



## Alternative Energy Report

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### **Budget Negotiations Hit Speed Bump, Energy Deals in the Works**

Despite the fact that House, Senate and Administration officials cancelled budget talks on Saturday, with each party blaming the other for the difficulties, the wheels of progress appear to be grinding forward. Plans are to reconvene on Sunday afternoon.

The cancellation was largely due to the dueling spins on real numbers, partly as a result of the lack of revenue information which had been expected early in the week. The Democrats and Rendell Administration claim the two sides are only \$168 million apart on a \$27.9 billion dollar budget, and claim they have actually produced a budget that is one percent less than the Senate passed earlier this week. Republicans question the year-end revenue figures cited by Rendell, as they are not yet available. They also claim that the Governor's most recent proposal ignores inflated funding for positions that remain unfilled while cutting programs the Republicans favor. One reality is that the sides are between \$200 and \$500 million apart.

### **Energy Package Negotiations Continue**

Republicans have also resisted moving further on productive talks on energy funding and other borrowing and legislative matters "until we resolve the budget first," said President Pro Tempore Joe Scarnati.

House Majority Whip Keith McCall, (D, Carbon), said that an energy package was "about 99 percent" done, but that talks continue to be difficult when it comes to solving the problems with rate hikes for electricity which are expected in 2010.

McCall suggested that the energy package would include \$500 million in bond funds for alternative energy and conservation projects over the next four years, and another \$150 million in direct spending over the next seven years. The Governor had asked for \$850 million in bond funds available immediately, and the Senate had passed a program at the \$600 million level spread out over several years.

Negotiators, staff and news reports suggest that solar will get a separate allocation in the energy package, as will energy conservation measures.

Legislative leaders have told ERG that they are still working on the biofuels component of the negotiations, and ERG remains actively involved in helping seek solutions. A mandate for biofuels sales remains part of the discussions as do incentives for infrastructure, producers and retailers of biofuels. ERG has asked all parties to look at biofuels as an economic system, from the farmer to the consumer, on a statewide basis, and to support the entire supply and distribution chain.

McCall said House Democrats were pushing for incentives to produce cellulosic ethanol, made from agricultural waste and switchgrass. The Senate is more interested in biodiesel production and distribution.

ERG has supported expanded funding for energy projects, recognizing that these investments pay dividends in the long run through job creation, tax revenues, reduced

dependence on foreign oil and environmental benefits. It's important that a significant amount be available in the near term, to create an incentive for private matching investments in the PA alternative energy marketplace.

### **Incentive Inequities Cause Flare Up for Biodiesel**

A raging dispute emerged this week when one legislator proposed to give some non-operating biodiesel plants a 75-cent per gallon subsidy, while penalizing the Commonwealth's leading producer with only a three cent per gallon allocation, and eliminating incentive payments entirely for small community-based biodiesel operations.

Legislative leadership of both parties and many individual legislators criticized the proposal and a more even handed compromise now appears likely. Under the new proposal, producers which have shut down operations because of economics and smaller biodiesel producers would get about twice as much per gallon as would be available to the largest producer, but there would be a much more equitable distribution without a huge potential impact in the market place and consumer pockets.

Reports from the Department of Environmental Protection show less than one million gallons of total biodiesel production last year by the eight smaller producers compared to an ongoing production capacity of more than 55 million gallons from the state's two largest producers.

Also of great concern are the need for stronger quality mandates and funding for distribution infrastructure, both of which were ignored by the proposal but which, along with feedstock production facilities, are critical to future growth of the industry in Pennsylvania. ERG is pushing for daily certification of all biodiesel produced for sale in the state and for more funding for biofuels infrastructure development.

### **Bond Issues For Bay, Jobs, Energy, Infrastructure**

The negotiators are still finalizing funding through bond issues, with the key being an agreement on the total amount that the state would borrow. Three of the four caucuses are supporting a total indebtedness of \$2.5 billion for major initiatives, while the Administration and House Democrats are holding out for more.

Republican negotiators say they are pressing for \$500 million for RACP economic development project funding; \$400 million for a water and sewer project that requires voter referendum approval, proposed by Sen. Raphael Musto, D-Luzerne; \$500 million for alternate energy and energy cost mitigation; \$800 million for the water and sewer program, in addition to Musto's, and another \$350 million for bridges, dams, railroads and airports.

There seems general agreement on the water and sewer bond referendum, and the borrowing for infrastructure, water and sewer improvements needed to comply with the Chesapeake Bay initiatives, but the Administration and House leaders are seeking an additional \$300 million for RACP and \$250 million for energy.

### **Watch The Feet**

Like a duck effortlessly skimming over the water, the real sign of work in progress can be seen by its feet moving under the surface. One good sign that the negotiators are serious is the paddling behind the scenes to maneuver legislation into place for action when a final deal is struck.

The House Environmental Resources and Energy Committee has scheduled a meeting Monday morning to consider SB 2, SB 1341 and SB 266, all of which could be part of a final package. SB 2, sponsored by Sen. Jane Earll (R, Erie), would include infrastructure funding for water, sewer and hazardous dams, and SB 1341 sponsored by Sen. Ray Musto (D, Luzerne) would put another \$400 million in water and sewer investments to the voters in a referendum. SB 266, sponsored by Sen. Ted Erickson (R, Delaware) would provide for a state greenhouse gas inventory and a report on potential effects of climate change in the Commonwealth.

ERG will provide a continuing update to subscribers and friends, and will hopefully be able to provide you a budget explanation along with the various funding packages before July 4th!

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