



## Unlocking the West: How AB 825 Revolutionizes California's Clean Energy Future

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### West-Wide Governance Pathways Initiative and AB 825

In 2023, the West-Wide Governance Pathways Initiative (Pathways Initiative) launched a collaborative effort by Western state energy regulators to design an Independent Regional Organization (IRO), which would be an independently governed regional electricity market covering most of the Western United States<sup>1</sup>, to enhance reliability, reduce costs, and accelerate clean energy deployment.<sup>2</sup> The Pathways Initiative will be implemented through a multi-step, phased approach. Step 1 changed existing legal framework to increase the authority of the Western Energy Markets (WEM) Governing Body relative to the California Independent System Operator (CAISO) Board of Governors.<sup>3</sup> Step 2 will set out the primary building blocks of the new IRO, including the IRO's scope, function, formation, governance, public interest protections, and stakeholder engagement process. A crucial piece of Step 2 is California's participation in the IRO, which required legislative amendments.

On September 19, 2025, Governor Gavin Newsom signed Assembly Bill 825 (AB 825),<sup>4</sup> which would authorize CAISO to transfer certain market functions to the IRO if certain statutory requirements are met, thereby enabling California's fuller participation in a West-wide market under independent governance. AB 825 amends the Public Utilities Code to permit CAISO and participating transmission-owning utilities to join or transition CAISO's market functions to an IRO-governed market. Under AB 825, the IRO would manage CAISO's Western Energy Imbalance Market (WEIM)<sup>5</sup>

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<sup>1</sup> <https://www.caiso.com/documents/extended-day-ahead-market-edam-fact-sheet.pdf> (the new IRO will regulate the WEIM, which already has 22 entities in 11 western states, and the EDAM, which will cover a similar geographical footprint).

<sup>2</sup> <https://www.westernenergyboard.org/wwwpi/>

<sup>3</sup> <https://www.caiso.com/documents/decision-on-west-wide-governance-pathways-step-1-implementation-memo-nov-07-2024.pdf> (The Pathways Step 1 proposal has three elements (1) elevate WEM Governing Body decision-making from Joint Authority to Primary Authority, (2) modify current dispute resolution process to include a dual filing option, and (3) augment language about considering the public interest.); <https://www.caiso.com/about/news/news-releases/public-service-company-of-new-mexico-commits-to-join-the-extended-day-ahead-market> (After Public Service Company of New Mexico became the 7<sup>th</sup> utility to formally commit to join the CAISO's EDAM, the WEM Governing Body obtained primary decision-making authority over CAISO tariff provisions that apply to EDAM and the WEIM); <https://stakeholdercenter.caiso.com/StakeholderInitiatives/west-wide-governance-pathways-step-1#:~:text=The%20West%2Dwide%20Governance%20Pathways,changes%20on%20April%202%2C%202025>. (FERC approved CAISO's Tariff amendments)

<sup>4</sup> <https://legiscan.com/CA/text/AB825/id/3250273>

<sup>5</sup> <https://www.westerneim.com/Pages/About/default.aspx> (the Western Energy Imbalance Market is a real-time energy market that automatically finds low-cost energy to serve real-time consumer demand across the west)

and the pending Extended Day-Ahead Market (EDAM)<sup>6</sup>, while CAISO would retain responsibility for grid-balancing operations, resource adequacy and reliability, transmission planning, and policy implementation.<sup>7</sup>

The transition to IRO oversight would not be immediate or automatic. Rather, the regional market transition under IRO governance may commence on or after January 1, 2028, subject to: (1) the IRO satisfying specific statutory criteria (discussed below), (2) CAISO adopting a resolution finding that the statutory criteria have been satisfied, and (3) FERC approval of the IRO's tariff. Moreover, the California Public Utilities Commission (CPUC) must make a formal finding (via decision) that those criteria have been met before "electrical corporations that are participating transmission owners whose transmission systems are operated by the Independent System Operator" may participate.<sup>8</sup>

Because participation in regional markets raises concerns about ceding control over state-level policy, AB 825 imposes a "guardrail checklist" in § 345.6 to the Public Utilities Code, which establishes 13 discrete conditions that must be satisfied by the IRO (and embedded in its governance and tariff) to allow CAISO and California transmission-owning utilities to use voluntary energy markets under the IRO.<sup>9</sup>

1. Respect for State Authority: The IRO must be a nonprofit corporation, and its governance documents and FERC-approved tariff must include a requirement to respect each participating state's authority over procurement, resource adequacy, environmental, reliability, and other public interest policies, and oversight over its regulated entities. This guardrail should ensure the IRO cannot override or dilute state-level clean energy, procurement, RA, or environmental policies.
2. Public Policy Committee: The IRO governing board must maintain a public policy committee, composed of board members, that engages with states, local power authorities, and federal power marketing administrations about potential impacts of policy/tariff changes before approving tariff changes for FERC submission. This guardrail provides a mechanism for policy oversight and coordination ahead of tariff amendments.
3. Relationship with State Regulators: The IRO board must maintain a relationship with, and seek input from, a body of state regulators (or similar) to receive the viewpoints of state regulators. This guardrail ensures that state regulators have an institutional voice in the IRO process.
4. Funding for Consumer Advocate: The IRO must make funding available for a consumer advocate organization (or offices) authorized under state law (e.g. CPUC's Public Advocates Office) and facilitate their engagement with the IRO. This guardrail is intended to promote consumer protection and representation in the IRO process.
5. Office of Public Participation: The IRO must maintain an office of public participation to inform the public, facilitate engagement, and provide education on IRO issues/initiatives. This guardrail is intended to ensure transparency and public outreach in IRO operations.
6. Independent Market Analysis: Beyond required independent market monitoring, the IRO must maintain access to independent market analysis for the board to assess impacts of market dynamics or rule changes with the goal of minimizing cost to end-use consumers.
7. Data Access: Subject to confidentiality, market data must be made available to the CPUC, the Public

