

Memorandum

To: CAISO Board of Governors

From: Mary McDonald, Director of State Affairs
Terri Moreland, Director of Federal Affairs
Karen Edson, Vice President of External Affairs

Date: August 29, 2008

Re: *Status of State and Federal Legislative Matters*

This memorandum does not require Board action.

STATE AFFAIRS

State budget

The state budget is now more than 50 days late with no resolution in sight. Democrats maintain that the best way to close the massive budget deficit is to impose \$6.7 billion in new taxes on the wealthiest Californians. Republicans, on the other hand, favor spending cuts and a strict spending cap. Increasing taxes and imposing a hard cap on spending are the two key issues stalling the budget. The Governor has his own proposal to raise revenue with a one cent sales-tax increase.

Passage of the budget requires a two thirds vote. In the State Assembly this translates into 53 of 80 votes. The Assembly voted on Sunday, August 17 in an emergency session, but the budget fell eight votes short of passing. No Republicans voted in favor. It takes at least six Republican votes to reach a two-thirds majority.

State legislative schedule

The Constitutional deadline for passing bills is August 31 (Art. IV, Sec 10 (c)), after which the Governor has 30 days to sign or veto the bills (Art. IV, Sec. 10 (b)(2)). The 2007-2008 legislative session ends on November 30 at midnight. A new session begins on December 1, after the November general session.

Key Legislation

Status of AB 2466 (Laird) Local government renewable energy self-generation program.

08/18/2008-Senate amendments concurred in. Bill now goes to enrollment. Authorizes a local government entity to receive a credit on their electric bill for power generated from a renewable energy facility that generates more energy than is needed to serve the electrical load of the governmental entity owned or controlled site where the facility is located.

Status of AB 2791 (Blakeslee) Energy: Waste Heat and Carbon Emissions Reduction Act.

08/01/2008-Chaptered by the Secretary of State, Chapter Number 253, Statutes of 2008.

This bill expands the definition of eligible customer under the *Waste Heat and Carbon Emissions Reduction Act* to include a federal, state, or local government facility. This bill also prohibits any state agency's acquisition of a combined heat and power facility, financed pursuant to the *Waste Heat and Carbon Emissions Reduction Act*, until legislative notification, as specified, has been made by the Department of Finance.

Status of SB 410 (Simitian) Energy: renewable energy resources.

08/05/2008-From inactive file to Assembly third reading file. This bill revises payment and reporting criteria for existing renewable energy facilities and makes other minor and technical changes.

Status of SB 980 (Padilla) Energy: local publicly owned electric utilities: adequacy of electric distribution system.

08/13/2008-From inactive file to Assembly third reading file.

Requires the California Energy Commission (CEC) to evaluate, by November 1, 2009, the adequacy of the electric distribution system of local publicly owned electric utilities that meet specific criteria as part of its integrated energy policy report (IEPR). CEC shall compare the adequacy of the electric distribution systems of local utilities with investor-owned electric utilities (IOUs).

Status of SB 1512 (Wiggins) Private energy producers: agricultural customer-generators.

08/04/2008-From Consent Calendar to Assembly third reading. Placed on inactive file on request of Assembly Member Torrico. This bill permits an agricultural customer, who uses solar or wind generation to offset the customer's own electrical needs, to aggregate the electricity use of properties adjacent or contiguous to the generator that are under the same ownership, for purposes of net-metering the customer's energy consumption.

Status of SB 1714 (Negrete McLeod) Renewable electric generation facilities. 08/11/2008-Read second time. To Assembly third reading. Expands an existing program that requires utilities to purchase electricity from small-scale renewable electricity generators owned by a public water or wastewater agency to include renewable electricity produced by any customer of an electric utility and to allow for larger renewable generating facilities to be eligible for the program.

Status of SB 1760 (Perata) Energy: greenhouse gas emissions. 08/11/2008-Read second time. To Assembly third reading. This bill codifies the structure, membership, and responsibilities of

the Climate Action Team (CAT), an entity created by the governor by executive orders in 2005 and 2006.

FEDERAL AFFAIRS

The 110th Congress recessed on August 8 for a month-long district work period. Domestic energy resource availability and global climate concerns have moved to the forefront of policy debates, but with the national elections on the horizon, little time or political will remains for progress on either of these issues.

One item that has high priority for action on both sides of the aisle is extension of the investment and production tax credits for renewable energy and energy efficiency that expire on December 31, 2008. These extensions have remained stalled throughout the year despite numerous attempts to include them in legislation because of disagreements over how their costs will be offset – a requirement of House “pay as you go” budget rules -- and other divisive issues unrelated to the extensions. Senate Majority Leader Harry Reid (D-NV), Minority Leader Mitch McConnell (R-KY), House Speaker Nancy Pelosi and others in leadership are continuing discussions in an attempt to work out an acceptable plan that identifies the necessary spending cuts or revenue increases to offset the tax incentive extensions. A different approach to incenting green energy projects is contained in legislation introduced by Congressman Mike Honda (D-Campbell) and others that would guarantee rates for renewable energy, with mandatory prices to be established by FERC and mandatory purchase requirements for long-term contracts. The Honda legislation is modeled after “feed-in tariff” practices currently used in some European countries.

Global climate legislation is not expected to advance this year, following dozens of hearings on the issue in both chambers and an unsuccessful attempt to gain Senate cloture on the Lieberman-Warner bill in June. Speaker Pelosi and Majority Leader Reid have been clear that action on the issue will be a major priority for the next Congress. Significantly, House Energy and Commerce Committee Chairman John Dingell (D-MI) has directed his staff to begin drafting legislative language for a cap-and-trade bill during the August recess.

An additional priority item for California is increased federal funding for suppression of wildfires, which present a threat to transmission assets throughout the season. Congress is expected to fund most federal programs through a six-month Continuing Resolution, providing flat funding for federal agencies and leaving final decisions on spending amounts to the next Congress and Administration. However, Senator Dianne Feinstein, who chairs the Senate Interior Appropriations Subcommittee, is seeking \$910 million in emergency funding to address shortfalls in the Forest Service and Department of Interior budgets for wildfire suppression and related activities. Senator Feinstein has recently brought state, local and national policymakers together to highlight the need for quick action on the issue.