

**VALLEY CLEAN ENERGY
COMMUNITY ADVISORY COMMITTEE**

Staff Report - Item 6

TO: Community Advisory Committee

FROM: Mitch Sears, Chief Executive Officer
Yvonne Hunter, Legislative and Projects Specialist
Mark Fenstermaker, Pacific Policy Group; VCE Lobbyist

SUBJECT: SB 540 (Becker). Regional Organization. West-wide Governance Pathways Initiative

DATE: March 27, 2025

RECOMMENDATION

This is an informational item; no action is recommended at this time.

Process note: The Community Advisory Committee Legislative/Regulatory Task Group (LRTG) met on March 14 to continue discussions about the Pathways Initiative and SB 540. It recommended a two-step process for the Community Advisory Committee (CAC) to consider and possibly recommend a VCE position on SB 540. Thus, the CAC will consider SB 540 at two meetings. The first will be a briefing at the March 27 meeting to provide the CAC with basic background information about SB 540 and the Pathways Initiative along with questions and discussion. The second will be at a later CAC meeting, anticipated to be in April, to further discuss SB 540, respond to questions raised at the first meeting and consider whether to recommend that VCE adopt a position on SB 540, based on a recommendation from the LRTG adopted at a Task Force meeting.

To help frame the context for the proposed new Regional Organization for energy markets envisioned by SB 540, CAC Task Group member Lorenzo Kristov will present an overview of California's involvement in existing regional energy markets at the March 27th CAC meeting.

BACKGROUND

The Path to the Pathways Initiative. Material prepared by the Senate Energy, Utilities and Communications Committee for a special March 12 hearing on the Pathways Initiative provides an explanation of the Pathways Initiative's (and thus SB 540) origins, processes and conclusions. Links to the full document and Bill language are provided below.

"In July 2023, a group of regulators, including California Public Utilities Commission (CPUC) President Reynolds and California Energy Commission (CEC) Vice Chair Gunda, along with

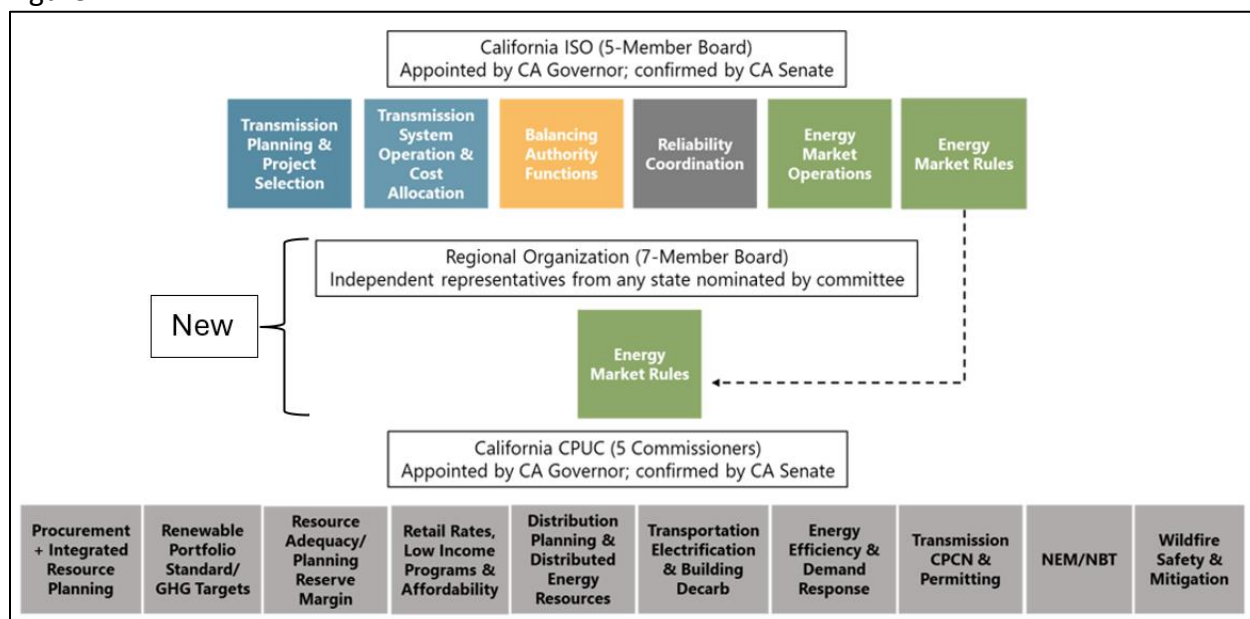
regulators from Arizona, New Mexico, Oregon, and Washington called for a viable path to electricity market inclusive of all Western states, including California, with independent governance. The regulators’ call came in the form of a letter addressed to the Committee on Regional Electric Power Cooperation (CREPC) and the Western Interstate Energy Board (WEIM) whereby regulators expressed a common commitment in seeking the benefits of an expanded regional energy market and encouraged stakeholders to participate in the effort and shape the approach.

