Date of Hearing: June 10, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
SB 1138 (Padilla) – As Amended April 9, 2026

SENATE VOTE: 31-0

SUBJECT: Load-serving entities: resource adequacy requirements

SUMMARY: Requires the California Public Utilities Commission (CPUC) to authorize load-serving entities (LSEs) to meet not more than 25% of their resource adequacy (RA) requirements by trading energy capacity with other LSEs.

EXISTING LAW:

1) Requires the CPUC, in consultation with the California Independent System Operator (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, non-generating, hybrid capacity and retention of existing generating, non-generating, and hybrid capacity that is economical and needed for reliability. Defines LSE, for the purpose of the RA program, as an electrical corporation, electric service provider (ESP), or community choice aggregator (CCA). (Public Utilities Code § 380)

2) Requires the 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 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)

4) Requires retail sellers, beginning January 1, 2021, to count at least 65% of their procurement toward Renewables Portfolio Standard (RPS) requirements from contracts of 10 years or more in duration or in ownership agreements for eligible resources. (Public Utilities Code § 399.13 (b))

5) Requires the CPUC to adopt a process for LSEs to file integrated resource plans that include ensuring system and local reliability on a short-term, midterm, and long-term basis. (Public Utilities Code § 454.52)

6) Prohibits an LSE or local publicly owned electric utility (POU) from entering into a long-term contract unless any baseload generation supplied under the long-term contract complies with the greenhouse gas emission performance standard established by the CPUC or California Energy Commission, as applicable. (Public Utilities Code § 8341)

FISCAL EFFECT: According to the Senate Committee on Appropriations, the CPUC estimates this bill will result in approximately $8.6 million (ratepayer funds) in annual, ongoing costs to implement.

BACKGROUND:

California's RA Program – Following the 2000–2001 California electricity crisis, the Legislature adopted reforms to reduce the risk of capacity shortfalls, reliability events, including rotating shortages, and insufficient procurement of generating capacity. AB 380 (Núñez, Chapter 367, Statutes of 2005) established the state's RA program and added Public Utilities Code Section 380, which directs the CPUC to establish procurement requirements and compliance rules for all LSEs, while the CAISO evaluates system and local reliability needs and determines if procured resources are sufficient to maintain grid reliability.[1]

LSEs – entities that supply electricity to customers – must purchase more power capacity than they expect to need (a "reserve margin") for the busiest time ("peak demand"), so there's always a buffer of extra resources ready if demand spikes or something goes wrong. The RA program is the compliance and enforcement program to ensure this adequate supply is always maintained. LSEs demonstrate compliance through annual and monthly filings, showing that their capacity is deliverable to areas with reliability needs. Resources are compensated for being available to provide electricity when called upon, namely during times of system stress, rather than for the actual production of energy. This is the core concept in the RA program of "deliverability."

Separately, the CEC develops electricity demand forecasts through the Integrated Energy Policy Report (IEPR), which establishes the demand assumptions used across state energy planning.[2] The CPUC uses these forecasts in its Integrated Resource Planning (IRP) process to identify long-term resource needs and in the RA program to set near-term capacity requirements.

RA Requirements and Compliance – The current RA program consists of system, local, and flexible requirements for each month of a compliance year. System requirements are determined for each LSE based on the CEC's IEPR electricity forecast plus an 18% planning reserve margin established by the CPUC.[3] Local requirements are based on annual studies conducted by the CAISO to ensure sufficient capacity is available in transmission-constrained areas under reliability scenarios, including a one-in-ten-year weather assumption and N-1-1 contingency conditions.[4] Flexible RA requirements are based on an annual study by the CAISO that identifies the largest three-hour ramp in each month and are intended to ensure sufficient flexible capacity is available to run the system reliably.[5]

In October, LSEs must demonstrate that they have procured 90% of their system RA obligations for the five summer months (May-September) of the following year. They must also show 100%

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[1] Public Utilities Code § 380 (a) (1)
[2] Public Utilities Code § 25302
[3] pg. 5, CPUC, "2026 Resource Adequacy and Slice of Day Guide," September 23, 2025, https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/resource-adequacy-compliance-materials/guides-and-resources/2026-ra-slice-of-day-filing-guide.pdf
[4] N-1-1 Contingency: A sequence of events consisting of the initial loss of a single generator or transmission component (Primary Contingency), followed by system adjustments, followed by another loss of a single generator, or transmission component (Secondary Contingency).
[5] CPUC; "2026 Resource Adequacy and Slice of Day Guide"; pp. 9 (Table 1); Issued September 23, 2025

of their local requirements, and 90% of their flexible requirements for each month of the compliance year. There is an additional monthly reporting requirement for RA, where LSEs must demonstrate they have procured 100% of their monthly compliance across system and flexible RA obligations.

