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ADMINISTRATION

ORIGINAL: Board Clerk
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Chair

Sent Via Facsimile and US Mail

December 10, 2008

Ms. Mary Nichols, Chair
California Air Resources Board
P.O. Box 2815
Sacramento, California 95812

Re: City of Glendale Water & Power's Comments on Proposed Scoping Plan

The City of Glendale Water & Power Department ("GWP") hereby submits its comments on the California Air Resources Board's ("ARB") Proposed Scoping Plan ("PSP"). GWP understands the monumental effort required by all participants to develop the PSP. GWP commends ARB for all of its hard work on the plan.

Although critical issues remain to be resolved during the 2009-2010 rulemaking process that is envisioned in the PSP, the PSP provides a workable road map for promulgating regulations to implement Assembly Bill ("AB") 32, the Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006). GWP strongly supports the passage of AB 32 and is committed to partnering with the State to reduce greenhouse gas emissions to 1990 levels.

GWP particularly commends several key features of the PSP. First, GWP supports the PSP's reliance on source-specific greenhouse gas ("GHG") emission reduction measures rather than a cap-and-trade program to achieve most of the AB 32 emission reductions. Using the source-specific measures to achieve most of the capped sector emission reductions would constrain cap-and-trade allowance prices. GWP urges the ARB to expand the use of source-specific measures during the upcoming rulemaking proceeding to further reduce reliance on the cap-and-trade program.

Second, GWP commends the principles set forth in PSP Appendix C to guide the allocation of cap-and-trade allowances and auction revenues. Given the importance of the principles, GWP recommends that they be included in the body of the PSP as well as in Appendix C. Particularly, GWP supports the principle that states: "Avoid windfall profits and other unnecessary wealth transfer." This is especially important to GWP. Due to its relatively GHG-intensive electric generation resource mix, the GWP is going to be challenged to meet GHG emission reduction goals within the limits of the resources of its community. It would be inequitable to require retail providers such as GWP to transfer wealth to other

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communities when its communities' resources will be needed in Glendale to fund initiatives that will result in concrete, verifiable GHG emission reductions. Given the importance of avoiding wealth transfers, GWP urges that the Executive Summary of the PSP be expanded to identify the following as one of the "key elements" of the PSP: "Avoid inequitable results such as windfall profits or wealth transfers and ensure results are monitored and enforced by the Board." Auction allocations that result in wealth transfers will result in significant additional costs to GWP residents and will not result in additional reductions of greenhouse gas emissions. GWP believes that transferring local dollars to Sacramento to fund undefined programs is not sound public policy.

Third, GWP commends the PSP commitment to linking the California cap-and-trade program with the Western Climate Initiative ("WCI") regional cap-and-trade program. Having a regional rather than single-state cap-and-trade program would reduce the potential for leakage, level the competitive playing field among neighboring states and provinces, and enhance the liquidity of a cap-and-trade market for allowances. However, participation in the WCI raises some difficult issues that will need to be addressed during the next two years.

Fourth, GWP commends the PSP's recognition of the need for mechanisms that would contain the costs of a cap-and-trade program. In addition to relying heavily on source-specific measures to achieve GHG reductions, the PSP would permit both banking and offsets. GWP urges the ARB to expand the use of offsets and to consider additional cost containment measures including safety valves during the upcoming rulemaking proceeding.

Fifth, GWP commends the ARB's plan to conduct an open and transparent rulemaking process to develop regulations during the coming two years. GWP looks forward to participating fully and constructively in that process.

The Legislative Analyst's Office conducted an evaluation of the PSP which identified weaknesses in the economic analysis. The effect of the cap-and-trade program on the electric utility sector's bottom line is unclear. The use and design of market mechanisms are very complex and involve many key policy choices. While successful examples of the use of market mechanisms to control air emissions exist, such as the federal acid rain program, there is little experience with the assigning or allocating emission credits to load rather than to emitters. As ARB continues to develop its proposed cap-and-trade program, it will be important for the Legislature to oversee and provide policy direction on these issues.

GWP recommends that the State assist in providing the leadership and support, both technical and financial, which is needed to assist local governments in implementing changes

to reduce greenhouse gases resulting from transportation and land use policies, as well as other sectors such as green building design, energy and water conservation, and recycling.

With the edits and comments suggested above, GWP supports adoption of the PSP at the Board's December 11, 2008 meeting. However, the Board's work will be far from done on December 11. The PSP leaves difficult issues to be addressed during the coming two-year rulemaking process. GWP supports the comments filed by SCPPA that identify the issues that ARB will need to address in 2009-2010.

GWP is committed to participating in the AB 32 rulemaking. Thank you for the opportunity to play an active role in this process. If you have any questions about our comments, please contact Steven Lins, Assistant General Manager – Supply, at (818) 548-2136 or slins@ci.glendale.ca.us.

Sincerely,



Glenn O. Steiger
General Manager

GOS/SL:jz

c: Bill Carnahan, SCPPA
Glendale City Council Members
Steve Lins, GWP Assistant General Manager of Supply
James E. Starbird, City Manager of Glendale