

Memorandum

To: ISO Board of Governors

From: Karen Edson, Vice President, Policy and Client Services

Date: February 3, 2010

Re: **Briefing on State and Federal Legislative Matters**

This memorandum does not require Board action.

STATE AFFAIRS

State Budget Woes (excerpt from the Legislative Analyst's Office 2010-11 Budget Analysis)

The 2010-2011 Governor's Budget estimates a budget deficit of \$18.9 billion. This consists of \$6.6 billion that will be carried over from the 2009-2010 fiscal year and an additional \$12.3 billion operating deficit in 2010-2011.

Approximately 40% of the Governor's budget solutions rely on federal assistance funding or additional fiscal action by the federal government. Another 40% consist of reductions to state spending. The remaining 20% consists of various fund shifts contained within the Governor's proposal.

In the event that the federal government fails to provide the relief requested in the proposed budget, the budget recommends that the Legislature approve a mechanism for "triggering" alternative program reductions and revenue increases, including elimination of significant health and social service programs.

Legislative Schedule

Feb. 19 – Last day for bills to be introduced.

Apr. 23 – Last day for policy committees to hear and report to fiscal committees fiscal bills introduced in their house.

May 28 – Last day for fiscal committees to hear and report to the floor bills introduced in their house.

June 4 – Last day to pass bills out of the house of origin.

Legislation Update

The veto of the legislative package (SB 14, SB 62, AB 64 and AB 21), which would have advanced the state's Renewables Portfolio Standard (RPS) program to require 33 percent of the state's electricity to come from renewable resources, guarantees that similar proposals will be introduced again in 2010. As of the drafting of this update, no bills had been introduced.

The Governor's proposal to reorganize the energy agencies, AB 1016 (Villines), is now a dead bill. However, the Governor's 2010-11 budget includes aspects of the proposal. The Governor is likely to seek legislation to carry out his proposal in 2010.

Legislature Update

Leadership Changes: The California Assembly officially made Assemblyman John Pérez, D-Los Angeles, the Assembly's next Speaker, voting along party lines. He won't officially become Speaker until he's sworn in, probably within the next month or so. The date of his swearing in has not been announced.

The Assembly will also have a new Minority Leader. The 28-member GOP elected Martin Garrick of Solana Beach to replace Sam Blakeslee of San Luis Obispo, who is termed out this year. The 56-year-old Solana Beach lawmaker, like nearly every GOP colleague, has signed a national pledge vowing to "oppose and vote against any and all efforts to increase taxes."

The 14-member Senate Republican Caucus selected Senator Bob Dutton of Rancho Cucamonga to replace Senator Dennis Hollingsworth of Murrieta as their new leader. Like Hollingsworth, Dutton says his priorities are creating jobs and balancing the budget without raising taxes. No timeframe has been announced for when the transition will take place.

Committee Member Changes: Democrats Pat Wiggins and Ron Calderon were replaced on the Senate Energy, Utilities and Communications Committee by Dean Florez (D-Shafter) and Jenny Oropeza (D-Long Beach). Senator Oropeza also sits on the Senate Rules Committee, which is responsible for confirmation of the California Independent System Operator Corporation's Board of Governor's members.

Senator Bob Dutton, the heir apparent to the Republican Leader position, has been added as Vice Chair of the Senate Energy, Utilities and Communications Committee. Dutton fills the vacancy left by former Senator John Benoit, who was elected to the Riverside County Board of Supervisors last year.

FEDERAL AFFAIRS

Energy and Climate Legislation: Background: On June 26, the House voted 219 to 212 to approve HR 2454, the American Clean Energy and Security Act, marking the first time that greenhouse gas control legislation has passed a body of Congress. The bill also contained provisions on renewable energy and backstop transmission siting for the Western

Interconnect. In the Senate, renewable energy and transmission provisions were approved by the Energy and Natural Resources Committee on June 17, without climate provisions. The Senate Environment and Public Works Committee in November approved its own version of a greenhouse gas bill without participation by the Republican members of the Committee. Senators Lindsey Graham (R-SC), John Kerry (D-MA) and Joe Lieberman (I-CT) then set out to develop a bill that could garner the 60 votes needed to avoid a filibuster on the Senate floor. They have so far released an outline that includes a market-based allowance system, investment in nuclear power, incentives for carbon capture and sequestration, domestic exploration for energy resources, and border protection for U.S. industries.

Outlook: Conventional wisdom holds that there can be no energy legislation in even-numbered years due to election-year political jitters and to the greatly shortened congressional schedule in which the window for action is effectively from January through July. However, House Energy and Commerce Committee Chairman, Henry Waxman, has expressed confidence that an energy and climate bill will pass the Senate and be signed into law in 2010.

In December, Senators Maria Cantwell (D-WA) and Susan Collins (R-ME) introduced the Carbon Limits and Energy for America's Renewal (CLEAR) Act, which would distribute allowances through an auction and return 75% of the revenues to taxpayers in the form of dividends. It is unclear whether such legislation would be able to pass. There is also much talk on the hill of a "Plan B" approach, which would impose greenhouse gas limits on the electricity sector only, along with transmission and renewable electricity standards that are included in the Senate energy bill.

Financial Services Reform: On December 11 the House passed a sweeping financial regulatory reform bill by a vote of 223-202, with 27 Democrats joining all of the Republicans in voting against it. Regional Transmission Organization's (RTO) and ISO interests were successful in gaining adoption of compromise language that would potentially avoid duel or bifurcated Federal Energy Regulatory Commission and Commodity Futures Trading Commission jurisdiction over certain energy markets that have been the exclusive province of FERC. The amendment was adopted following a hearing in which house members voiced strong bipartisan support for the ISO/RTO position. The issue is certain to resurface during Senate consideration of financial reform legislation.

California Congressional Transitions: Congressman George Radanovich (R-19th District – Fresno) has announced that he will retire from office at the end of this Congressional session. Richard Pombo, who represented California's 11th District for seven terms, has announced that he will move to the 19th District and enter the election to replace Radanovich. Pombo was formerly the Republican chair of the House Resources Committee. Congressman Jerry McNerney, a Democrat, replaced Pombo in the 11th District congressional seat in 2008.