Slice-of-Day Framework – The CPUC is shifting the RA program away from a monthly peak approach and toward a slice-of-day (SOD) framework that evaluates if sufficient capacity is available in each hour of need**.** In 2021, the CPUC determined that this approach better reflects evolving grid conditions, including increased renewable penetration, shifting load profiles, and the growing role of energy storage.[6] Implementation began in 2023, with 2024 serving as a test year and 2025 as the first compliance year.[7] Under SOD, LSEs must demonstrate they have procured sufficient capacity to meet hourly demand plus a planning reserve margin (approximately 17%), evaluated for each hour of the most stressed day in each month.

RA Hourly Trading – The CPUC has repeatedly engaged with, but consistently declined to authorize, hourly peer-to-peer (LSE-to-LSE) RA capacity trading under the SOD framework. As far back as 2022, the CPUC signaled openness, noting "if transactability and inefficiency concerns arise once the new 24-hour framework is implemented, the Commission may consider proposals to include hourly obligation trading."[8] The California Community Choice Association (CalCCA) subsequently proposed a mechanism whereby LSEs could trade hourly capacity obligations with one another, arguing it would deliver over $180 million in annual ratepayer savings by aligning RA obligations more precisely with actual resource availability.[9]

The proposed mechanism works like a brokered auction: an intermediary announces prices, LSEs with surplus RA capacity in specific hours offer to sell and LSEs that are short in those same hours bid, and the broker matches them — effectively letting one LSE "take on" another's hourly obligation in exchange for payment, so that no LSE has to buy extra capacity from the external market just to cover a gap in a single hour. The excess arises not from LSEs hoarding but from the structural mismatch of the SOD framework itself: because each LSE's load shape and resource portfolio are different, a utility with lots of solar will naturally be long in midday hours but short in evening hours, while another with more thermal or storage capacity might be the opposite. It is not that anyone has spare peak capacity to give away; rather, it is that different LSEs have different peak hours depending on their specific load curves.

In June 2025, the CPUC rejected the CalCCA proposal, citing the need for further analysis.[10] Rather than authorizing trading, the CPUC directed Energy Division staff to prepare a report on SOD transactability, which was released in February 2026.[11] The report concluded that California's first year of binding SOD RA compliance showed no material transactability

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[6] CPUC, *Decision Requiring Procurement to Address Mid-Term Reliability (2023–2026)*, Decision 21-06-035; Adopted June 24, 2021; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M389/K603/389603637.PDF
[7] CPUC, *Decision Adopting Local Capacity Obligations for 2024–2026, Flexible Capacity Obligations for 2024, and Reform Track Framework*, Decision 23-06-029; Adopted June 29, 2023; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M511/K140/511140071.PDF
[8] Pg. 97, D. 22-06-050; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M488/K540/488540633.PDF
[9] Andrew Mills, "Effective Mechanisms for Slice-of-Day RA Trading," April 24, 2025; https://cal-cca.org/wp-content/uploads/2025/04/4.24.25_Effective-Mechanisms-for-Slice-of-Day-RA-Trading.pdf
[10] Pg. 87, D. 25-06-048; https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M571/K237/571237404.PDF
[11] Draghi, Z. and Gannon, J., et al., *Report on Transactability within the Slice of Day Resource Adequacy Framework,* February 2026, https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M599/K960/599960179.PDF

problems – all LSEs successfully met their hourly obligations by the month-ahead deadline – and therefore the CPUC recommended against implementing hourly load obligation trading, citing limited demonstrated need, uncertain cost savings, and added administrative complexity.

