APPEARANCES

BOARD MEMBERS
Ms. Mary Nichols, Chairperson
Dr. John R. Balmes
Ms. Sandra Berg
Ms. Doreene D'Adamo
Ms. Lydia H. Kennard
Mr. Ron Roberts
Dr. Daniel Sperling
Mr. Ken Yeager

STAFF
Mr. James Goldstene, Executive Officer
Mr. Tom Cackette, Chief Deputy Executive Officer
Ms. Ellen Peter, Chief Counsel
Mr. Bob Fletcher, Deputy Executive Officer
Ms. Lynn Terry, Deputy Executive Officer
Ms. Mary Alice Morency, Board Clerk
Mr. Bill Blackburn, Air Pollution Specialist, SSD
Ms. Edie Chang, Assistant Chief, SSD
Mr. Steve Cliff, Chief, Climate Change Program Evaluation Branch, SSD
Mr. Richard Corey, Chief, SSD
Ms. Rajinder Sahota, Manager, Program Operations Section, SSD
Mr. Sam Wade, Air Resources Engineer, Program Operations Section, Stationary Source Division
APPEARANCES CONTINUED

ALSO PRESENT

Mr. Jake Alarid, LICI and Veterans
Mr. Andrew Barrera, CA Hispanic Chamber of Commerce
Ms. Lori Bateman
Ms. Kate Beardsley, PG&E
Mr. Allan Bedwell, BGC Environmental Broker Services
Ms. Susie Berlin
Ms. Lisa Bowman
Mr. James Brady, 100 Black Men
Mr. Jack Broadbent, Bay Area AQMD
Mr. David Campbell, USW Local 675
Mr. Julian Canete, CA Hispanic Chamber of Commerce
Mr. Frank Caponi, LA County Sanitation Districts
Mr. Jeff Clark, United Steelworkers
Ms. Brenda Coleman, CA Chamber of Commerce
Ms. Alegria de la Cruz, CRPE
Mr. Doug Davie, Wellhead Electric
Ms. Kristin Eberhard, NRDC
Mr. Eric Emblum
Mr. Alex Esparza, LA Mayor Antonio Villagairosa
Mr. Ron Espinoza, United Steelworkers
Ms. Mary Kay Faryan, US Navy
APPEARANCES CONTINUED

ALSO PRESENT
Ms. Saskia Feast, EOS Climate
Mr. Willie Galvan, American GI Forum of CA
Mr. Gary Gero, Climate Action Reserve
Mr. Randy Gordon
Ms. Kassandra Gough, Calpine
Mr. Tim Haines, State Water Contractors
Mr. Frank Harris, Southern California Edison
Mr. Norm Hattich, CA Contractors Alliance
Mr. Douglas Headrick, State Water Contractors
Mr. Mike Hertel, Southern California Edison
Ms. Bonnie Holmes-Gen, American Lung Association
Mr. Ed Itzigheine
Mr. Dan Kalb, Union of Concerned Scientists
Mr. Greg Karras, CBE
Mr. Steven Kelly, Independent Energy Producers
Mr. John Larrea, California League of Food Processors
Ms. Barbara Lee, CAPCOA
Mr. Patrick Lenz
Mr. Edwin Lombard, Sacramento Black Chamber of Commerce
Ms. Catherine Lyons, Bay Area Council
Mr. Bruce Magnani, CA Cogeneration Council
APPEARANCES CONTINUED

ALSO PRESENT
Ms. Debra Man, Metropolitan Water District
Ms. Marlia Maples
Mr. Tim Maples, WSPA
Mr. Dan Masnada, State Water Contractors
Ms. Julia May, CBE
Mr. Charles McIntyre, West Coast Protection League
Mr. Ned McKinley
Ms. Jeanne Merrill, CA Climate and Agriculture Network
Mr. Mike Miller
Ms. Lily Mitchell, SCPPA
Ms. Cindy Montanez, LA Department of Water and Power
Mr. Ralph Moran
Mr. Brian Nowiczki, Center for Biological Diversity
Mr. Berman Obaldia, TELACU
Mr. Tim O'Connor, Environmental Defense Fund
Ms. Cindy Parsons, LA Department of Water and Power
Ms. Michelle Passero, The Nature Conservancy
Mr. Norm Pedersen, Southern California Public Power Authority
Mr. Norman Plotkin
Mr. Bob Reeb, Desert Water Agency
Mr. Chris Riley
APPEARANCES CONTINUED

ALSO PRESENT
Mr. Steve Robbins, State Water Contractors
Mr. Mike Robson
Mr. Mike Rogge, California Manufacturers
Ms. Emily Rooney, Ag Council of California
Ms. Kris Rosa, Silicon Valley Leadership Group
Mr. Steven Schiller, CA Energy Efficiency Industry Council
Mr. Andrew Schwartz, CA PUC
Mr. Paul Shepard, Wildflower Energy
Mr. Vince Signorotti, Energy Source
Mr. David Simmons
Mr. Steve Swader
Mr. Rand Swenson
Mr. Tim Tutt, SMUD
Mr. Nico van Aelstyn, Powerex Corp.
Mr. Erick Verduzco Vega, South Bay Latino Chamber
Mr. Elvis Villareal
Mr. Keith Vines
Mr. Nathan Voegelik, Yurok Tribe
Mr. Jeffrey A. Volberg
Mr. Barry Wallerstein, SQAQMD
Mr. Mike Wang, WSPA
APPEARANCES CONTINUED

ALSO PRESENT

Mr. Chuck White, Waste Management
Ms. Kathy West
Mr. Ryan Young, Greenlining Institute
<table>
<thead>
<tr>
<th>Item 11-8-1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chairperson Nichols</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Executive Officer Goldstene</strong></td>
<td>10</td>
</tr>
<tr>
<td><strong>Staff Presentation</strong></td>
<td>12</td>
</tr>
<tr>
<td>Mr. McIntyre</td>
<td>26</td>
</tr>
<tr>
<td>Mr. Kelly</td>
<td>29</td>
</tr>
<tr>
<td>Mr. Schwartz</td>
<td>41</td>
</tr>
<tr>
<td>Ms. Lee</td>
<td>45</td>
</tr>
<tr>
<td>Mr. Wallerstein</td>
<td>46</td>
</tr>
<tr>
<td>Mr. Broadbent</td>
<td>48</td>
</tr>
<tr>
<td>Mr. Riley</td>
<td>51</td>
</tr>
<tr>
<td>Mr. Green</td>
<td>51</td>
</tr>
<tr>
<td>Ms. Bowman</td>
<td>53</td>
</tr>
<tr>
<td>Mr. Moran</td>
<td>55</td>
</tr>
<tr>
<td>Mr. O'Connor</td>
<td>57</td>
</tr>
<tr>
<td>Mr. Caponi</td>
<td>58</td>
</tr>
<tr>
<td>Mr. Hattich</td>
<td>61</td>
</tr>
<tr>
<td>Mr. Wang</td>
<td>62</td>
</tr>
<tr>
<td>Ms. Beardsley</td>
<td>65</td>
</tr>
<tr>
<td>Mr. Shepard</td>
<td>67</td>
</tr>
<tr>
<td>Mr. Voegeli</td>
<td>72</td>
</tr>
<tr>
<td>Mr. Davie</td>
<td>75</td>
</tr>
<tr>
<td>Ms. Feast</td>
<td>77</td>
</tr>
<tr>
<td>Ms. Holmes-Gen</td>
<td>79</td>
</tr>
<tr>
<td>Mr. Robson</td>
<td>81</td>
</tr>
<tr>
<td>Mr. Haines</td>
<td>82</td>
</tr>
<tr>
<td>Mr. Headrick</td>
<td>84</td>
</tr>
<tr>
<td>Mr. Robbins</td>
<td>86</td>
</tr>
<tr>
<td>Mr. Masnada</td>
<td>86</td>
</tr>
<tr>
<td>Ms. Passero</td>
<td>90</td>
</tr>
<tr>
<td>Mr. Campbell</td>
<td>91</td>
</tr>
<tr>
<td>Mr. Bedwell</td>
<td>93</td>
</tr>
<tr>
<td>Ms. Eberhard</td>
<td>97</td>
</tr>
<tr>
<td>Mr. Swenson</td>
<td>99</td>
</tr>
<tr>
<td>Mr. Signorotti</td>
<td>102</td>
</tr>
<tr>
<td>Ms. Man</td>
<td>103</td>
</tr>
<tr>
<td>Mr. Gordon</td>
<td>106</td>
</tr>
<tr>
<td>Mr. Simmons</td>
<td>107</td>
</tr>
<tr>
<td>Mr. Young</td>
<td>108</td>
</tr>
<tr>
<td>Ms. West</td>
<td>110</td>
</tr>
<tr>
<td>Mr. Miller</td>
<td>111</td>
</tr>
<tr>
<td>Mr. Vines</td>
<td>112</td>
</tr>
<tr>
<td>Mr. Itzigheine</td>
<td>113</td>
</tr>
<tr>
<td>Mr. Kalb</td>
<td>119</td>
</tr>
</tbody>
</table>
## INDEX CONTINUED

<table>
<thead>
<tr>
<th>Name</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Espinoza</td>
<td>121</td>
</tr>
<tr>
<td>Mr. Villareal</td>
<td>124</td>
</tr>
<tr>
<td>Mr. Swader</td>
<td>124</td>
</tr>
<tr>
<td>Mr. White</td>
<td>132</td>
</tr>
<tr>
<td>Mr. Magnani</td>
<td>135</td>
</tr>
<tr>
<td>Mr. Pedersen</td>
<td>136</td>
</tr>
<tr>
<td>Mr. Schiller</td>
<td>138</td>
</tr>
<tr>
<td>Ms. Lyons</td>
<td>141</td>
</tr>
<tr>
<td>Mr. Lenz</td>
<td>142</td>
</tr>
<tr>
<td>Mr. Harris</td>
<td>144</td>
</tr>
<tr>
<td>Mr. van Aelstyn</td>
<td>148</td>
</tr>
<tr>
<td>Ms. Berlin</td>
<td>151</td>
</tr>
<tr>
<td>Mr. Volberg</td>
<td>154</td>
</tr>
<tr>
<td>Ms. Rosa</td>
<td>155</td>
</tr>
<tr>
<td>Ms. Faryan</td>
<td>156</td>
</tr>
<tr>
<td>Mr. McKinley</td>
<td>157</td>
</tr>
<tr>
<td>Ms. Maples</td>
<td>159</td>
</tr>
<tr>
<td>Mr. Plotkin</td>
<td>161</td>
</tr>
<tr>
<td>Mr. Verduzco Vega</td>
<td>163</td>
</tr>
<tr>
<td>Mr. Lombard</td>
<td>165</td>
</tr>
<tr>
<td>Mr. Brady</td>
<td>167</td>
</tr>
<tr>
<td>Ms. Gough</td>
<td>169</td>
</tr>
<tr>
<td>Mr. Tutt</td>
<td>172</td>
</tr>
<tr>
<td>Mr. Reeb</td>
<td>174</td>
</tr>
<tr>
<td>Ms. Merrill</td>
<td>175</td>
</tr>
<tr>
<td>Ms. Coleman</td>
<td>176</td>
</tr>
<tr>
<td>Mr. Galvan</td>
<td>178</td>
</tr>
<tr>
<td>Ms. May</td>
<td>180</td>
</tr>
<tr>
<td>Mr. Karras</td>
<td>182</td>
</tr>
<tr>
<td>Mr. de la Cruz</td>
<td>184</td>
</tr>
<tr>
<td>Mr. Barrera</td>
<td>189</td>
</tr>
<tr>
<td>Mr. Canete</td>
<td>191</td>
</tr>
<tr>
<td>Ms. Solise</td>
<td>193</td>
</tr>
<tr>
<td>Ms. Parsons</td>
<td>197</td>
</tr>
<tr>
<td>Mr. Alarid</td>
<td>199</td>
</tr>
<tr>
<td>Mr. Maples</td>
<td>202</td>
</tr>
<tr>
<td>Mr. Larrea</td>
<td>204</td>
</tr>
<tr>
<td>Ms. Rooney</td>
<td>206</td>
</tr>
<tr>
<td>Mr. Clark</td>
<td>208</td>
</tr>
<tr>
<td>Mr. Rogge</td>
<td>211</td>
</tr>
<tr>
<td>Mr. Obaldia</td>
<td>213</td>
</tr>
<tr>
<td>Ms. Bateman</td>
<td>216</td>
</tr>
<tr>
<td>Mr. Gero</td>
<td>218</td>
</tr>
<tr>
<td>Mr. Gero</td>
<td>220</td>
</tr>
<tr>
<td>Board Discussion</td>
<td>222</td>
</tr>
<tr>
<td>Motion</td>
<td>275</td>
</tr>
<tr>
<td>Vote</td>
<td>275</td>
</tr>
</tbody>
</table>
### INDEX CONTINUED

<table>
<thead>
<tr>
<th>Item 11-8-2</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson Nichols</td>
<td>276</td>
</tr>
<tr>
<td>Executive Officer Goldstene</td>
<td>276</td>
</tr>
<tr>
<td>Staff Presentation</td>
<td>277</td>
</tr>
<tr>
<td>Ms. Beardsley</td>
<td>283</td>
</tr>
<tr>
<td>Ms. Mitchell</td>
<td>285</td>
</tr>
<tr>
<td>Ms. Parsons</td>
<td>286</td>
</tr>
<tr>
<td>Mr. Harris</td>
<td>287</td>
</tr>
<tr>
<td>Motion</td>
<td>290</td>
</tr>
<tr>
<td>Vote</td>
<td>290</td>
</tr>
<tr>
<td>Adjournment</td>
<td>293</td>
</tr>
<tr>
<td>Reporter's Certificate</td>
<td>293</td>
</tr>
</tbody>
</table>
CHAIRPERSON NICHOLS: Before we formally begin, I'd like to ask everybody to please rise and face the flag and say the Pledge of Allegiance.