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<sup>6</sup> <https://www.caiso.com/documents/extended-day-ahead-market-edam-fact-sheet.pdf> ("The Extended Day-Ahead Market (EDAM) is a voluntary day-ahead electricity market designed to deliver significant reliability, economic, and environmental benefits to balancing areas and utilities throughout the West.... The EDAM design was jointly approved by the CAISO Board of Governors and the Western Energy Markets (WEM) Governing Body in February 2023, and the associated tariff has been fully approved by the Federal Energy Regulatory Commission (FERC)... The EDAM will launch in 2026 with the participation of PacifiCorp and Portland General Electric (PGE), with additional participants committed to join in 2027 and beyond.")

<sup>7</sup> <https://www.westernenergyboard.org/wp-content/uploads/Pathways-Initiative-Step-2-Final-Proposal.pdf> (pg. 3); [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202520260AB825](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB825) (Public Utilities Code Section 345.6(g)(3))

<sup>8</sup> [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202520260AB825](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB825) (Public Utilities Code Section 345.6(c))

<sup>9</sup> [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202520260AB825](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB825) (Public Utilities Code Section 345.6 (a) (1)-(13))

Advocates Office, and states' commissions or advocate offices, to the same or greater extent as existed as of December 31, 2024, for CAISO markets. This guardrail preserves regulatory visibility and oversight over market activity.

8. Stakeholder Advisory Process: The IRO must maintain a stakeholder process that provides nonbinding advice to the board. This guardrail ensures that market participants and stakeholders have a formal voice, similar to what already exists under CAISO.
9. Transparent Governance: The IRO is obligated to conduct meetings and make decisions in an open process with transparent, documented rationales, and all meetings of the governing board of the IRO are publicly noticed, open to the public, recorded and posted on the IRO's website. This guardrail supports fairness and rulemaking transparency, similar to what already exists under CAISO.
10. Continued Market Functionality: The CAISO will continue to operate the energy markets until such time that market rules determined by the IRO are accepted by FERC. This guardrail ensures continued market functionality during and transitional phase.
11. GHG Transparency: The IRO must provide greenhouse gas emissions information and protocols sufficient to enable compliance with the requirements of any state agency. This guardrail will ensure that California's numerous programs regulating GHG's (e.g. CPUC's RPS program or CARB's Cap-and-Trade program) will continue without disruption.
12. Voluntary Participation: All IRO services must be voluntary, each participant retains decision-making autonomy over how much it participates. This guardrail ensures that participating entities (i.e. CAISO or an electrical corporation that is a participation transmission owner whose transmission system is operated by the CAISO) cannot be forced into full participation, rather participating entities can pick and choose IRO services.
13. Unilateral Withdrawal: The IRO's tariff must provide a procedure for unilateral withdrawal from energy markets by any participant (or state) with reasonable prior notice and without penalties, unreasonable costs, or additional discretionary approvals. This guardrail ensures that dissatisfied participating entities may withdraw at any time without penalty.

## Potential Benefits for Renewable Energy Developers

We anticipate that the establishment of an IRO may significantly benefit renewable energy developers in several ways.

First, a larger, regional market may significantly reduce the need to curtail, or waste, renewable energy. Currently, the California grid is often unable to accommodate surplus solar or wind generation capacity. In such cases, CAISO is forced to curtail generation resources resulting in lost revenues for owners of renewable energy assets. The expanded market would allow this excess clean power to be exported to other Western states. To be clear, the IRO's expanded footprint across the Western United States will not "expand the types of transactions" that meet the requirements of California's RPS program compared to the types of transactions that would qualify as of December 31, 2025. This means that the IRO's expanded footprint will not benefit any resources outside of CAISO's balancing authority area in terms of qualifying a resources output for California's RPS program.

Broader market access is a second potential benefit. The new regional market would allow California's renewable and storage resources to be sold to a much broader customer base across the West, and should create greater efficiencies for developers and owners of energy projects, by enabling load optimization and expanded transmission paths to major load centers throughout the Western United States. Such expanded market opportunities created by the IRO may also bolster lender confidence when investing in renewable projects. For example, the IRO's closely coordinated and optimized regional market could potentially instill greater lender and investor confidence that a

generating project will no longer be subject to frequent and prolonged curtailments. Similarly, with a larger pool of potential buyers, lenders and investors may develop a greater degree of confidence that replacement power purchase agreements could be more easily obtained in the event of an early termination.

### **California's Transition into a Western Regional Energy Market**

AB 825 marks more than incremental reform. The legislation creates a path toward a foundational transformation of wholesale electricity market governance in the Western United States. As California pursues aggressive decarbonization targets (e.g. 100 % clean electricity by 2045), the regional market would provide enhanced access to import renewables generated throughout the region when demand is high, while similarly facilitating the export of excess renewable generation that otherwise would have been curtailed. AB 825 helps unlock scalable and flexible grid solutions by making it easier to balance, dispatch, and integrate renewable resources across a wider footprint. Given California's size, demand growth, climate challenges, and leadership role in the implementation of clean energy, AB 825 may enable California to remain dominant in the renewable energy industry.

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