

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: May 13, 2008
Re: *Status of State and Federal Legislative Matters*

This memorandum does not require Board action.

State Affairs

Legislation

We are now tracking over 100 energy-related bills, keeping a close watch over those that could impact the ISO such as Senate Bill 1438, authored by Senator Padilla. This bill would require the PUC, in consultation with the Energy Commission and the ISO, to develop a definition of "smart grid" and develop standards and protocols for the deployment of smart grid technologies and services by July 15, 2009.

State Legislative Schedule:

It is hard to believe that there are only four months left in the two year legislative session. Final recess begins on August 31, 2008. However, before final recess begins the Legislature and the Governor must reach an accord on the budget. According to the legislative schedule, July recess begins "provided the Budget Bill has been passed." It appears that it will be a long summer since there is a looming state budget deficit and no easy fixes. It is important to note that with the exception of the Republican Minority Leader Mike Villines there is all new leadership in the Legislature. Assemblywoman Karen Bass will be assuming the position of Assembly Speaker, Senator Darrell Steinberg will be the Pro Tem of the Senate and Senator Dave Cogdill will be the Senate Minority Leader.

May 30	Last day to pass bills out of house of origin
July 3	Summer Recess begins upon adjournment, provided Budget Bill has passed
August 4	Legislature reconvenes from Summer Recess
August 31	Last day to pass bills, final recess begins upon adjournment
September 30	Last day for Governor to sign or veto bills

Informational Hearing

The Senate Utilities and Commerce Committee held an informational hearing on distributed generation. Mary McDonald testified at the hearing. She focused on our support of the IEPR loading order and the role of the ISO with regard to generation interconnection. The CEC, CPUC, UC San Diego, SDGE and representatives of the local community spoke about the role of distributed generation in meeting the clean energy needs of California.

Ballot Initiatives

There are two initiatives currently in circulation whose chances of qualifying for the November ballot are looking strong.

The Solar and Clean Energy Act of 2008, which would require all utilities, including government-owned utilities, to generate 20% of their power from renewable energy by 2010, 40% by 2020 and 50% by 2025 has been amply funded and looks to have wide public support, even though many environmentalists feel this measure would only throw off clean energy development efforts.

The other, The California Renewable and Clean Alternative Fuel Act authorizes \$5 billion in bonds paid from 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

Included in the massive Farm Bill now in conference is a provision authored by Senator Dianne Feinstein intended to "Close the Enron Loophole" by reinstating Commodity Futures Trading Commission oversight of electronic trading platforms for oil, gas and electricity. House and Senate negotiators have agreed to the provision but discussions continue to resolve issues in other sections of the bill. The 2002 Farm Bill expired in September, 2007, and its programs have been operating under a series of extensions since that time. The current extension will expire on May 16. The President has threatened to veto the measure unless conferees agree to reduce spending levels for specific programs.

Climate Change

Congress continues to focus on greenhouse gas reduction legislation. The Lieberman-Warner bill (S. 2191), which was approved by Senator Boxer's Environment and Public Works Committee last December, is now scheduled for floor debate beginning on June 2. Senators Boxer, Lieberman and Warner are reportedly working on a "Manager's Amendment" reflecting certain agreed-on modifications that are not yet being publicly vetted. The three Senators have already agreed to language that, according to the Congressional Budget Office, would ensure that the bill is deficit-neutral.

In the House, Representatives Henry Waxman, Ed Markey (D-MA) and Jay Inslee (D-WA) have circulated a letter calling for reductions of greenhouse gases that would exceed the Warner-Lieberman levels and stressing the importance of state initiatives that are more stringent than federal policies. The letter also highlights the need for increasing the use of clean energy resources, minimizing economic impacts of climate legislation, and providing protections for communities worldwide that are especially vulnerable to global warming impacts. The House bill is still under development by Energy and Commerce Committee chairman John Dingell (D-MI) and Energy and Air Quality Subcommittee chairman Rick Boucher (D-VA), who have jointly issued a series of "white papers" designed to elicit responses that will help frame provisions of the bill.

Tax Incentives for Renewable Energy

Efforts continue to enact legislation to encourage the use of renewable energy and energy efficiency. Senators Maria Cantwell (D-WA) and John Ensign (R-NV) have now added a short-term extension of tax incentives for renewable energy as an amendment to the Housing Bill, which was approved by the full Senate on April 10. The incentives have been periodically renewed by Congress since the mid-70s but are scheduled to expire on December 31, 2008. The Cantwell-Ensign amendment extends the production tax credit for electricity from wind, solar and other renewable sources for one year. It also provides a 30% investment tax credit for manufacturers and installers of solar or photovoltaic fuel cells and gives rebates to residential consumers who install energy efficient products. Renewable energy advocates are now working for inclusion of the tax provisions in the House version of the bill, which is still in progress. They are also pushing for a short-term extension of the tax breaks in supplemental funding for the Iraq war as a possible fallback if the Housing Bill strategy is unsuccessful.

Yakout Mansour Named to Federal Advisory Committee

The U.S. Department of Energy (DOE) has announced that Yakout Mansour will be an inaugural member of its Electricity Advisory Committee. The 30 appointees to the committee, which was chartered last month by Energy Secretary Samuel Bodwin, will provide senior-level counsel to DOE's Office of Electricity Delivery and Energy Reliability on long-range planning and priorities for the modernization of U.S. electricity infrastructure. The Committee will also advise DOE in meeting requirements of the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007 and provide input on deployment of smart grid technologies, research and development of energy storage technologies, renewable energy resource system integration, and new transmission infrastructure.