(Thereupon the Pledge of Allegiance was Recited in unison.)

CHAIRPERSON NICHOLS: Thank you. I'll ask the clerk to please call the roll.

BOARD CLERK MORENCY: Dr. Balmes?
BOARD MEMBER BALMES: Here.

BOARD CLERK MORENCY: Ms. Berg?
BOARD MEMBER BERG: Here.

BOARD CLERK MORENCY: Ms. D'Adamo?
BOARD MEMBER D'ADAMO: Here.

BOARD CLERK MORENCY: Ms. Kennard?

Mayor Loveridge?

Mrs. Riordan?

Supervisor Roberts?

BOARD MEMBER ROBERTS: Here.

BOARD CLERK MORENCY: Professor Sperling?
BOARD MEMBER SPERLING: Here.

BOARD CLERK MORENCY: Supervisor Yeager?
BOARD MEMBER YEAGER: Here.

BOARD CLERK MORENCY: Chairman Nichols?

CHAIRPERSON NICHOLS: Here.
BOARD CLERK MORENCY: Madam Chairman, we have a quorum.

CHAIRPERSON NICHOLS: Thank you.

I want to make a few announcements before we get started. Due to the large number of attendees, we have reserved the room next door, the Coastal Hearing Room, so that if you want to move out or if you need to talk and watch at the same time, there's audio/visual service in the Coastal Hearing Room.

We have interpretation services available in Spanish for any who wish it. There are headsets available outside the hearing room at the attendant sign-up table.

(Whereupon the announcement was translated into Spanish.)

CHAIRPERSON NICHOLS: Thank you.

Anyone who wishes to testify and has not signed up online should fill out a request to speak card from the table outside the auditorium. We would appreciate it if you would turn it in to the Board Clerk as soon as possible. I would probably announce a cutoff at some point around noon. So if you think you might want to testify, you should fill out a card. You do have the option to include your name on the speaker card.

But if you've already signed up in advance online, you don't need to sign one of these cards. We
already have your information and you're already on the
list. But we do need you to check in with the Clerk of
the Board just to make sure that you stay on the speakers'
list.

Also, for anybody who's unfamiliar with our
process, the Board normally imposes a three-minute time
limit on every speaker, no matter who you are. We may
shorten that time if it gets to be too late. And if we
get too many repetitive speeches, we may even shorten it a
little further than that. But really, we want to hear
from as many people as possible. And the best way for
that to happen is if you don't just read your written
testimony. If you've submitted a written statement, it
will get to us and we will read it. So we don't need you
to do that. It's much better if you can just summarize it
in your own words. And everything that you said and wrote
will get into the record.

I would also like to point out for safety reasons
there are exits at the rear of the room and on the sides
of the podium here. In the event of a fire alarm, we are
required to vacate this room immediately and go down the
stairs at the back of the auditorium here and to leave the
building until we hear an all-clear signal.

I think other than that and letting you know we
are planning to take a lunch break today at about 12:30,
that's pretty much it for the ways and means here.

And I think with that, we're ready to begin the
first item, unless there are any other comments. Thank
you.

We do have three items on today's agenda that are
going to be presented together: The response to comments
on the environmental analysis for the cap and trade
regulation, the Adaptive Management Plan, and the final
cap and trade regulation, include four compliance offset
protocols.

This is an important milestone in a long process.
As required by the California Global Warming Solutions Act
of 2006, better known as AB 32, the Air Resources Board
adopted a Scoping Plan to reduce greenhouse gas emissions
in the state to 1990 levels by 2020. The Scoping Plan
includes a large and diverse set of tools to achieve the
emissions reductions that are needed to achieve that goal.
One of those tools that was described in the Scoping Plan
is a market-based program for trading emissions, the cap
and trade regulation. But in order to actually design and
develop that program, it's taken a period of several
years, including a great deal of thought about alternative
ways to get those reductions.

Because the cap and trade regulations places a
cap on emissions, it helps to ensure that we will reach
our greenhouse gas emissions reduction goals. The program sends a clear signal to the global investment community that an investment in California's clean technology and clean energy industries will be rewarded, maintaining our status as a magnet for clean tech investment.

The Board first considered this proposed regulation last December, and we directed the staff to modify it and to further develop it in certain areas.

As I mentioned before, the items before us today are the response to comments on the environmental analysis and the Adaptive Management Plan and the final regulation with modifications made since last December.

The Adaptive Management Plan will allow us to monitor and respond, should there be unintended impacts of implementing the Cap and Trade Program.

It's a little bit unusual for the Board to be considering the final regulation. Normally, our action in December would have been to adopt the rule and then delegate to the Executive Officer the task of doing the final clean-up amendments. But I believe that it's important that this measure come back before the full Board and that we all have an opportunity to hear from the public and to be thoroughly informed about what it is that we're acting on here today. And I think our Executive Officer will explain more about this process in his
opening remarks.
But I do want to take just a minute before we actually launch into the discussion about the specifics to consider what it is that we're doing here today in its context.

For at least a half a century, every American President and many of our other national leaders have called for the United States to move away from our dependence on foreign oil and become energy independent, whether it was under Ford or Nixon or Carter and now, President Obama, they've almost always used identical language. What they called for was a way to break our dependence on oil.

For over 50 years, we have not even come close to making a dent in that dependence. In fact, on the contrary, we're using more and more petroleum, with more of it coming from outside our borders.

The main reason why we have not succeeded in addressing our addiction to petroleum is because we weren't using the right set of tools. Cap and trade is one new tool that is available that for the first time allows us to provide a reward for doing the right thing. We're finally able to utilize the power of our economy to address the petroleum habit by putting a price on carbon and thereby making it more attractive and more possible
for people to do something other than burn fossil fuels.

The sources that produce those climate-forcing gases are the same sources that produce the pollution that cause smog. Under cap and trade, those that find alternatives to fossil fuels as a source of energy or those who use less of them will benefit. Those that improve the efficiency of their operations will benefit. Those that are unable to make the necessary transition to clean energy will not profit from that, but will contribute to paying for the cleanup.

Cap and trade provides a reasonable and flexible approach to steer our economy towards cleaner sources of energy. Cap and trade on its own is not the solution. It works with a suite of other programs, including standards for ultra clean cars, low-carbon fuels, and renewable electricity. And while cap and trade by itself does not reduce an overly large proportion of our greenhouse gas emissions, it is the cap stone to the other programs. It literally provides the cap.

But by putting a price on carbon, cap and trade sends a policy signal to the market and guarantees that California will continue to attract the lion's share of investment in clean technology.

And when the nation is ready to address the growing danger of climate change, as I believe it must and
it will, California's climate program will serve as the
model for a national program. We believe that if we
implement a Cap and Trade Program in California other
states, the federal government, and other nations will
join with us.

We also believe that there are significant
advantages to being the designers of the first
comprehensive program. We will be doing our part to
address climate change, and we believe that this
regulation is an important step in that effort.

I want to acknowledge that there has been an
enormous amount of work starting with the staff of the Air
Resources Board in developing this regulation. And I'm
doing this in part because I want to put this out on the
record so that nobody else has to thank the staff for
doing a great job. You can just omit that part of your
testimony, and that will save us probably an hour's worth
of time if before you say all the things that you want us
to fix or change about the rule, we can just all nod and
agree that, although we often thank our staff for their
hard work when we consider regulations, I do think in this
case that is an effort that has surpassed in complexity
and in requirements for learning new areas and working
with diverse communities, anything else that we've ever
undertaken.
So to James Goldstene and Bob Fletcher, I want to acknowledge your tremendous leadership. I'm really proud of the effort that you and your team, which includes all the folks sitting at the staff table, a few that I see scattered in the audience, and dozens who are scattered throughout the agency and hopefully at least getting a chance to watch some of this on their computers, it's been a phenomenal effort. You invested the hours over the last three years to understand the range of industries that are covered to immerse yourself in the details of carbon markets, to learn about our electricity system at a level that we never had to before at ARB, as well as to chase down thousands of details that matter to the people who are going to be affected by this regulation.

And I don't want to underestimate who they are, the numbers of them, or the work that's required to reflect on and respond to the over 1100 written comments that we received on this proposed regulation. I believe that you have made yourselves available to the stakeholders, not only in formal workshops but in literally thousands of one-on-one meetings and phone calls, often starting early in the morning and running into the late hours every night of the week. Not just this past week, but for many, many weeks to come. I've even heard that people have ended up in discussions at
weekend soccer matches and swim meets. So truly, this has been an amazing effort.

Obviously, the Air Resources Board did not do this alone. We particularly owe thanks to our sister agencies, the Public Utilities Commission and the California Energy Commission, who have worked with us every step of the way in making sure that what we did here to implement AB 32 worked with their own efforts and their own legal mandates to make sure that we have an adequate supply of affordable energy in the state of California. And we will continue that close working relationship into the future.

So with that, I want to turn the microphone over to Mr. Goldstene.

EXECUTIVE OFFICER GOLDSTENE: Thank you, Chairman Nichols.

At this meeting, staff will present for the Board's consideration the response to comments on the functional equivalent document, which is the official name for staff's environmental analysis, the Adaptive Management Plan, and finally the final regulation order for the cap and trade regulation.

In addition, the staff will present the key elements of the cap and trade regulation and the modifications that have been made since the Board
considered the regulation last December.

    Staff is recommending that you vote today to
approve the response to comments on the functional
equivalent document, approve the Adaptive Management Plan,
and adopt the cap and trade regulation.

    In December last year, the Board considered the
cap and trade regulation and directed staff to make
modifications and then make the modified regulation
available for public comment. The Board also delegated
authority to the Executive Officer to consider the
comments received and then to either take final action to
adopt the regulation or return the regulation to the Board
for further consideration.

    As Chairman Nichols indicated and because of the
significance of this rule-making and attention and the
leadership that we'll be providing for the nation and the
world, we're choosing to present the final regulation to
the Board for final action.

    If the Board adopts a regulation today, staff
will submit the final rulemaking package next week to the
Office of Administrative Law.

    I'd also like to note that in designing the Cap
and Trade Program, we've worked closely with our partners
in the Western Climate Initiative to design a regional
greenhouse gas market program. The regulation includes
the framework for linking California's program with
programs implemented in other WCI jurisdictions. We'll be
back next year with specific recommendations for linking
with partner jurisdictions in the Western Climate
Initiative.

Now I'd like to ask Mr. Sam Wade from our Climate
Change Evaluation Branch to begin the staff presentation.
Sam.

AIR RESOURCES ENGINEER WADE: Thank you, Mr.
Goldstene.

(Thereupon an overhead presentation was presented
as follows.)

AIR RESOURCES ENGINEER WADE: Good morning,
Chairman Nichols and members of the Board.

This presentation will focus on the California
cap on greenhouse gas emissions and market-based
compliance mechanism regulation, commonly referred to as
the cap and trade regulation.

--o0o--

AIR RESOURCES ENGINEER WADE: Today, I will
present three items for Board consideration. The first
item is the response to comments on the cap and trade
functional equivalent document, or FED.

The second item is the Adaptive Management Plan.

