913 (Becker) of 2026, proposes several changes to the RA program in order to authorize and expand the use of aggregated distributed energy resources. The bill is scheduled to be heard by this committee on Tuesday, April 7th.

AB 2368 (Petrie-Norris, Chapter 713, Statutes of 2024) made various changes to the RA program and integrated resources plan (IRP) at the CPUC in order to address challenges with electricity supply reliability.

AB 1373 (E. Garcia, Chapter Statutes of 2023) made numerous changes to electricity policy, most notably, authorized the Department of Water Resources (DWR) to serve as a central procurement entity to procure energy resources in order to help the state meet its renewable and zero-carbon energy resources and reliability goals. The bill also included numerous related and additional provisions.

AB 205 (Committee on Budget, Chapter 61, Statutes of 2022) authorized the DWR to contract for, purchase, finance or otherwise secure electrical generation to create additional capacity during extreme energy grid events, and established the Strategic Reliability Reserve to fund these actions.

SB 1158 (Becker, Chapter 367, Statutes of 2022) among its provisions, required the CPUC as part of the RA program to require every LSEs to annually report information regarding the sources of electricity and the emissions of greenhouse gases associated with those sources of electricity for RA requirements.

SB 1136 (Hertzberg, Chapter 851, Statutes of 2018) revised existing statute that required the CPUC, in consultation with the CAISO, to establish RA requirements for the state's LSEs.

SB 618 (Bradford, Chapter 431, Statutes of 2017) required, explicitly, the IRPs of all LSEs to contribute to a diverse and balanced portfolio of resources needed to ensure a reliable electricity supply, meet certain environmental goals, and prevent cost shifting among LSEs.

SB 350 (De León, Chapter 737, Statutes of 2015), among other things, increased the RPS and directed the CPUC to develop a process by which LSEs submit IRPs to the CPUC for review or for certification.

SB 1414 (Wolk, Chapter 627, Statutes of 2014) required utilities and regulators to include demand response in resource adequacy plans.

AB 380 (Nuñez, Chapter 367, Statutes of 2005) codified the CPUC's authority to establish RA standards for electric utilities and other LSEs.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

California Community Choice Association (Sponsor)
Luis A. Alejo, Monterey County Supervisor, District 1
Chris Lopez, Monterey County Supervisor, District 3
California Choice Energy Authority
Central Coast Community Energy
City of Belmont
City of Concord
City of Rancho Mirage
City of San Luis Obispo

City of Seaside
City of Walnut Creek
Clean Power Alliance
Marin Clean Energy
Orange County Power Authority
Peninsula Clean Energy
Pioneer Community Energy
San Diego Community Power
San Francisco Public Utilities Commission
San Jose Clean Energy
Silicon Valley Clean Energy
Sonoma Clean Power
Town of Hillsborough
Valley Clean Energy Alliance

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the California Community Choice Association:

> Today's RA rules make it difficult for CCAs to allocate resources efficiently, resulting in unnecessary costs and administrative hurdles. By allowing hourly transactions, CCAs can better match supply to local demand, reduce over-procurement, and protect customers from inflated electricity costs. The system becomes more transparent, predictable, and fair. These reforms could save tens of millions of dollars each year while maintaining reliability and supporting California's clean energy goals.

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