

Memorandum

To: ISO Board of Governors
From: Mary McDonald, Director of State Affairs
Terri Moreland, Director of Federal Affairs
Karen Edson, Vice President of External Affairs
Date: July 1, 2008
Re: *Status of State and Federal Legislative Matters*

This memorandum does not require Board action.

State Affairs

State Legislative Schedule:

We are nearing the end of the current two year legislative session, which will conclude on August 31. However, the Legislature and the Governor have yet to reach a compromise on the state budget. In light of a \$17 billion budget shortfall, much work remains to be done.

The Legislature will take summer recess from July 3 through August 4. The last day to pass legislation is August 31. The Governor will then have the following month to either sign or veto bills. September 30 is his deadline for doing so.

On May 13, Assembly Member Karen Bass took over the position of Assembly Speaker. She has already made several appointments, including Assembly Member Alberto Torrico as Majority Leader. She has also named four committee chairs as well as three "chairperson designees." These appointments will become effective December 1, at the beginning of the next legislative session. The future chair of the Utilities and Commerce Committee has yet to be chosen.

Ballot Initiatives:

Two major environmental initiatives will now be in the hands of California voters, as they have officially qualified for the November 4th ballot. The first, "The Solar and Clean Energy Act of 2008," aims to accelerate the use of renewable energy by requiring all utilities, including government-owned utilities, to generate 20% of their power from renewable energy by 2010, 40% by 2020 and 50% by 2025.

The other, "The California Renewable and Clean Alternative Fuel Act" authorizes \$5 billion in bonds paid from the state's General Fund, allocated approximately as follows:

- 58% in cash payments of between \$2,000 and \$50,000 to purchasers of certain high fuel economy and alternative fuel vehicles
- 20% in incentives for research, development and production of renewable energy technology
- 11% in incentives for research and development of alternative fuel vehicle technology
- 5% in incentives for purchase of renewable energy technology
- 4% in grants to eight cities for education about these technologies
- 3% in grants to colleges to train students in these technologies.

Federal Affairs

Energy Market Oversight:

The U.S. House of Representatives voted to approve the Farm Bill by a veto-proof margin on May 14 and the Senate followed suit the following day. The bill contained Senator Dianne Feinstein's "Close the Enron Loophole" provisions, which would require energy traders using electronic platforms to provide an audit trail, increase oversight of electronic markets, and significantly increase financial penalties for market manipulation and excessive speculation. The provisions also give the CFTC oversight of electronic contracts significant in determining commodity market prices. Language clarifying continued FERC jurisdiction over day-ahead and hour-ahead markets was included in the conference report.

Climate Change:

Senate Environment and Public Works Committee Chair Barbara Boxer issued a draft "Manager's Amendment" of "The Lieberman-Warner Climate Security Act" (S. 2191) on May 20. The amendment incorporated a number of additional provisions intended to neutralize opposition to the bill (including tax relief for low- and moderate-income consumers; transition assistance for carbon-intensive manufacturers, fossil fuel-fired electricity generators, and others; and programs to protect natural resources). It also included revisions worked out with the Congressional Budget Office to make the bill budget neutral. Senate Majority Leader Harry Reid (D-NV) brought the bill to the Senate floor on June 2, as promised, but it faced obstacles almost from the beginning due to a series of parliamentary maneuvers designed to block any actual debate on the bill or on any amendments by Senators of either party. Consideration of the measure ended on June 6 when it failed to gain enough votes for cloture. In the end, seven Republicans joined 34 Democrats and two Independents to move toward passage of the legislation. Senator Boxer said she would begin additional negotiations with swing-vote lawmakers from the Midwest who have concerns about the bill, but will not issue a new legislative proposal until next year.

In the House, Energy and Commerce Committee Chair John Dingell (D-MI) said on June 2 that he would begin hearings during June on both the Lieberman-Warner bill and a House bill (H.R. 6186) introduced by Congressman Ed Markey, who chairs the House Select Committee on Energy Independence and Global Warming. The first hearing, on June 19, included a host of witnesses from the energy industry, labor organizations, and environmental groups, as well as from manufacturing, agriculture and government. Speaker Pelosi has acknowledged that House passage of climate change legislation is unlikely this year. It is anticipated that Pelosi will involve numerous additional committees in writing separate portions of a Climate bill that will then be folded together into a comprehensive package, a strategy that Pelosi employed successfully in passage of the 2007 omnibus energy act.

Tax Incentives for Renewable Energy:

Continued efforts to extend expiring tax incentives for wind and solar energy remain thwarted by the need for revenue offsets, a requirement under House rules. The Senate has several times rejected House-passed proposals that would offset incentives by rescinding tax breaks for oil companies, delaying tax breaks for multinational corporations, or revising rules for hedge fund managers' offshore deferred income. In mid-June, Senate Finance Committee Chairman Max Baucus (D-MT) introduced a new version of the incentives package that included incentives for plug-in hybrid vehicles, clean coal technologies and energy efficiency, as well as several non-energy provisions aimed at attracting additional votes, but the Senate again fell short of the votes needed to bring the measure to the floor. Senate leaders on both sides of the aisle are now engaged in trying to work out a compromise on offsets that will enable a floor vote.

Transmission for Renewables

The Senate Energy and Natural Resources Committee held a hearing on June 17 focused on the development of transmission for renewable energy, the first such hearing ever held before Congress. Witnesses included representatives of utilities, renewable energy industries and state and federal government. Majority Leader Harry Reid noted that legislation he has introduced, S. 2076, would promote investment in renewables by directing the President to identify and designate zones where renewable energy resources can generate at least 1000 megawatts of electricity and providing federal financing through the Power Marketing Administrations to build transmission lines to connect these "renewable energy zones" to the grid. The bill also clarifies that FERC should allow transmission utilities to recover prudently incurred costs for interstate high-voltage lines and should allow for a systems charge on intrastate trunklines that would decline as more renewables are added. Investor T. Boone Pickens told the Committee that renewable energy is an essential national security strategy and called for a national electricity transmission system to bring renewables onto the grid. Also providing testimony was a representative of the Western Governors' Association, who described the collaborative project to identify and develop transmission for renewable energy zones in the West.