While we don't believe there will be any adverse air
quality or forest resource impacts as the result of cap
and trade, we are committed to observing these areas and
taking action as appropriate. The Adaptive Management
Plan lays out a process for targeted monitoring, analysis,
and response, if necessary.

The final action for Board consideration is to
adopt the final regulation order for cap and trade. This
document contains the regulation and four compliance
offset protocols.

--o0o--

AIR RESOURCES ENGINEER WADE: I will begin by
providing background on the regulation development process
and the basics of cap and trade. Then I will present the
program details with a focus on the most significant
modifications that we made as directed by Resolution
10-42. These modifications are primarily related to
allowance allocation.

I will then provide some information on the
developments, findings, and responses included in the cap
and trade FED and provide an overview of the Adaptive
Management Plan.

My final set of slides will provide a status
update on next steps to implement the program if the Board
chooses to adopt the regulation.

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AIR RESOURCES ENGINEER WADE: It has taken three years and an extensive consultation process to develop the final regulation. We held over 40 public workshops and over 1,000 individual stakeholders meetings while developing the regulation. We received over 1100 written comment letters, each of which we will respond to in our final statement of reasons.

We have collaborated closely over the last three years with the Western Climate Initiative partner jurisdictions, and we've spent hundreds of hours interfacing with our colleagues at sister agencies, such as the California Energy Commission and the California Public Utilities Commission.

The Board initially considered the proposed regulation in December of 2010 and directed staff to work with stakeholders to make changes as provided in Resolution 10-42.

This year, staff noticed two 15-day packages of rule modifications for public comment and held additional workshops to discuss these modifications. Staff is committed to continue the level of outreach and public engagement if the Board directs us to implement this program.

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AIR RESOURCES ENGINEER WADE: AB 32 represents a
pioneering effort to address climate change. California's long-standing pollution control programs have demonstrated that strong environmental regulation and economic growth can go hand in hand. The Cap and Trade Program is a major component of the suite of complementary measures needed to meet the AB 32 mandate. The enforceable cap is designed to ensure that we meet the AB 32 goal, providing a powerful backstop so that even if other measures do not achieve their estimated reductions, we will meet our objective.

The program creates a carbon price that provides a broad, economy-wide incentive for investments in clean technology, and increased energy efficiency. The proposed regulation would limit aggregate emissions, but allow covered entities the flexibility to find the best and lowest cost emission reduction strategies.

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AIR RESOURCES ENGINEER WADE: The Cap and Trade Program establishes a limit, or cap, on the amount of greenhouse gases that can be emitted by all covered entities. The cap provides certainty in the total tons of greenhouse gases that may be emitted. Cap and trade uses allowances to limit total emissions. Allowances are permits to emit greenhouse gases, and each one is equal to one metric ton of emissions. The number of allowances
issued is equal to the cap.

The cap declines each year, which means that the covered entities must either reduce their own emissions or compete for a deceasing supply of allowances available in the market.

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AIR RESOURCES ENGINEER WADE: The cap applies to emissions from all covered entities and covers about 85 percent of the California's greenhouse emissions. Individual facilities do not have caps or specific emission reduction requirements. Setting the declining cap at the right level is critical to achieving our 2020 goal. The regulation specifies the number of allowances issued each year, totaling 2.5 billion over the life of the program.

If the Board adopts the final regulation order, this program would cover the following sectors: Large industrial sources and electricity generation, including imports, would be covered beginning in the first compliance period. Transportation fuels and residential and commercial use of natural gas would be covered starting in the second compliance period.

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AIR RESOURCES ENGINEER WADE: So what does this program mean for sources covered by the cap? A covered
entity would need to register with ARB, report its emissions each year, and have those emissions verified by a third party.

To comply, these covered entities must turn in allowances or offsets equal to their emissions.

To enhance flexibility, the program establishes multi-year compliance periods, the first from 2013 through 2014; the second from 2015 through 2017; and the third from 2018 through 2020. Once allowances or offsets are surrendered, they are permanently removed from the market. The covered entities must comply with recordkeeping, trading rules, verification, and other requirements in the regulation.

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AIR RESOURCES ENGINEER WADE: Allowances will be issued freely by the State and sold at auctions administered by the State. The program is flexible because these allowances can be traded.

The program design includes other cost containment features, such as the limited use of offsets and allowance reserve and banking of allowances.

The staff worked closely with the State's Attorney General's Office to ensure the program is enforceable and includes strong market oversight.

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AIR RESOURCES ENGINEER WADE: For the next few slides, I'd like to focus in more detail on the most significant areas of change to the regulation since last December.

In the first 15-day notice, we modified the ruling to begin the first compliance period in 2013. This change in timing allows for additional testing and deployment of the program infrastructure in 2012 and addresses stakeholder concerns about ensuring program readiness before the start of the compliance obligation.

Most importantly, this modification to the start of the first compliance period does not result in any changes to the cap stringency. That is, the program will achieve the same level of greenhouse gas reductions as if the compliance obligation had started in 2012.

Cap and trade relies on accurate reporting under ARB's mandatory reporting program for greenhouse gases. Covered entities must report their 2011 greenhouse gas emissions using the revised mandatory reporting regulation, which was updated to support the need of cap and trade.

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AIR RESOURCES ENGINEER WADE: Based on the Board's direction given in December of last year, staff made rule modifications in the first and second 15-day
notices to finalize the allowance allocation rules for covered sectors. The allowance allocation portion of the rulemaking has been subject to some of the most intense stakeholder interest, as it underlies the cost of compliance in the program.

The overall allocation strategy is based on recommendations made by the Economic and Allowance Advisory Committee. The EAAC recommendations were based on considerations of cost effectiveness, fairness, environmental effectiveness, and simplicity.

Staff has adopted an approach with a high initial level of free allocation to industrial sources. This will help ensure a smooth program start. In the longer term, free allocation will decline based on two main factors. One is the cap decline factor, which is necessary to ensure that we will reduce the emissions to meet the 2020 goal.

The other factor is the risk of emissions leakage. Emission leakage could result if industrial production activities move out of California as the result of greenhouse gas regulations. Staff has conducted an extensive analysis of leakage risk using a peer review methodology that has been employed in other existing Cap and Trade Programs.

We are committed to continue work on leakage risk.
analysis before 2015 and adjust the leakage risk categorizations, if necessary. We sustain high levels of allocation only in sectors where it's needed to minimize emissions leakage risk. Sectors where sustained free allocation is not needed to prevent leakage will be transitioned to use auction as the primary allocation method. The proceeds raised by auctioning allowances could be used for a variety of AB 32 related objectives.

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AIR RESOURCES ENGINEER WADE: I will now discuss the details of how benchmarks were developed for free allocation to the industrial facilities. Allocation to industry is primarily based on greenhouse gas performance benchmarks that are tied to production of specific products.

For example, one ton of cement or one barrel of crude oil.

For facilities that do not produce an industrial product that is easily benchmarked, which is the case in industries such as food processing, we employ an alternate benchmark approach based on energy use at those facilities. The most efficient installations that meet or exceed the benchmarks will initially receive all the allowances they need for compliance and may have some excess to sell. Installations that do not meet the
benchmarks will have a shortage of allowances and must either lower their emissions or purchase additional compliance instruments to cover their excess emissions.

For each of the products, ARB staff developed a benchmark based on a sector specific, better than average, emissions efficiency level. Our original approach to benchmarking was proposed in the Initial Statement of Reasons released in October of 2010. In this document, we stated that benchmarks would be set equal to 90 percent of the sector's average emissions intensity. Subsequently, best in class benchmarks were developed for any sector where the 90 percent of average benchmark would be more stringent than the emissions intensity of the best California facility. This change was made so that at least one facility in each sector would receive enough freely allocated allowances to cover its emissions.

The following two slides shows example of the 90 percent of average and best in class approaches.

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AIR RESOURCES ENGINEER WADE: This slide shows the product benchmark for container glass. This benchmark was set at 90 percent of the sector's average emission intensity shown as the red dotted line. As you can see, there is one facility that is already better than this benchmark. This facility will be able to sell its excess
allowances and make a profit or save these extra allowances for use in future periods.

The other facilities will need to either reduce their emissions intensity or buy allowances or offsets to make up the shortfall.

I would like to note this slide also shows the analogous 2013 benchmark from the European Union's emission trading scheme in green. As you can see, the EU benchmark is slightly more ambitious than the California benchmark. This holds true for almost all industries for which both systems have developed an allowance allocation benchmark.

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AIR RESOURCES ENGINEER WADE: This next slide shows an example of how a best-in-class benchmark was selected for the cement industry. Because there was no in-state facility that had an emissions intensity better than 90 percent of average in this sector, we use the emissions intensity of the best California facility to set the benchmark.

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AIR RESOURCES ENGINEER WADE: For the electricity sector, the broad allocation approach remains unchanged from what was considered by the Board last December. The proposed regulation adds the detail required to specify an
exact allocation for each electric electricity.

We allocate allowances to the sector starting at 90 percent of recent emissions. The allocation declines in line with the rate of decline of the overall program emissions cap.

Within the sector, the allocation to each electric utility is based on the carbon costs embedded in the price of electricity of each utility on behalf of its rate payers as well as projected investments in energy efficiency and early investments in renewable resources.

To determine the appropriate amount of allowances for each utility, staff performed an analysis based on resource plans filed with the Energy Commission for the 2009 Integrated Energy Policy Report. The allocation builds in the expectation that each utility will achieve its 33 percent renewable portfolio standard goal and continue aggressive investments in energy efficiency.

This approach achieves several objectives:

It recognizes that early investment was made by some utility rate payers in renewable generation;

It acknowledges the different emissions intensity profiles of California utilities;

And provides strong incentives for all utilities to continue to reduce their emission intensity of the power they buy.
This free allocation to utilities on behalf of their customers is not intended to interfere with the development of a carbon price, and an appropriate carbon price in electric rates is essential to create the direct incentives for electricity conservation and efficient greenhouse gas reducing technologies, such as combined heat and power.

To this end, staff will continue to coordinate with the California Public Utilities Commission, the Energy Commission, the investor-owned utilities, and publicly-owned utilities to ensure that any changes to the electric rate structure in response to the Cap and Trade Program in general and free allocation specifically support AB 32 goals.

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AIR RESOURCES ENGINEER WADE: Electricity generators, including waste to energy facilities and co-generation units at facilities without a leakage risk, are not allocated allowances based on our principles. We understand that waste-to-energy generators serve a role in waste diversion. And staff will continue to coordinate with CalRecycle and stakeholders to ensure equal treatment of all sub-sectors of the waste industry under our comprehensive climate change policy.

Under the regulation, water agencies also do not
receive free allowances. While each of these entities uses electricity to transport water in and around California, the emissions associated within activity are included in the pool of allowances set aside for the electric sector.

Staff views the role of these entities as analogous to electricity marketers and not electricity utilities. We believe the customers of the water agencies are appropriately compensated through the existing allocation to electrical utilities for any carbon cost passed through the water rates.

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AIR RESOURCES ENGINEER WADE: Flexibility is inherent in the choice of cap and trade as a policy tool because the program allows entities to trade compliance instruments and find the lowest cost reductions. The proposed regulation finalizes elements designed to further reduce compliance costs, while ensuring environmental integrity. These include multi-year compliance periods, banking, the creation of price containment reserve, and offset credits. A multi-year compliance period provides flexibility by smoothing out annual emission variations. It also gives covered entities a longer time frame to reduce their emission.

Banking allows entities to hold spare allowances
and use them for compliance in a later period. This provides an incentive for covered entities to make early reductions since we expect the declining cap to push allowances prices higher in the future.

The reserve provides a soft ceiling allowance price so that if prices exceed expected level, entities may buy additional allowances from ARB.

Offsets provide another cost containment mechanism by allowing for the limited use of voluntary emission reductions that have occurred at sources not covered by the cap.

In future rule-makings, linkage with other jurisdictions could provide for a broader program with more participants and greater opportunities to motivate the low cost greenhouse gas reductions.

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AIR RESOURCES ENGINEER WADE: We've taken a variety of steps to ensure smooth market operations. The program requires that any market participant acquiring compliance instruments register with ARB. Staff is currently developing a market tracking system that will allows us to track information about the market participants that hold and trade compliance instruments. This system will provide a chain of custody for allowances and offsets.
We developed rules that will reduce the opportunities for market manipulation. The proposed regulation establishes extensive requirements for information disclosure to assist in this market monitoring.

