

Memorandum

To: ISO Board of Governors
From: Mary McDonald, Director of State Affairs
Terri Moreland, Director of Federal Affairs
Date: April 12, 2007
Re: *Status of State and Federal Legislative Matters*

This memorandum does not require Board action.

State Affairs:

Legislative Hearings

In preparation for the upcoming bill hearings, the Legislature has held several informational hearings on various energy-related issues.

- On March 13th, the Senate Committee on Energy, Utilities and Communications held a hearing on the Long-Term Electricity Outlook. The objective of this hearing was to provide the Members of the Committee with a perspective on California's ability to meet its long-term energy supplies and objectives as they relate to renewables and greenhouse gas reduction.
- On March 26th, the Assembly Committee on Utilities and Commerce held a hearing to discuss the Renewable Portfolio Standard (RPS) implementation.
- On March 29th, the Assembly Committee on Utilities and Commerce held a hearing on the Summer Forecast 2007. Jim Detmers represented CAISO and his presentation reviewed the CAISO's summer preparedness actions, illustrated California's financial commitment to transmission infrastructure, and compared energy reserve margins to other ISOs throughout the nation. The message coming from governmental entities and investor owned utilities is that we are all working together and are prepared for this summer.

Significant Legislative Deadlines

By way of reference, the following are the deadlines that the Legislature has identified for actions taken on both legislation and votes by the full Senate and Assembly.

- May 25 – The last day for policy committees to meet prior to June 11.
- June 8 – The last day to pass bills out of house of origin.
- June 15 – Budget Bill must be passed by midnight.
- July 20 – August 20 – Legislature on Spring Break if Budget Bill passes.
- August 31 – Last day for fiscal committees to meet and report bills to the floor.
- September 3 – 14 – Floor session only.
- September 7 – Last day to amend bills on the floor.
- September 14 – Final day for any bill to be passed and interim recess begins on or before September 14. Upon recess, no further legislative votes will be taken by either the Assembly or the Senate until the Legislature returns in January 2008.

Overview of Legislation

The CAISO is currently tracking several “hot” bills. It’s still very early in the session, and many of the bills on our list will be amended. Listed below are a few bills from the hot bill list that could potentially impact CAISO.

AB 94 (Levine) Renewable Energy

Status: Introduced on 12/20/06

Summary: Existing law expresses the intent of the Legislature, in establishing the Renewable Energy Resources Program, to increase the amount of electricity generated per year from eligible renewable energy resources is increased to an amount that equals at least 20% of the total electricity sold to retail customers in California per year by December 31, 2010. This bill would revise the intent language so that the amount of electricity generated per year from eligible renewable energy resources is increased to an amount that equals at least 33% of the total electricity sold to retail customers in California per year by December 31, 2020.

AB 578 (Blakeslee) Energy: renewable energy generation: study.

Status: Introduced on 2/21/07

Summary: This bill would require the CEC, on or before January 1, 2009, to study, and submit a report to the Legislature and the Governor, on the impacts of renewable energy generation on the state’s distribution and transmission grid.

The study would mandate that the CEC report include:

- Grid reliability, transmission issues, operation, interconnection issues as they relate to distributed generation and renewable resources
- Position of state and federal regulators towards renewable energy accessibility.
- Effect on overall grid operation of renewable generation.
- Emerging technologies related to renewable energy generation interconnection.
- Interconnection issues that may arise for the ISO and local distribution companies.

AB 837 (Levine) Energy: renewable energy resources.

Status: Introduced on 2/22/07

Summary: Under existing law the governing board of a local publicly owned electric utility is responsible for implementing and enforcing a renewables portfolio standard that recognizes the intent of the Legislature to encourage renewable energy resources, while taking into consideration the effect of the standard on rates, reliability, and financial resources and the goal of environmental improvement. This bill would additionally require the governing board of a local publicly owned electric utility to annually report the proportion of electricity from eligible renewable energy resources provided to customers of the utility from an electricity generating facility owned and operated by the utility.

AB 1714 (Committee on Utilities and Commerce) Public utilities

Status: 3/1/07

Summary: : AB 1714 bill seeks to amend two sections of the Public Resources Code that pertain to the California Energy Commission, with the remaining provisions amending the Public Utilities Act Code. Most of the bill provisions are non-substantive alterations:

- Deletes the Exempt Wholesale Generator (EWG) Exemption from the definition of a public utility. Currently, the act exempts EWGs who have been certified by FERC under the Federal Utility Holding Act of 1935 (now repealed by the EPAct of 2005).
- Maintains the mandate requiring the CPUC to implement and enforce standards for maintenance and operation of in state generation facilities. Additionally, this measure removes references the Electric Generation Facilities Standards Committee, which sunsetted in 2005 and included members of the CPUC and CAISO.

Federal Affairs

House and Senate committees have now held nearly two dozen hearings on global climate change since the 110th Congress convened in January. The headliner in mid-March was former Vice-President Al Gore, who delivered a petition to Congress signed by 300,000 online supporters of “immediate action” to address the issue. Gore testified before a joint meeting of the House Energy and Commerce and Science committees as well as before the Senate Environment and Public Works Committee. Other hearings featured testimony from former Bush Administration environmental officials, utility and industry executives, international experts and government scientists.

The most significant recent development on climate change, however, came not from Congress but from the U.S. Supreme Court, which on April 5 sided with environmental groups in a closely-watched Clean Air Act decision on the regulation of carbon dioxide and other greenhouse gases. In a 5-4 ruling, the Court opined that “because greenhouse gases are well within the Act’s capacious definition of ‘air pollutant,’ EPA has statutory authority to control emissions of such gases from motor vehicles.” The Court also ruled that states have standing to sue over EPA’s regulatory decisions on greenhouse gas emissions. The decision leaves room for the EPA to avoid regulating greenhouse gases, but “only if it determines that greenhouse gases do not contribute to climate change...”

The decision makes it possible for California and Vermont to move forward with waiver requests before EPA seeking to impose controls on mobile sources that are stricter than those required by the federal government. In addition, it is expected to spur congressional action on greenhouse gas controls for both mobile and stationary pollution sources, since the same definition of "air pollutant" applies to the Clean Air Act title regulating stationary sources. Many observers believe that legislation can now take the form of a special title to the Clean Air Act, much like the Acid Rain title that was added to the Act in 1990.

Congressman Henry Waxman (D-Los Angeles) on March 20 introduced the "Safe Climate Act of 2007," the most ambitious global climate bill to date. The measure, H.R. 1590, which currently has 131 cosponsors, would establish a cap-and-trade system for utilities and industrial emissions sources as well as impose restrictions on mobile sources. The bill would require an 80% reduction over current emissions levels by 2050 and is the proposal favored as a starting point for debate by most environmental groups. The reduction targets in Waxman's bill have also been endorsed by the U.S. Climate Action Partnership, a coalition of environmental and industry organizations.

A second energy policy topic of continuing interest is facilitating renewable energy use. Senator Kay Bailey Hutchison (R-TX) has introduced legislation aimed at developing a coordinated national research effort for renewables, the "Creating Renewable Energy through Science and Technology (CREST) Act." The measure, S. 1020, would support research on wave, solar, wind, geothermal and biofuels energy production. Several of the global climate bills already introduced include national renewable portfolio standards, and this week Congressman Udall (D-NM) introduced a freestanding RPS bill, H.R. 969. Several production and investment tax credit extensions for renewables have also been introduced.