On June 1, 2026, the CPUC issued a Proposed Decision which again rejected the CalCCA SOD transactability proposal, upholding the conclusions from the February staff report.[12] The Proposed Decision flags five unresolved issues in CalCCA's proposal: departing load calculation rate impacts, IOU competitive inequities, CAISO coordination, interaction with the CPUC's new procurement framework,[13] and proof that cost savings would deliver a net benefit to all load. The CPUC noted that these issues would need to be worked out before further consideration, concluding: "the Commission will continue to monitor the RA market and compliance filings as the SOD framework matures. Reconsideration of any hourly obligation trading proposal would need to demonstrate not only that transactability issues exist under the current RA framework, but also that the proposed mechanism would address the outstanding issues outlined above."[14]

COMMENTS:

1) *Author's Statement.* 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 Resource Adequacy 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 PUC to update its rules and allow for transactions on an hourly basis, thereby limiting unnecessary purchases and reducing artificial market scarcity."

2) *Purpose of Bill.* California's current RA program only allows LSEs to trade capacity on a monthly basis, but under the new SOD framework, compliance obligations are assessed hourly — a mismatch that CCAs argue forces over-procurement and drives up costs. This bill would allow LSEs to fulfill up to 25% of their RA obligations through hourly trades of excess capacity among LSEs, a mechanism CCAs argue would reduce costs by better aligning trading with hourly compliance requirements. The CPUC has resisted this approach many times, as detailed in the background, finding insufficient evidence of need and citing implementation risks outweighing potential benefits. The issue of hourly trading remains actively debated at the CPUC and is a topic in a pending Proposed Decision, where the CPUC notes at least five issues that would need to be resolved before trading could be considered. This bill requires the CPUC to authorize these trades but includes a safety valve allowing the CPUC to adjust or eliminate the trading allowance if it threatens planning reserve margins (i.e., system RA).

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[12] June 1, 2026 Proposed Decision, *Decision Adopting Local Capacity Obligations for 2027-2029, Flexible Capacity Obligations for 2027, and Program Refinements,* R. 25-10-003; https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M608/K058/608058096.PDF

[13] RCPPP = Reliable and Clean Power Procurement Program

[14] Pg. 124, June 1, 2026 Proposed Decision, *Decision Adopting Local Capacity Obligations for 2027-2029, Flexible Capacity Obligations for 2027, and Program Refinements,* R. 25-10-003; https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M608/K058/608058096.PDF

3) *Need for clarification.* While this bill grants broad authority to implement the RA trading sought by the CCAs, it lacks implementation details. Two clarifying amendments are recommended to prevent unintended consequences: 1) confirming that LSE participation in RA peer-to-peer trading is voluntary; and 2) that the 25% cap applies to peer-to-peer transactions, not the broader RA program. The author and sponsors have confirmed this is their intent.
accomplish this clarification.

4) *Related Legislation.*

   AB 2266 (Schultz) requires the CPUC, by January 1, 2030, to use a single, uniform capacity valuation method when setting the RA and resource procurement obligations of each LSE and to initiate a process to consolidate LSE compliance reporting across the RA, Integrated Resource Plan (IRP), and Renewables Portfolio Standard (RPS) programs into a single reporting framework. Status: *pending hearing* in the Senate Committee on Energy, Utilities, and Communications.

   SB 913 (Becker) proposes several changes to the RA program to authorize and expand the use of aggregated distributed energy resources. Status: set for hearing on June 24, 2026, in this committee.

5) *Prior Legislation.*

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

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

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

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

REGISTERED SUPPORT / OPPOSITION:

Support

Ava Community Energy
Ava Community Energy Authority
California Choice Energy Authority (CALCHOICE)
California Coalition of Large Energy Users
California Community Choice Association
California State Association of Counties (CSAC)
City of Rancho Mirage

City of San Mateo
Clean Energy Alliance
County of Monterey
League of California Cities
Local Government Climate Policy Alliance (LGCPA)
Marin Clean Energy (MCE)
Marin County Board of Supervisors
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
The Climate Reality Project Orange County Chapter
The Climate Reality Project San Diego Chapter
The Climate Reality Project, California State Coalition
The Climate Reality Project, Los Angeles Chapter
The Climate Reality Project, Sacramento Chapter
The Climate Reality Project, San Fernando Valley CA Chapter
Town of Hillsborough
Valley Clean Energy Alliance

Opposition

None on file.

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