The regulation is designed to prevent efforts to corner the market. To this end, we've introduced limits on how many allowances an entity may hold or purchase at auction. Some large emitters commented that the holding limit did not allow for sufficient banking. We worked with these stakeholders to balance those limits so they provide enough flexibility for these large emitters to acquire the allowances they need for compliance, but still accomplishes the goal of limiting the potential for market manipulation.

We'll be contracting with an independent market monitor to review bidder behavior at each auction and report to ARB on any activities that may reduce the efficiency of the auctions. The monitor will also search for anti-competitive or manipulative behavior in allowance holdings and secondary market trading and will support the efforts in ARB staff investigating market manipulation cases.

We're establishing a Market Surveillance Committee composed of experts to advise staff on rule
development and analysis to combat manipulation.

The enforcement provisions are designed to ensure that the environmental integrity of the program will incent compliance.

In response to stakeholder's comments, the enforcement language was adjusted to ensure there was no layering of penalties between cap and trade and the mandatory reporting program.

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AIR RESOURCES ENGINEER WADE: I would like to use the next few slides to discuss the environmental analysis conducted by the ARB for the cap and trade regulation, including the offset protocols.

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AIR RESOURCES ENGINEER WADE: In accordance with ARB's certified regulatory program under the California Environmental Quality Act, staff prepared a programmatic environmental analysis referred to as the Functional Equivalent Document, or FED. The FED was included in the Initial Statement of Reasons as Appendix O. The environmental analysis focused on the proposed regulation and the four offset protocols.

In evaluating for potential significant impacts, staff consistently took a conservative approach. The scope of the programmatic analysis included the review of
potential adverse environmental impacts of the proposed
regulation and offset protocols. If, during this review,
any potential significant adverse impacts were identified,
feasible mitigation measures were also identified. The
programmatic analysis included a review of reasonable
alternatives to the proposed regulation and offset
protocols.

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AIR RESOURCES ENGINEER WADE: To ensure early
stakeholder involvement and in accordance with CEQA, ARB
conducted a scoping meeting on August 23rd, 2010. The
purpose of the meeting was to provide the opportunity for
agency representatives, stakeholders, and interested
parties to bring up subject areas to be addressed in the
FED's environmental analysis.

The FED was released for public comment on
October 28th, 2010. It was circulated through the State
Clearinghouse and publicly noticed in major newspapers in
both northern and southern California.

Subsequently, two sets of 15-day changes modified
regulatory text to provide clarity and provide
modifications as directed by the Board in Resolution
10-42.

Because ARB received comments pertaining to the
FED from public agencies, a response to comment was posted
on October 10th, 2011, ten days prior to this Board hearing.

Board members were also provided the FED with the responses to comments at the same time for their careful review and consideration for today's hearing.

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AIR RESOURCES ENGINEER WADE: ARB received 19 comments letters and oral testimony related to the FED that raised environmental issues associated with the proposed action during the initial 45-day comment period at the December 16th Board hearing and during the comment period for the two day 15-day change notices.

Many comments received pertained to the alternatives to cap and trade that were analyzed in the FED. ARB also received comments pertaining to the potential for localized air quality impacts and other comments related to the forest impacts of the proposed compliance offset protocol for U.S. Forestry projects.

To monitor and respond to these concerns, ARB has incorporated adaptive management as a design element of the program implementation. This plan is discussed in the following slides.

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AIR RESOURCES ENGINEER WADE: The Adaptive Management Plan is a formal process to monitor and respond
to potential impacts from the implementation of the regulatory program. ARB is committed to an adaptive management process as an integral component to Cap and Trade Program implementation.

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AIR RESOURCES ENGINEER WADE: This slide provides the scope of the Adaptive Management Plan. The plan is focused on two specific areas: Localized air quality impacts from the proposed cap and trade regulation; and forest impacts from the proposed compliance offset protocols for U.S. forest projects.

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AIR RESOURCES ENGINEER WADE: The key elements of the Adaptive Management Plan are shown here and include information gathering, review and analysis, and response. Most of the information will come from the data ARB collects as part of the program implementation, such as emissions data reports from the mandatory reporting regulation, allowance, price and use, or forest offset project annual reports.

ARB will take a step-wise approach to evaluating the data gathered to investigate three questions.

First: Has an environmental change occurred?

Is the environmental change caused directly or indirectly by the cap and trade regulation or forest
And finally, has the environmental change had an adverse localized air quality or forest impact?

To implement the review and analysis element, ARB will work with local air districts to further define data gathering needed to evaluate potential local air quality impacts. We will work with a contractor with forest expertise to filter and analyze data needed to evaluate potential forest impacts.

If the analysis process confirms there has been or will be an adverse impact, the plan requires ARB to take action to respond appropriately.

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AIR RESOURCES ENGINEER WADE: The schedule for the plan, including the public process is shown here. If the plan is approved by the Board, staff will begin in November to work with air districts, Departments of the Natural Resources Agency, and stakeholders to implement the plan.

Although not shown on this slide, in early 2012, staff will conduct an independent third-party contract with an independent third party forestry expert.

Staff will provide the Board an update on the plan implementation in mid 2012. The first adaptive management report is planned for December 2012 and will
focus on the first phase of implementation.

Annually thereafter, staff will provide adaptive management reports to the public and the Board. Reports will be released for public comment, and staff will consider the comments received prior to presenting a report, including any recommendations, to the Board.

The annual Adaptive Management Plan reports will, among other things, outline the data collected and the trends observed and discuss any recommended responses.

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AIR RESOURCES ENGINEER WADE: In the next few slides, we'll highlight activities that are underway or will be implemented for a program start of January 1, 2012, if the Board chooses to adopt the final regulation order.

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AIR RESOURCES ENGINEER WADE: One of the key areas currently being addressed is related to market operations. Staff has been working with the U.S. EPA and their contractor to develop the market tracking system. The system should be ready the register market participants in early 2012.

Staff will be hiring a contractor to develop a process for market simulations with stakeholder input as part of a program readiness before compliance begins on
January 1st, 2013. We are working with the University of California to develop this process.

We'll be arranging for support from a financial services provider, an auction platform provider, and the independent market monitor mentioned previously to get the auctions up and running by August of 2012. And we'll have proposals in response to an RFP to review within the next few weeks. Additionally, we'll be continuing our leakage and benchmarking work with the help of external experts.

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AIR RESOURCES ENGINEER WADE: Staff will continue to monitor offset protocol development and propose technical updates to adopt protocols in the U.S. forestry protocol as needed. In future rule-makings, staff will bring new offset protocols before the Board.

California is continuing to participate in the Western Climate Initiative. Currently, three Canadian jurisdictions are considering implementation of Cap and Trade Programs and linking them to form a regional market with California.

Expanding California's program to a regional market creates a greater potential for a lower cost program and enhances market liquidity.

Establishing a regional program requires that ARB and WCI partner jurisdiction work closely together to
harmonize a number of specific regulatory and operational aspects of the program, including such provisions as the sources subject to compliance obligation and evaluation of regulatory base lines for existing offset protocols.

Furthermore, ARB and WCI must work together to establish a regional administrative organization to regionally coordinate administration of cap and trade services.

ARB staff expects to work closely with the WCI partner jurisdictions over the coming months to address harmonization issues, develop the necessary regulatory amendments to formally link approved programs, and prepare the necessary policy and technical documents to effectively implement a regional program.

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AIR RESOURCES ENGINEER WADE: In summary, staff recommends that the Board act to approve the functional equivalent document, including our response to FED comments and the Adaptive Management Plan for cap and trade.

Pending adoption of the FED, staff recommends the Board adopt the regulation order, including the four compliance offset protocols.

This concludes the staff presentation. Thank you very much for your attention. I'd like to turn the floor
over to Mr. Goldstene for a closing statement.

EXECUTIVE OFFICER GOLDSTENE: Thank you, Sam.

As you can tell from the presentation, designing this program has been a major undertaking with extensive coordination of stakeholders. Your vote today will signal that California will be the first in the United States to implement an economy-wide greenhouse gas emissions reduction program beginning in 2012.

I also want to mention that the Board will not have the option today of making changes to the regulation as part of this rulemaking action. This is because next week is the deadline for submitting the regulation to the Office of Administrative Law, and there is not enough time before the deadline to modify the regulation and make the modifications available for the required 15-day public comment period.

However, changes can be made in the future as part of a separate regulatory action. If the Board wishes to direct staff to continue to evaluate specific issues moving forward, the Board's direction can be included in the Resolution.

I'd also like to thank the staff for all their hard work. It's been a long road for all of us. And even though Chairman Nichols said we shouldn't take time thanking each other, I think it is important for the staff
to know that me and the senior team greatly appreciate the work that they have been doing.

CHAIRPERSON NICHOLS: Thank you, Mr. Goldstene. I also think that thanks are due to all the stakeholders who worked so closely with us over the past three years. This is certainly not something that we did on our own. And I see a lot of very familiar faces in the auditorium and have heard from many of them, including a couple of early morning e-mails sort of wishing me good luck, which was a little ominous. I'm taking it in a positive spirit. And I really do appreciate all the time and effort that people have put into this.

This obviously got a lot of stakeholder attention. And I see that there are many people in the audience. We have 73 names of people who have signed up to testify today, and we could certainly hear from all of you in an adequate amount of time.

But I understand that there are some people who signed up online and who have not yet checked in. That's perfectly acceptable if somebody decides they don't want to speak, you can sign up here and not speak as well. But if there is anybody who's holding back from letting us know that you do plan to speak, I would really appreciate it, because it happens the staff enormously if they can organize and make sure that we have the appropriate names
in the right order and can manage the flow of the
information. So I really would urge you to sign up if you
think that you want to speak.

Before we do turn to those who are on the list
though, I'd like to give my fellow Board members an
opportunity if any of them have any comments they'd like
to make in terms of what they're going to be looking for
or listening to or anything else you care to add at this
particular moment. You don't have to. But if you wish
to, this is the time to get it off your chest.

Yes, Dr. Sperling.

BOARD MEMBER SPERLING: I have a question about
this Adaptive Management Plan. I understand the concept
of it. And hasn't really -- I don't know if there is a
history to this. I just went in our material in what was
given to us. It said the focus is localized air quality
impacts and forest impacts. And that confused me a
little, because there are all kinds of issues here before
us about how we need to be adapting the management of the
Cap and Trade Program to different issues that arise,
different information.

So then I looked and I saw that there is a
website with a report, and I went to the report and it
basically says the same thing. So I'm a little confused
that why is this Adaptive Management Plan so limited when,
in fact, we're spending the whole day talking about issues
that probably should be part of an Adaptive Management
Plan.

ASSISTANT CHIEF CHANG: This is Edie Chang.
The Adaptive Management Plan that should be
viewed is a subset of the broad are monitoring that we
always do as we implement regulations in our programs. So
we will be monitoring and implementing all kinds of
aspects of the cap and trade regulation as we could be
with any regulation that we implement and if we want to
know what things are happening on the ground.

The Adaptive Management Plan is focusing on the
specific areas. They were identified as areas of concern
in the environmental analysis that we did. So these were
a couple areas that we identified as areas of concern.
And we are putting together sort of a formal plan to look
at those particular areas. But we will be continuing to
monitor the other parts of the regulation as well.

BOARD MEMBER SPERLING: Like market manipulation
for instance, that's a big issue. Why wouldn't that be
part of this ongoing process? Is there some legalese I'm
missing here why this is so constrained and limited?

CHIEF COUNSEL PETER: Dr. Sperling, this is Ellen
Peter.

BOARD MEMBER SPERLING: The layer speaks up.
CHAIRPERSON NICHOLS: You said the word "legal."

CHIEF COUNSEL PETER: You're exactly right. The Adaptive Management Program focuses on the environmental impacts only. The other -- and they're laid out in a very specific document that we put out for public comment. It's a narrow focused issue on the issues that were raised, the localized neighborhood impacts and the forestry impacts. That's a separate document and is part of the functional equivalent process. And that's setting over in one piece.

The other piece, as you point out, the market manipulation and the other things the Board directed staff to look at, those will be done. They're not gathered at this moment in one particular plan for you to look at. That's just a legal requirement. The adaptive management is something that is actually something that the Air Board has not done before, but we decided it was important enough to make a very strong commitment. How we're going to monitor it and commit what we're going to do with respect to adaptive management. It's just a bifurcation of environmental impact versus other kinds of designs elements you were referring to.

BOARD MEMBER SPERLING: Let me leave it on the table I think we'll be coming back to it later is what are the formal processes we're going to be using for all of
these other aspects of cap and trade that there is
questions about that will be evolving as we go along.