This call was preceded by previous unsuccessful legislative attempts to regionalize California’s main electric grid across the West. In the roughly year and a half since the effort was initiated by the regulators’ letter, a stakeholder driven process has culminated in broad support among diverse parties – including environmental, labor, local publicly owned utilities, community choice aggregators, and others – for what is referred to as the West-Wide Governance Pathways Initiative (Pathways Initiative).

Unlike previous attempts which sought to authorize the expansion of the main electric grid and all the functions operated by the California Independent System Operator (CAISO), the Pathways Initiative has proposed an expansion of the energy market functions of the CAISO, preserving the other functions (including transmission, reliability, balancing authority, etc.). Specifically, the Pathways Initiative has proposed the development of a new regional organization to oversee the energy markets functions of the CAISO.”

Figure 1 below shows the basic structure of the proposal, calling out the new elements: (1) creating a new 7-member regional board and (2) shifting energy market rulemaking from the CAISO to the new regional board. All other existing functions remain with the CAISO and CPUC, respectively.

Figure 1



SB 540 (Becker and Stern) was introduced February 20 and reflects the final proposal adopted by the Pathways Initiative stakeholder group.

Reference links:

- SB 540 Bill language:
https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260SB540
- Senate Energy, Utilities and Communications Committee Informational hearing on the Pathways Initiative, March 12, 2025 (background document):
<https://seuc.senate.ca.gov/system/files/2025-03/03-12-20-background-lh.docx.pdf>

What the Pathways Proposal and SB 540 Would Do. SB 540 would implement the final Pathways Proposal.

According to information provided by the author's office and CalCCA, SB 540 would:

- Allow for the creation of an expanded western electricity market overseen by a regional organization (RO), an independent entity with specific protections for individual state policies and the public interest.
- Leave the CAISO board intact and instead, would move a single CAISO function—energy markets—to governance by a new regional organization (RO) and a board constituted from across the West.
- Authorize the California Independent System Operator (CAISO) and California utilities to participate in energy markets governed by the RO once CAISO demonstrates that several statutory requirements are met. These include:
 - Confirming that California regulatory agencies and CAISO retrain control of the Renewable Portfolio Standard and other procurement requirements, climate policy, transmission planning and CAISO's interconnection queue, and resource adequacy requirements. This is intended to preserve and protect the regulatory authority of California, as well as local governments, CCAs and other Load Serving Entities.
 - Providing a procedure for withdrawal from the market if it no longer benefits California.
 - Maintaining the capability for CAISO to operate its own market if California decides to withdraw from the RO.
 - Ensuring the RO makes decisions in an open process.
 - Making funding available for consumer advocates to engage in the process.

What Do Supporters and Opponents of a Regional Organization and SB 540 Say?

Supporters. Supporters include stakeholders from the Pathways Initiative, including CalCCA (as well as individual CCAs). They believe SB 540 will lower energy bills, improve grid reliability, and reduce pollution while retaining control over California's procurement, environmental, reliability, and other public policies. They note that SB 540 protects California's existing regulatory authority over procurement, GHG and other energy related decisions while providing an off-ramp for California to withdraw from the Regional Organization if it does not result in the benefits envisioned or restricts California's regulatory authority.

Opponents. While as of this writing there is no "organized" or formal opposition to SB 540, several individuals have expressed opposition to the Pathways Initiative and SB540. They include former CPUC Chair Loretta Lynch. They note that SB 540 could result in California losing its authority to set climate and energy efficiency goals, give the current federal administration and the Federal Energy Regulatory Commission (FERC) more control over California energy policy, enable coal producers to gain a greater share of the California electricity market, and further prioritize utility scale generation/transmission over more localized distributed energy resources (DERs).

NEXT STEPS

Consistent with the process suggested by the LRTG described above, staff recommends that the CAC discuss SB 540, pose questions and engage in an initial background discussion about the bill at its March 27 meeting. The topic would return to the CAC at its next meeting, along with a recommendation from the LRTG on whether VCE should take a position on SB 540 and if so, what position. The recommendation from the CAC (and LRTG) would be forwarded to the VCE board for consideration, along with a staff recommendation.