

May 13, 2009

TO: State Energy Directors
FROM: Jeff Genzer
RE: Update

Climate and Energy Bill

Last evening the Democrats on the House Energy and Commerce Committee apparently came to terms on many of the big issues preventing mark-up of an energy and climate change bill. The present plan is to release the draft bill text tomorrow with mark-up next week. Under the compromise a “cap and trade” system would be established calling for a 17% reduction (below 2005 levels) in greenhouse gas emissions by 2020, rather than the 20% called for in the original Waxman/Markey bill (the target is still 83% by 2050). With respect to the proposed Renewable Electricity Standard (RES), that would be set at 20% by 2020, including 5% Energy Efficiency Resource Standard (EERS) within that total. A Governor can utilize energy efficiency to meet an additional 3% of the RES mandate if they state that they cannot meet the RES through renewables (this would lead to a 12% renewables mandate). Apparently, the 25% by 2025 RES mandate is off the table. It appears that at least 35% of the allowances in the first instance would be given to local electricity distribution utilities (the utilities had requested 40%). The Edison Electric Institute indicated that it would support the agreement. An additional allocation of free allowances (approximately 15%) is expected for major industries (steel, aluminum, chemical and glass) and possibly refiners (depending on whether it will get the votes of Rep. Green and Rep. Gonzalez). Some allowances will also go to the auto industry for research on new technology.

On the Senate side, mark-up of the controversial electricity transmission section of the energy bill is slated for today. There are a number of amendments; 28 at last count, including seven that had been cleared on both sides. The RES in the Senate is not resolved..

The “cash for clunkers” bill may be added to the supplemental appropriations bill, rather than wait for the climate and energy bill in the Senate. This plan is included in the House bill.

FY’10 Budget and Appropriations

As we noted earlier, the FY’10 Budget request for the State Energy Program is \$75 million, of which \$37.5 million would be competitive. The FY’09 funding level is \$25 million base appropriations and \$25 million competitive. Of course, this is on top of the \$3.1 billion for SEP through the stimulus plan. Weatherization would receive \$220 million, which is slightly less than the \$227 million FY’08 appropriation, substantially less than the \$450 million FY’09 appropriation. The ARRA funds for

Weatherization total \$5 billion. No additional funds beyond the ARRA funds were requested for the Energy Efficiency and Conservation Block Grant (\$3.2 billion in ARRA) or the Energy Efficient Appliance Rebate Program (\$300 million in ARRA). Tribal Energy activities would receive the same \$6 million that was allocated in FY'09. The Renewable Energy Production Incentive (\$5 million in FY'09) and the International Renewable Energy Program (\$5 million in FY'09) would receive zero funding in FY'10.

The overall Energy Efficiency and Renewable Energy budget is \$2.318 billion, or an increase above base appropriations of \$140 million (6.4%)(FY'09 is \$2.179 billion). The ARRA funding for EERE is \$16.8 billion. Buildings would receive \$333.3 million, as opposed to the FY'09 level of \$140 million. \$10 million would be provided for building codes. The Federal Energy Management Program would receive \$32.3 million, an increase of \$10.3 million. The base Industrial Program would receive an increase of \$10 million to \$100 million.

The Office of Electricity Delivery and Energy Reliability would receive \$208 million in FY'10, an increase of \$71 million (51.8%) above the FY'09 funding level of \$137 million. The ARRA funding for this office is \$4.5 billion for smart grid initiatives.

Fossil Energy would receive \$881 million, or a decrease of 20.6% (\$228.7 million decrease). The main reduction would be a cut of \$258.8 million in fossil energy R&D. The ARRA funding was \$3.4 billion for this activity.

The Energy Information Administration would receive an increase of \$23.5 million (20.3%) to a level of \$133 million.

More detail will be provided on the NASEO Governmental Affairs call tomorrow.