CHAIRPERSON NICHOLS: Good question. Okay. I
think we will then turn to the audience since I don't see
any other hands raised here, and begin by calling on our
colleague from the California Public Utilities Commission,
Andrew Schwartz.

MR. SCHWARTZ: Madam Chairman and esteemed
members of the Board, thank you for the opportunity to
speak today.

My name is Andy Schwartz. I'm a supervisor of
the Emerging Procurement Strategy Section of the CPUC's
energy division.

I'm here on behalf of the Commission to convey
the CPUC's strong support for this regulation and to
encourage its adoption. As you all know, the CPUC has
been a supporter of cap and trade and over the years have
worked in partnership with the Air Resources Board in the
development of effective and efficient regulation to
address climate change.

The implications of the climate change result
from unfettered emissions of carbon dioxide and other
global warming pollutants are profound and pose, as you
know, one of the greatest challenges that modern society
faces.
California has bravely stepped in to fill a policy void, particularly at the national level, to implement an approach that will provide the market signal that will effectively transition our economy away from fossil fuel in the various environmental, socioeconomic and political challenges that continued reliance on them engenders.

As you also know, the utilities we regulate are among the most significant contributors to climate change. Statewide, the electricity sector accounts for over 20 percent of California's annual emissions. In addition to being a significant source of emissions, CPUC jurisdictional utilities, including electricity and gas, as well as water are likely to face significant operational challenges resulting from the impacts of climate change. Changing, more volatile weather conditions have implications for service demands in the state as well as on the ability to meet those demands given the challenges posed by sea level rise, heat waves, water availability, and increased storm intensity.

Over the past several years, the staff of the CPUC has worked closely with your staff to help develop and refine the body of regulation you have before you to ensure it is able to achieve its fundamental objectives of reducing greenhouse gas emissions at least cost, while
ensuring safe and reliable access to energy services that's the life blood of our economy.

    Overall, I believe we are satisfied the regulations provide a robust framework that will internalize the cost of carbon emissions, and in so doing, harness the creativity of the market to adapt to the realities of a post-carbon world.

    As we move into program implementation, we look forward to continuing our work with ARB. And particularly, we look forward to working with staff to address some of the seams issues between the Cap and Trade Program and the recently codified 33 percent NRPS program pursuant to Senate Bill 2. Additional greater definitional clarity will be necessary to ensure market participants clearly understand what does and does not constitute resource shuffling.

    We are also keenly interested in addressing a number of issues related to the sectorial allowance allocation; in particular, to address indirect emission cost exposures faced by the emission-intense trade-exposed industries, as well as to address concerns with those generators operating under legacy contracts signed before AB 32 went into effect or before AB 32 was adopted and which do not allow for GHG pass-through.

    Lastly, the CPUC has been and will continue to
engage with ARB as we deliberate on the use of allowance revenues generated from the allocation of allowances to the investor-owned utilities.

Let me be clear, however, that these concerns do not in any way stand in the way of adoption of this critical regulation today. It is true there remains some issues as inevitably is the case with any new and complex regulatory regime. To the extent problems arise, the regulation will be refined and modified. However, these are costs and risks that we can bear, while the costs and risks of inaction, science indicates, our descendents most profoundly cannot.

So again, I urge you on behalf of the CPUC to adopt this body of regulation today. Thank you.

CHAIRPERSON NICHOLS: Thank you, Andrew.

I'm next going to take out of order three representatives of local air pollution control agencies, because I understand that they've all been meeting and need to leave early.

But I want to particularly call them forward at this point because, as everybody knows, California has a system of air quality regulation, which includes both State and regional entities operating under State and federal law and developing this program, although it was a task that was assigned to the Air Resources Board is one
where we have also needed to be and tried to be mindful of
the responsibilities of the local agencies that administer
the permitting and most of the enforcement programs
related to conventional air pollutants and who have
increasingly also begun to step up their own efforts to
deal with global warming pollution as well.

So I don't know how the three of you wish to sort
yourselves out, your timing. But come on and you can
speak in whatever order you would like. I guess we'll
start with Barbara.

Hi, Barbara.

MS. LEE: Good morning, Madam Chairman and
members of the Board. My name is Barbara Lee. I'm the
Air Pollution Control Officer for Northern Sonoma County
and also Chair the Climate Protection of the Air Pollution
Control Officers Association.

I'm very happy to be here before you today. The
Air Districts recognize that the steps you are taking
today are truly historic. And we applaud your commitment
to managing the air quality and public health aspects of
this Cap and Trade Program through your Adaptive
Management Plan. We stand ready to work with you as you
do that and appreciate the recognition of our role in
that.

That said, there are some significant
implementation issues that remain to be worked out with that program and, indeed, with how the broader Cap and Trade Program and the other AB 32 efforts will interact with the traditional air pollution control program that we implement in partnership with you and have for so many years.

We look forward to resolving those issues with staff, have appreciated the support of this Board for resolving those issues in the past. And while we had hoped to have more to report to you at this point in time on progress in that regard, we have had a very encouraging meeting with staff this week. We are planning another meeting in December and hope to make some real progress there.

We would ask you to have us back early in 2012 to talk with you about the progress we hope to have made by then and would appreciate a strong commitment from you to hear that early in the year so that we all have something concrete and some real momentum to move forward on.

But thank you very much for taking our comments today. And congratulations to staff and to this Board on showing some tremendous leadership in climate protection.

CHAIRPERSON NICHOLS: Thank you.

Dr. Wallerstein.

DR. WALLERSTEIN: Good morning, Chairman Nichols
and members of the Board.

I'm Barry Wallerstein, the Executive Officer of the South Coast Air Quality Management District.

First, I want to say to you that it is extremely important that you adopt the program today. This is truly an historic moment in air pollution control, not just for the state, but the nation and the world. So we hope you take action today.

Secondly, I have what I hope is just a small request and it piggybacks onto Barbara Lee was requesting. That is on page 13 of your resolution at the top of the page is a provision that the staff has added, and we're thankful they have, about working with the local air districts. And we would simply ask that at the end of that provision at the top of page 13 that you simply add a statement that says "come back before the Board the first quarter of 2012 to report on progress working with the local air districts."

The reason that I'm asking that it be specifically included in the Resolution is there have been two other occasions where the Board has told both the air districts and the staff to get together and work in partnership on various issues associated with implementation of AB 32. Unfortunately, we have not seen those provisions in Board resolutions actually come to
fruition.

So I think it's important for your Board to monitor us at the local air districts as well as your staff and have a report back in the first quarter. So if you could just add one sentence, we'd be very happy. Thank you.

CHAIRPERSON NICHOLS: Thank you.

MR. BROADBENT: Good morning, Madam Chair, members of the Board.

My name is Jack Broadbent. I'm the Executive Officer for the Bay Area Air Quality Management District. And I appreciate the opportunity to be here this morning to talk to you about the cap and trade regulation and the regulations on the Adaptive Management Plan.

Along with my colleagues at the Air Pollution Control Districts, we remain supportive of the Cap and Trade Program and are committed to assist in its implementation.

We continue to believe that there should be continued and ongoing dialogue about how we can harmonize, frankly, the local Air Pollution Control Program with the Cap and Trade Program. And we think there's going to be a considerable amount of discussion that's going to be needed in the future in order to make that harmonization work, only because I know your staff and, of course, the
Air Pollution Control District staffs don't want to see conflicts. We don't want to see any issues arise as we continue to move forward in not only addressing regional smog, but also localized impacts and continue to reduce climate change precursors.

What I wanted to speak about specifically, Madam Chair, was the Adaptive Management Plan. In the Bay Area, we have a number of communities that already experience relatively high levels of toxic air contaminants. This is due in large part to their proximity to mobile as well as stationary sources. And frankly, just the density of the Bay Area, which is why several years ago we initiated an effort referred to as our clean air communities initiative to understand and reduce these risks.

So we have a number of communities that I know you all are very familiar with in and around the Bay Area where the district, actually in concert with your staff, have been seeking to be able to estimate the risks in these communities, model what those risks are, conduct ambient monitoring, and then target our grants and our regulatory efforts to be able to reduce these risks. It's a very extensive program in place that we take very seriously to be able to deal with this issue.

And your staff has indicated that you do not believe there are going to be impacts associated with the
Cap and Trade Program. And, indeed, that's what's the basis of the Adaptive Management Plan.

We also believe that, frankly, there are mechanisms in place, but there needs to be a lot of coordination, we believe, with the Bay Area Air District. And you've also heard from also the other districts as well.

That's why I think it's very critical this Resolution that your staff has included in the Adaptive Management Plan calls for that coordination. We think, however, there is going to be very much of a need for your Board, specifically Madam Chair, to hear back from all of us in a very distinct time frame. Because this is too important of an issue. It's also frankly you're moving ahead with a program where you don't know exactly what people are going to do in the Cap and Trade Program. You cannot predict human behavior in a program like this.

And so given that, we think it's really important -- I'll stop here. It's really important that you hear back from us to really talk about how we can coordinate our efforts into the future. And I just -- along those lines, we think that a little beefing up of the resolution along those lines would go a long way. So thank you, Madam Chair.

CHAIRPERSON NICHOLS: A number of us have been
taking notes. So thank you.

    Larry, you want to jump in here, too?

    MR. GREENE: Yes, ma'am, Madam Chair and members of the Board. The local Air District can watch across the street and run over here. That's one of the advantages I have.

    I very much support what has been requested by the other Air Districts. I ask that you include that. We have some intensive work over the next number of weeks and will be working with your staff on Adaptive Management in addition to other things.

    I also want to commend you for today. I was at Copenhagen and will be in South Africa representing our national association. And I can tell you it makes a difference when you tell people you're from the United States and then you tell them you're from California. And that makes a difference to people. We've been a leader, and I think it's important for us to continue that. And we urge your support on this. Thank you.

    CHAIRPERSON NICHOLS: Thank you very much.

    Okay. I think we should return then to the regular order. And our next speaker is Chris Riley followed by Lisa Bowman.

    MR. RILEY: Good morning. Chris Riley, concerned
citizen employed by Velaro and come to you to oppose part
of the plan that will put a tax on emission allowances,
particularly concerned with the auctioning process. I've
been to several auctions. I see how things go. People
act irrationally. Things become interesting. I'm
particularly concerned about that environment and how that
works.

I'm concerned about how these emission taxes and,
in general, how this will have impacts on our families, in
particular the impacts on the higher energy costs that
will be incurred and then consequently what will happen to
our jobs as well as to all the impacts, residential and
commercial.

And I'm deeply concerned especially in this
environment of the already large losses that are incurred
on this economy, what the further onset of higher energy
costs and therefore layoffs will have on our environment
as it stands now and particularly going forward. And
worse yet, how this plan in general looks at energy growth
and not just sustaining where we're at, but becoming a
global economy, which we should be thinking about ever
more so and the impacts of what we have and how we do
things, not just here, locally, or statewide or even
nationally but globally. Thank you.

CHAIRPERSON NICHOLS: Thank you.
Those are all valid concerns and hopefully get a chance to listen to some answers as well.

Lisa Bowman is next. Lisa. And then Ralph Moran an.

MS. BOWMAN: Good morning, Madam Chairperson and Board.

I'm here on behalf of California United Steelworkers Local 675. And along with me, I have two other United Steelworkers from our sister refineries. We're all ConocoPhillips employees. We are hourly employees, and we have a two-sided thing here. One is we support AB 32. But the flip side of that -- I'm coming to you from a very -- I'm a citizen in my neighborhood. And my employer is in my neighborhood. And that employer allows me the opportunity to take care of my family.

But what we see is that everything was not particularly looked at. And some of the impacts from this bill can put us out of work. We are in an economy where we have a need to take care of our families. And the way society is today -- I'm going to be perfectly blunt with you. There are not many job opportunities out there where a single mother can raise three children without government assistance. I've never had government assistance. And this job has afforded me that opportunity.
In addition to that, with ConocoPhillips remaining in our local neighborhoods, it provides taxes that pay for things that one day I hope to be able to utilize. We have senior citizen assistance. We have ride share to pick up these seniors. If this refinery disappears, where am I going to retire, too?

What we're asking is you take the time, give our employer an opportunity to see what they can do to meet your regulations. That's all we're asking. We're not saying disappear. We're saying give us some leeway, because we're talking about not affecting companies, but all these people in these blue shirts you're looking at, they have children. They play Little League. Those programs would disappear because our employer pays into those types of things.

A lot of us are volunteers in our neighborhood where our employer allows us time off from work to volunteer. And to apply to what's being asked in such a short time frame, we're hitting a block wall. And there are going to be plenty of people out of work and we don't want to see that happen. I can tell you right now the United Steelworkers, we're very serious about keeping people employed and where people can sustain their own likelihood without government assistance. Thank you.

CHAIRPERSON NICHOLS: Thank you.
MR. MORAN: Good morning. Ralph Moran with BP America.

We worked extensively with staff on this regulation over the last four years. And while we support a well-designed Cap and Trade Program and there has been progress on the regulation, I have to say we're disappointed with where the regulation stands right now. And the primary reason we're disappointed is because, as currently designed, we think it stands a pretty good chance of not working. And in the mean time, inflicting a good deal of pain on California industry.

Our message to staff has been clear. The most important objective is that it work, that the program deliver real emission reductions cost effectively. But that objective seems to have been replaced by a different objective being to get as much as possible from the program as quickly as possible, rather than keeping the end game in mind.

Our concerns that have gone unaddressed are about things like inadequate cost control, over controlling of the market through things like unjustified holding limits, addressing or failure to address properly the trade exposure, and doing things that have, indeed, necessary by all of you and staff included like incentivizing co-generation.
Supervisor Roberts, you expressed an interest in this recently. It just hasn't been addressed. Addressing these concerns would not in any way compromise the goals of the program. In fact, it would probably increase the potential of the program would succeed.

Our most immediate concern now is with this 10 percent reduction in allocation to industry. Everyone from US Secretary of Energy Chu to your own EAAC Committee and staff's own analysis has concluded that industry will be trade exposed when competing against industry who is not similarly regulated.

It is our view that in this case staff have ignored their own report that says that 100 percent free allocation to industry is necessary to avoid this leakage. And we're especially perplexed by this action to reduce our allocation because it won't do anything to help the program succeed.

We think that the California program does have the opportunity to be an example, but it also has the chance to be a cautionary tail if not done right. And each of you can influence that outcome.

Please ask staff to reverse course on their reduction and allocation to our industry and to put in place a real process to evaluate the concerns of industry. Thank you.
CHAIRPERSON NICHOLS: Thank you.

Tim O'Connor from the Environmental Defense Fund and then Frank Caponi.

MR. O'CONNOR: Good morning.

On behalf of Environmental Defense Fund and our over 700,000 members, I stand here today in front of you to urge your vote in support of this monumentally important program. This program, an economy-wide cap and trade regulation, really is California's moonshine; our moonshine to reduce greenhouse gas emissions. It's going to reduce emissions. It's going to protect our economy. It's going to reestablish the United States through our great states actions as a leader internationally on this issue.

The vote today is a statement. California's army of pollution sources -- I'm taking a metaphor I heard earlier today on the radio. They need to start cutting emissions. They need to start cutting climate change pollution. They need to start reaping the benefits of increased efficiency. They need to start delivering cleaner air and a more stable atmosphere. It's what the U.S. should have done ten years ago. It's what they should have done last year. It's what the U.S. as a nation needs to do today, and it's what California needs to do today to pass this program.
Failure to act today is really not an option. It's too costly, too harmful to our economy, too harmful to our kids, to our elderly, and to our future generations. This program, the price on pollution, the improvements in air quality that it will bring, the fight against climate change is really what the public voted for when we voted down Prop. 23.

The public, myself included, stood up and said we need positive action to address climate change, and we think that the Air Board's direction to protect our economy to reduce our emissions and to clean up our air is the way to go.

I urge your vote in support of this important program. And with the last minute, I'll yield it to applause to the staff that hasn't been given to this audience. Thank you for your participation in all the working groups and everything. I know you said you'd save an hour, but since I'm saving a minute, I just want to say thank you very much, staff.

CHAIRPERSON NICHOLS: Okay. Thank you.


MR. CAPONI: Good morning, Madam Chair and members of the Board.

My name is Frank Caponi representing the Los
Angeles County Sanitation Districts. I'm here today to talk to you about the waste to energy issue that we've spent the better part of three years talking about.

Seventy-two cities, unincorporated areas of L.A. County, a bipartisan group of legislators, international experts, and for a short time, even CARB staff supported an exclusion for these facilities. The U.S. EPA, CalRecycle, international experts, and for a short time even the CARB staff supported the analysis that came to this conclusion.

Last December, Mayor Loveridge introduced a Resolution that had three actions in it. The first action was to find a mechanism to satisfy the risk of emission leakage. Staff has been working on this with us very diligently, but it's not completed. Find a mechanism to satisfy all compliance obligations. This has not happened. Report back to the Board on all the progress of this. This has not happened. So there is a lot of undone work here as part of the original Resolution.

Staff said in the presentations that we're part of the electrical sector. We are not. We're waste management facilities. A byproduct of being waste management facilities is doing what we've been asked to do over the years, produce renewable energy. And it goes to the goal that Chairman Nichols talked about, reducing
reliance on fossil fuels. We're doing what we can as to that end. But I think we're being penalized unfairly.

Staff in the current Resolution is asking for a comprehensive Waste Management Plan. This really can't happen because by including us in the cap and trade sector, they've already picked the winners and losers in this game. That's not fair. We need to continue the work that started and come to more equitable solution.

What am I asking? I'm asking that you re-insert the original language that Mayor Loveridge introduced in December. That work has not been done. I think Barry Wallerstein, Dr. Wallerstein, alluded to the fact that some of the Resolutions have not been completed. That's one of them. I'd like to see that go back in. And continue to work with that.

Unfortunately, Mayor Loveridge is not here to speak to this issue. But I'm sure he would agree with us on this one.

And also there is a current Resolution in the package, which is asking for this comprehensive solid waste management overview. We'll go ahead and support that. We think there should be a comprehensive analysis. But there has to be time certain on this. This is open ended. This is an issue that needs to resolve now, not two or three years in the future. So we request it be
time certain, this be completed by the end of next year, but also that there be at least quarterly reports back to the Board so you guys could figure out where the status of this is. Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

So I'm looking at the draft Resolution which I think came out last night or this morning. I'm not quite sure, which it does contain language in it that requires that the Executive Officer propose regulatory amendments as appropriate so that AB 32 implementation, including the cap and trade regulation, aligns with statewide management goals, statewide waste management goals, and provides equitable treatment to all sectors involved in waste to energy.

MR. CAPONI: We support that alignment, but it's very, very broad. The original Resolution language has not been completed yet. The actions need to be completed there, that I think will make it whole. If we include that Resolution with the new Resolution, put a time stamp on it, I think we're there. I think we've got it together.

CHAIRPERSON NICHOLS: Thank you.

Norm Hattich.

MR. HATTICH: Good morning, Madam Chair and Air Board members.
My name is Norm Hattich. I'm here representing the California Contractors Alliance. We're 15 industrial contractors that do work throughout California and western United States. We have over 3,000 employees that are highly trained and highly paid. We see this as a threat to our membership. We do not think it has been thought thoroughly, and we're very much against this proposal. Thank you for the opportunity to speak.

CHAIRPERSON NICHOLS: Okay. That was to the point.

Mike Wang and then Brian Nowiczki.

MR. WANG: Good morning. I'm Mike Wang speaking for the Western States Petroleum Association, as our President, Kathy Reheis-Boyd, is out of the country. We submitted written comments. I'll be highlighting some issues before you.

We represent companies that implement your regulations. Our members support environmental protection and we've worked diligently to implement State and local environmental programs.

So what have we done? Since the early 1980s, we've reduced pollutants from service stations, refineries, terminals, and oil and gas facilities. Our facilities, as you know, are the cleanest in the world and they produce the cleanest products in the world.
We've also implemented four rounds of controls on gasoline, two rounds of controls on diesel, and innumerable changes to specialized fuels used in mobile and stationary sources.

Our members are responsible for making your emission reductions a reality through diligence, engineering, safety, and cost control.

We understand that greenhouse gas control is upon us and we want to comply.

But there are concerns. What you are hearing from us is: Can we choose alternatives? Can we choose an alternative to the ten percent reduction in allocations? Can we evaluate leakage and trade exposure and make needed program improvements and adjustments? Can we choose alternatives to dealing with greenhouse gas emissions from transportation of fuels in California? Can we achieve the goals of AB 32 easier?

Right now, it's important to remember that the industry is faced with five concurrent rule-makings, including this regulation, the high-carbon intensity crude regulation, low-carbon fuel standard, clean fuel outlet, and energy efficiency audit reports. We need to ensure that we make decisions that make sense and are consistent with future programs.

We join with others in asking that a ten percent
reduction in allocations be removed. Let companies devote precious capital to greenhouse gas emission reduction projects that you have told us will be required in the future.

We ask that ARB work with stakeholders to correct and refine technical provisions. We ask that ARB work with stakeholders to monitor the progress and issues of the Cap and Trade Program as part of the Adaptive Management Plan.

We note that the bifurcation that was noted by staff earlier this morning is not well founded. You need a comprehensive review of all the issues, not simply environmental, but you need environmental and economic issues analyzed.

Finally, we ask that the ARB work with other agencies to monitor whether and to what extent the overall state economy is affected by the Cap and Trade Program.

We close by stating the obvious: That continued employment in California is important, not only to maintain jobs in California for Californians, but also because jobs and facilities operating in California will ensure that AB 32 emission reductions will occur.

Finally, we do note that our comments to the final environmental document were omitted from your record as shown. We are sure that this is inadvertent. We sent
it on July 28th. So we ask that ARB staff re-look at the record for the FED and ensure that all comments were included in the record. Thank you.

CHAIRPERSON NICHOLS: I certainly would hope they would do that, if there were comments that were overlooked.

MR. WANG: We actually submitted on the web. We have a receipt that was submitted on July 28th. And it was not shown in either the record or in --

CHAIRPERSON NICHOLS: I'm seeing some mystified looks, but they're going to check right away.

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: The FED was noticed last October for 45 days on the cap and trade regulation. I think he might be speaking about the FED associated with the supplemental alternatives to the Scoping Plan.

MR. WANG: We should talk about it. Thank you.

CHAIRPERSON NICHOLS: Sounds like you need to get off line and clarify what the document is and where it was directed. But we certainly don't intentionally overlook any comments.

Brian Nowickzi from the Center for Biological Diversity, if you're here. If not, we'll hear from Kate Beardsley followed by Paul Shepard.

MS. BEARDSLEY: Good morning, Chairman Nichols
and Board members.

   My name is Kate Beardsley. I'm here today speaking on behalf of Pacific Gas and Electric Company.

   PG&E provides gas and electricity to approximately one in 20 Americans. I appreciate being so early in the lineup. I think back in December I was 110. So I haven't practiced as much as I should have.

   But anyway, ARB has made significant progress over the last twelve months in the development of the Cap and Trade Program. We believe that critical design features of the Cap and Trade Program, such as allocating allowances for the benefit of electric utility customers, the use of high quality offsets, and the presence of an allowance price containment reserve will support and complement AB 32 goals to achieve real emission reductions while containing cost to Californians.

   We will continue to work with ARB and its stakeholders to ensure that these types of cost control mechanisms play a robust and critical role in the Cap and Trade Program moving forward. And we appreciate the Resolution item that touches on that.

   We also look forward to continuing to work with ARB and the energy agencies as ARB prepares to launch the program. The decision to defer the start of the program to 2013 provides valuable time for ARB to conduct market
stimulation and system testing prior to the start of program. Those are efforts we very much support.

In particular, we are pleased to see that ARB plans to work with stakeholders and an external entity to do these market simulations. We think those will be extremely valuable and allow ARB to make any necessary modifications to the regulations.

We also encourage ARB staff to continue to develop offset protocols, given their significant cost containment benefits, mitigate the price containment through an allowance price containment reserve contingency plan, active market monitoring, establish a market surveillance committee.

So we really appreciate all those things are in scope in the Resolution. So thank you very much. Thank you staff. I'll stop there.

CHAIRPERSON NICHOLS: Thank you. We appreciate that. Okay.

Paul Shepard and then Nathan Voegeli.

MR. SHEPARD: Good morning. My name is Paul Shepard. I'm the Director of Asset Management for the Indigo and Larkspur generating facilities in southern California.

We appreciate staff's hard work, I'll say it quickly, and openness during the rulemaking process.
However, one matter that was identified early on and has not yet been resolved is the treatment of certain generators with power contracts that do not account for compliance with AB 32 because they were executed before AB 32. These pre-AB 32 contracts do not contemplate the significant compliance costs of this regulation. And while most generators are able to pass through their costs by selling power at the wholesaler through an assortment of avoided costs, this limited group of generators with these pre-AB 32 contracts will not be able to.

These contracts of concern to us were our long-term contracts were entered into during the emergency crisis in 2001. The State, at that time, strongly encouraged long-term contracts. And we are finding ourselves for our long-term contract of the State being in a potential detrimental situation. This pre-AB 32 contract was identified early on in the Market Advisory Committee's June 2007 report the PUC and CEC's October 2008 recommendations to the ARB, as well as the Initial Statement of Reasons and Resolution 10-42 for this regulation.

Just recently, staff's August 15-day package encouraged parties with these pre-AB 32 contacts to re-negotiate. However, outside of large contract restructuring or portfolio restructuring, there is really
little incentive for the counterparties to renegotiate with a generator, because they can sell and use the power from a pre-AB 78 contract generator more cheaply.

These affected generators have submitted several proposals during the 15-day and 45-day comment periods for this regulation. These proposals would resolve the current situation. And we are asking that the Board and the staff work with these handful of generators to obtain resolution in the first quarter of 2012, before the first auction occurs next year.

Thank you for providing me the opportunity to present our concerns. And I hope we can have the resolution early next year.

CHAIRPERSON NICHOLS: Thank you.

BOARD MEMBER BERG: Madam Chair, this is Sandy.

CHAIRPERSON NICHOLS: Yes?

BOARD MEMBER BERG: Could I just ask staff, I believe there is some Resolution language regarding this issue; is that correct?

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: That's correct. We're aware of a number of different contracts. And we're committed to monitoring those moving forward. We have strongly suggested that parties try to renegotiate. We understand that in many cases there aren't strong incentives for that
renegotiation.

But we're committed to trying to watch this issue, narrow down the subset of contracts that ultimately can't be renegotiated in advance of the compliance obligation, and then recommend any sort of solution that we think is necessary in order to mitigate impacts.

BOARD MEMBER BERG: From our perspective, however, if we aren't able to encourage that action, then do we have other Plan B?

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: I think there is not a one-size-fits-all solution here. And the one in particular that's being identified, these are contracts with marketers. So effectively, allocation to that generator would mean that a marketer could potentially receive windfall profits at the expense of California consumers.

I don't know that that's ultimately what would happen. We would need to continue to look at it in each individual case. And again, I think part of the trouble here is when we put out language originally that suggested we were open to looking at it on a case-by-case basis, we received dozens of different situations that some, in fact, weren't really an inability to have a cost recovery mechanism, but they simply weren't happy with the particular contract that they had negotiated and didn't
feel they were appropriately compensated. In other words, they didn't get enough back. So it made it very difficult for us to analyze that in the context of the overall allocation system.

And I think, moving forward, we can narrow that down to a subset that we truly need to really focus on. As the Energy Commission mentioned, they are committed to looking at this issue as well for those contracts, which are between generators and the investor-owned utilities.

BOARD MEMBER BERG: Thank you. I can cross that off my list now.

CHAIRPERSON NICHOLS: For the moment anyway. Yes?

BOARD MEMBER D'ADAMO: Just since we're on this anyway, I had a call yesterday with representatives from the Independent Power Producers Association. And of course they brought this up and talking about transitional assistance, which is what you were just talking about, Steve. They also brought up another alternative, making the deliverer the party that would comply -- that would comply in order to provide for an additional incentive. So since we're talking about this in more detail right now, if you could speak to that. I just want to make sure I understand that alternative.
CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF

CLIFF: So I assume that means making the party that is purchasing the power have the compliance obligation.

Essentially, that would mean transferring the compliance obligation from the smokestack to the entity that purchases the power. I think in large part the concerns that the independent power producers have raised is one of the issues that the PUC is going to be taking up. So we're going to work closely with them on that particular issue.

The ones that are a little more challenging for us to deal with I think are these ones between marketers and those who provide steam to other entities who don't otherwise face any sort of compensation from the program.

So in this case, the investor-owned utilities have received allowance value, assuming they will be purchasing some sort of power. And to the extent that that power actually doesn't have a carbon cost embedded in it, I think that's appropriate for the PUC to look very closely at those contracts, as they indicated, they're committed to doing that with us.

CHAIRPERSON NICHOLS: Thank you.

Mr. Voegeli, you've been waiting patiently.

MR. VOEGELI: Good morning, Madam Chair, members of the Board. My name is Nathan Voegeli. I'm here
representing the Yurok Tribe.

I do want to extend a recognition to the ARB staff who was very helpful to us in working with us on native concerns and ARB's native concerns throughout this.

Next slide, please.

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MR. VOEGELI: I wanted to address first a limited issue. Before I do, I want to say the Yurok Tribe supports robust enforcement of these cap and trade regulations. Our issue is limited to Section 95975(l)(1) and the specific wording of that. As it's worded, it would not explicitly prohibit punitive damages against tribes.

Next slide.

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MR. VOEGELI: Numerous federal and State statutes as well as court decisions have recognized policy prohibiting generally punitive damages against government entities. The tribe is seeking to be recognized the same as other governmental entities. We understand from ARB staff that this -- we will be treated in this way and that there is no language revision to Section 95975 needed.

Based on that, we expect non-discriminatory treatment as a tribal government and no imposition of punitive damages.
Next slide.

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MR. VOEGELI: I just want to conclude and wrap up very briefly. Again, we support full and robust enforcements of these regulations. Our sole concern with the current regulations are with Section 95975 and ensuring that the tribes are not treated any different from government utilities. Thank you.

CHAIRPERSON NICHOLS: Thank you. I take it the staff can provide assurance that that's the case if you want to say so for the record.

STAFF COUNSEL BROWN: That's the case.

CHIEF COUNSEL PETER: We have received advise from California Attorney Generals on this issue, and I'd like to defer to Jason Gray on that particular question. He's the attorney working on that tribal issue.

MR. GRAY: This is Jason Gray with ARB's legal office here.

We did work with the Attorney Generals on these provisions and have spoken with stakeholders, including the Yurok Tribe. We are committed and I think the language supports not discriminating against offset project developers on tribal lands. And we will work with them to ensure that this works.

CHAIRPERSON NICHOLS: Thank you. I appreciate
Appreciate the vigilance of the Yurok tribe as well. Okay.

Doug Davie from Wellhead Electric and Saskia Feast.

MR. DAVIE: Good morning, Chairman Nichols, members of the Board and staff.

My name is Doug Davie, and I'm a Vice President with Wellhead Electric Company.

Wellhead, through its commonly ownership companies, is an independent power producer with a portfolio of about 350 megawatts in California. The contracts with all three investor-owned utilities. We've been in the business since 1990.

We appreciate the effort that's gone into the regs, but there is this nagging problem of pre-AB 32 contracts that was just spoken about. I don't want to -- I'll omit some of my comments, because they've been addressed.

But in addition to the problem that Mr. Cliff just identified, which is the utilities are receiving allowances for costs they do not incur, a windfall profit, there's two related problems that I want the Board to be very aware of that are directly tied to this.

First is that because the utility customers are
not seen -- the utilities are not seeing the cost of these greenhouse gases, there would not be the transparency of the pass-through of costs and therefore the price signal for these contracts to be impacting consumer behavior.

Second, the absence of this greenhouse gas price signal could well result in higher emitting greenhouse gas resources being dispatched, because a lower emitting resource would have a greenhouse gas cost, making it more expensive. Economic dispatch would thus result in higher than necessary greenhouse gas emissions.

Wellhead has proposed some very specific changes that would eliminate this problem and would do so without the changing the balance of benefits or burdens under the contracts. We understand that your Resolution has identified this as an issue. What we would like to ask is that to that Resolution you ask a time frame to make it clear that if the negotiations are not making progress or successful within a very limited time frame -- I think it should be as short as 60 days -- the Executive Director be required to report back and step in and there be positive movement on going back into the regulations to do two things.

One: Ensure that the allocation of free allowances does not result in a windfall.

And second: To ensure that the cost of GHG
compliance is transparent to consumers and the utilities. The time frame is critical. As we're going into 2012, people are starting to make plans. It's a significant financial commitment exposure uncertainty that's there. We understand that the PUC and the ARB would both like this to be resolved and go away through bilateral negotiations, but the proposed regulations are already giving the utilities the free allowances. They already have it. So now they're being asked to give it up. And I think that's a problem for renegotiations.

CHAIRPERSON NICHOLS: Thank you.

Saskia Feast, followed by Bonnie Holmes-Gen and Mike Robson.

MS. FEAST: Good morning, Madam Chairwoman and the Board.

My name is Saskia Feast. I'm the VP of Business Development at EOS Climate. EOS is a venture-backed company headquartered in San Francisco. Our mission was and remains to use innovative business solutions to address the huge threat of refrigerants at end of life. Refrigerants are a threat to both the ozone layer and a significant threat to the environment.

ARB is the first regulatory body in the world to address this problem by recognizing the destruction of ozone-depleting substances as one of the compliance
offsets.

And as a direct result of the regulations that you're moving forward today, EOS has been able to use carbon finance to accelerate the adoption of new technologies from commercial to residential cooling systems. This is generating economic opportunities and transforming business.

Cap and trade is one small piece of the overall program, and offsets are yet another small piece of that program. I know we're not supposed to spend time thanking the staff, but the level of detail and understanding your staff has on this small section of this huge program is to be applauded. And we will continue to work with the staff to provide technical information to ensure that the offset protocols reflect current best practice and scientific information.

Finally, as an entrepreneur and a business woman, I support market-based mechanisms as the most efficient way to put a price on carbon, sending a clear signal to other business people like myself, to investors, and to our customers.

EOS is a member of the clean economy network, a group that also supports moving forward with these regulations today. Thank you.

CHAIRPERSON NICHOLS: Thank you.
Bonnie Holmes-Gen.

MS. HOLMES-GEN:  Good morning, Chairman Nichols and Board members.

I'm Bonnie Holmes-Gen with the American Lung Association in California. The American Lung Association has been a strong supporter of California's leadership on clean air and climate change over the years, and now we are supporting California's moving forward to adopt a cap and trade element of the AB 32 plan.

And as a public health organization, we believe that California must move forward today and use every possible tool that's available in the battle against global warming, which is, of course, the biggest public health threat of our time. And we see the Cap and Trade Program as an important tool.

We appreciate that the AB 32 program includes a mix of regulatory and market strategies, and this ensures both a strong backdrop of regulations, such as the Clean Cars Program, and Low-Carbon Fuel Standard, and Renewable Portfolio Standard, combined with the declining cap on carbon emissions and the price you're establishing today.

As you have stated, Chair Nichols, the sources of air pollution and greenhouse gases are the same, and this means our AB 32 efforts are not only addressing climate change, but are resulting in real benefits to our overall
efforts to reduce ozone and particle pollution, which is critical for protecting public health.

And with the American Lung Association, we believe that California's unique air quality problems have elevated the importance of successful implementation of AB 32. We're very concerned, of course, about the current situation, the pollution problems we experience in California which are the direct result of our reliance on dirty fossil fuels.

We often talk about our state of the air report. We can't help but mention it once again that with our grading system, we find that over 90 percent of California residents are living in areas that have unhealthy air quality according to our State of the Air findings. And of course, many residence are living in areas that have high levels of air pollution for days or months a year up to 100 days per year in some areas. And this causes severe illness, even premature death, increasing asthma attacks, emphysema, chronic bronchitis, and other serious illnesses.

So we appreciate that the Cap and Trade Program works together with our existing air quality laws and that industries will be responsible for both criteria air pollution controls and cap and trade requirements under AB 32.
As you've featured this morning, I think it's very important this requires a partnership between the air districts and the Air Board to make sure that both programs are running smoothly. And we appreciate the emphasis that you've placed on that today.

I want to particularly mention the Adaptive Management Program. We are very pleased that ARB is committed to this program. We think it's extremely important in response to environmental review that has gone over this past year to move forward with this and to ensure that ARB is doing this annual monitoring protecting against any unintended impacts.

Thank you again. Let's move forward, and we strongly support this program.

CHAIRPERSON NICHOLS: Thank you.

Mike Robson.

MR. ROBSON: I'm Mike Robson. I'm here on behalf of the Glass Packaging Institute.

The Glass Packaging Institute represents the five remaining glass container manufacturers in California. GPI represents -- they submitted written comments, so I'll just be very quick and summarize that for your behalf.

Basically GPI opposes the emission benchmarks and the cap adjustment factor that was established by the staff in the regulation, the benchmark for this industry.
The benchmarking cap adjustment factor for the glass container industry aren't properly reflecting this industry's early actions in reducing the greenhouse gas emissions that have been going on for the last 25 years. And are not adequately minimizing the risk of leakage in this industry.

This industry is already competing against China and Mexico in glass containers coming into the state. If you guys -- if CARB does not adjust or have another look at these two items, we're afraid that the California glass plants and the 2600 union workers that are employed there are going to be -- going to shut their doors and those people will be put out of work. So we'd like you as you go forward to take a look at the cap adjustment factor and the benchmark for the glass container industry. Thanks.

CHAIRPERSON NICHOLS: Thank you. I think that will be addressed.

I now have four individuals who have signed up together representing State Water Contractors. So if you want to all come forward, that would be great: Tim Haines, Douglas Headrick, Steve Robbins, and Dan Masnada.

MR. HAINES: Chair Nichols, members of the Board I'm Tim Haines with the State Water Contractors. The members of our association receive water from the State Water Project. We distribute that water
throughout the state of California. And in return, we pay for all the costs that are associated with that.

The primary mission of the State Water Project is the delivery of water. When you look at it from the electric side, it's the equivalent of the sixth largest electric utility in the state of California.

As a consequence, it's fallen under the cap and trade regulations. Before the Board adopted the regulations in December, there was a group of utilities that got together to decide how to allocate emission allowances amongst themselves. We weren't included in that. As a consequence, the allocation didn't take into consideration the fact that 90 percent of our costs are incurred in southern California. And when the emission allowances were granted to the utilities, they received an equivalent of only about 60 percent of that cost equivalent.

Conversely, when you look at northern California, you have just the reverse that's occurred. Ten percent of our costs are incurred in northern California and around 40 percent of the value of the emission allowances were provided to northern California.

When you look at this, the result is essentially a wealth transfer from customers in southern California to northern California. We have in comments that we've
submitted identified a number of other concerns that this
type of -- got misalignment between our costs and how the
value of the allowances were provided. So I won't get
into those here.

What we've provided is an allocation that we
think addresses the concern that we've raised. We think
that it's also a way that the Air Resources Board can
achieve the objectives that it has under the cap and trade
regulation.

We think that it is an allocation that's very
consistent with what the Board adopted in December of last
year. It doesn't allocate any additional allowances than
what were allocated. And it doesn't regulate any fewer
emission sources throughout the state of California.

As you deliberate today, we'd like you to take
those things into consideration and adopt the allocation
that we've proposed.

CHAIRPERSON NICHOLS: Thank you. Appreciate your
work on this.

Okay. Mr. Headrick, you're next.

MR. HEADRICK: Thank you, Chairman Nichols and
Air Board members.

My name is Doug Headrick. I represent the San
Bernardino Valley Municipal Water District. We are a
State contractor, but more recently, we have been focusing
on maximizing the use of our local resources so that we
can minimize the dependency on the State Water Project and
thereby reducing the energy needed to move water.

We serve about 800,000 people in San Bernardino
and Riverside Counties. The largest community that we
serve is the city of San Bernardino. The city of San
Bernardino has the unfortunate distinction of having the
highest poverty rate in the state of California, the
second highest in the United States. Over 100,000
people -- second only to Detroit, by the way. 100,000
people in one community live below the poverty line.

In addition, the city of San Bernardino purchases
thousands of acre feet of State Water Project water every
year. Something they have dutifully paid for for the past
30 years through their property taxes and water rates.

This cap and trade regulation if passed as it's
being proposed will essentially take millions of dollars
from the poorest community in California and transfer that
to communities in northern California: San Francisco,
Sacramento, others.

This can easily be remedied. We're talking about
one-and-a-half percent of emission allowances that are
available to be allocated to the State Water Project.
It's the right thing to do.

And also it's not very easy for us anymore to
raise water rates, would be the national outcome of this regulation. If you read the Sacramento Bee this morning, the Bee one top headline was a protest that's going on in the city of Davis right now over water rate increases.

Thank you for your time.

CHAIRPERSON NICHOLS: Thank you.

MR. ROBBINS: Chairman Nichols, members of the Board.

I'm Steve Robbins. I'm the General Manager of Coachella Valley Water District. Coachella Valley Water District is in eastern Riverside County, and we serve a population of about 400,000 people.

Without the change in these allocations, it's estimated that this will cost my agency upwards of $2 million a year just for my agency in additional costs. When I relate that to my water rates, that's roughly a five percent increase in my water rate just to cover this one cost. I don't think that's fair.

I echo the comments of the previous speakers. And I would urge you to consider the reallocation as proposed.

CHAIRPERSON NICHOLS: Thank you.

MR. MASNADA: Chairman Nichols, members of the Board.

My name is Dan Masnada, the General Manager of
the Castaic Lake Water Agency. We serve the Santa Clarita Valley just north of Los Angeles.

I won't repeat the points that have already been made, other than to strongly urge the Air Resources Control Board to modify its regulations to correct the inequities that have been mentioned by providing carbon allowances to the Department of Water Resources for the State Water Project. Left unchanged, cap and trade amounts to no more than a bait and switch for millions of State Water Project customers.

Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

BOARD MEMBER ROBERTS: Madam Chair, before we leave this, what I'm hearing is a simple solution. And in the presentation, I heard all these comments about fairness and simplicity. And what's being recommended here is an adjustment in allowances. Could staff respond to that?

CHAIRPERSON NICHOLS: Sure.

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: As Mr. Goldstene said, we're not able to make adjustments to the regulation today, because there wouldn't be sufficient time to notice it in advance of the OAL deadline next Friday.

BOARD MEMBER ROBERTS: How do we do that in the
Resolution if we should choose?

    CHAIRPERSON NICHOLS: Direct the staff to come back with a proposed amendment to the rule in a timely fashion. Nobody is going to be having to --

    BOARD MEMBER ROBERTS: We could put language in the resolution directing them to do something and then come back with it?

    CHAIRPERSON NICHOLS: Yes. We can could that.

    BOARD MEMBER ROBERTS: We'll talk more about this.

    I ask that we kind of look at this in detail months ago, and I'm not satisfied with the answers that I'm receiving, which basically says, well, we're going to give it to the electric rates.

    But the allowances that have been given to the utilities really didn't incorporate this analysis. They haven't changed because of water rates. There is a dramatic disparity. So, you know, I'm not satisfied with what I'm hearing. And I thought I was emphatic when we talked about this last December.

    CHAIRPERSON NICHOLS: Well, I think the staff has had a number of meetings with Water Contractors. I sat in on one of them myself. And I think they were persuaded that because of the way we dealt with the same issue about north/south split, the reality that we have more emissions
attributable to activities in southern California because of the nature of our electrical supply, population, and so forth, that this would work in a direction that would be equitable. But obviously, this has not proven to be something that has been satisfactory as far as the water agencies are concerned.

And I certainly agree with you that from the perspective of the public, the most direct impact they might see from this program, if it were in the form of water rates, would be a serious concern.

So I think it is something that deserves to be looked at in a more focused way, I guess would be fair to say. I don't think it's too late to do that. So I think there's -- we could have more conversation about this.

BOARD MEMBER ROBERTS: Maybe when we're in our discussion, we can talk about that.

CHAIRPERSON NICHOLS: So thank you.

Our next witness is Michelle Passero from the Nature Conservancy.

I'm going to take one person out of line who made a special request because we won't get to them in time. If there is anybody who has a real time constraint -- I know nobody likes to wait until the end. But if somebody has some unbreakable commitment or whatever, you can let the Clerk know, and we will do our best to accommodate
you.

    Michelle.

    MS. PASSERO: Good morning. The Nature Conservancy supports the final regulations of the Cap and Trade Program.

    I know this has been said earlier by my colleague, but it's worth saying again that less than a year ago, California voters voted overwhelmingly to reject Prop. 23 in support of AB 32 and reducing greenhouse gas emissions. This program is an important piece in fulfilling that public mandate and meeting our target by providing a declining greenhouse gas cap.

    It's also significant because it recognizes the important role of forests and nature and helping to address climate change.

    It creates new economy for forest land owners so that they may receive a financial incentive to protect and manage forests in a way that provides additional benefits for our climate. This is really innovative and promotes economic growth. We urge the Board to adopt these final regulations.

    We also recognize that there's more work to be done. We appreciate the work of staff to develop Adaptive Management Plan for forests and treatment within the Cap and Trade Program. I have a letter from the Nature
Conservancy and colleagues providing some comments for the process moving forward, and we look forward to being a part of that.

We also appreciate in the draft resolution there is acknowledgement around the use of allowance revenue, and I believe it ties back to some of the recommendations of the Economic Allocation Advisory Committee. There are a number of important recommendations within that Advisory report, including investing those funds to promote AB 32 reductions and helping communities adapt to the impacts of climate change.

We do look forward to working with ARB and others moving forward to ensure these investments are used in the most productive way possible for our quality of life.

Thank you.

CHAIRPERSON NICHOLS: Thank you.

David Campbell from Steelworkers.

MR. CAMPBELL: Good morning, Madam Chair and esteemed members of the Board.

My name is David Campbell. I'm Secretary/Treasurer for United Steelworkers Local 675 in Southern California.

And I wanted to comment, as Lisa did, that the United Steelworkers has supported AB 32, even while we were questioning the issue of carbon leakage.
I think in my discussions with people from the environmental community, there's some people who say, well, these companies are making plenty of money. And while it's in general true, just like super markets, they look at the performance of each site as return on investment and ask themselves the question: Is this producing the return that we want? So it's possible in the market that we have right now that there are some refineries that are struggling on the issue of competitiveness.

And in the past few years, a refinery in Jalandhar, India has come on line. It's a very sophisticated refinery. It's now making 600,000 barrels per day of California Air Resource Board gasoline.

CHAIRPERSON NICHOLS: Which refinery was that?
MR. CAMPBELL: Jalandhar, India, owned by a company called Reliant.

And, therefore, we're concerned about the issue of possible job threats if some of these refineries that are on the edge of being non-competitive were to be even placed in a worse position.

As you know, some of the companies are in relatively good shape in terms of AB 32 compliance. Some are not. And I'm not going to engage in trying to analyze why I think.
But on a go-forward basis, there are some companies that want 100 percent allowances. And listening to the environmental side, there are some concern, well, just take the value of that money and run elsewhere with it anyhow.

And I think it makes sense if the plan could be amended to say, okay, if we are going to give you the 100 percent allowance, but you -- for the extra allowance, you can't trade it. You have to take that money. You have to put it -- invest it in that facility on equipment that would help you get to that 90 percent benchmark.

CHAIRPERSON NICHOLS: Thank you. It's an interesting suggestion. Appreciate that.

Allan Bedwell and then Kristin Eberhard.

MR. BEDWELL: Chairman Nichols and members of the Board.

I'm Allan Bedwell with BGC Environmental Brokers Service. We are formally known as Cantor CO2e.

BGC is currently working with a number and variety of clients here in California and throughout the U.S. We are actively participating in the emission market that was created with the passage of AB 32 in 2006.

We want to flag one very important critical issue in this rule, and that is our outstanding concern that is shared by many participants in the market that as a result
of establishing buyer liability for offsets that actually
you're creating a barrier to potential success of this
program. And by assigning liability to buyers of offsets,
CARB is actually having a chilling effect on companies
being able to cost effectively comply with this
regulation.

Case in point, since CARB initially established
buyer liability in your draft regulation, we've seen in
the marketplace a 50 percent difference between CARB
guaranteed allowances, their pricing, with no buyer
liability, compared to a 50 percent lower price for CARB
offsets. And we believe that that is primarily a result
of the buyer liability issue. Essentially, no one is
buying offsets in terms of pricing as compared to
allowances. There's just not -- we're not seeing the
demand that we are for allowances.

And as a result, buyer liability will keep costs
artificially high because of limits that use the offsets
as a viable compliance tool. In other words, because this
buyer liability it's got a chilling effect on interest and
utilization of offsets. And that makes additional costs
barrier to cost of compliance here in the market.

As a result of buyer liability for offsets, CARB
is risking missing your emissions reduction goals under
cap and trade. It's a viable tool that should be
utilized. And because of liability, you're also increasing likelihood of leakage by artificially raising compliance costs.

Again, we urge you through your resolution that you actually do away with buyer liability for offsets. No other program in California that is basically managed by a California air agency requires a secondary verification of product in terms of impacting its usability. The agency itself manages that very effectively, and we believe that buyer liability is a necessary extra layer of liability.

Thank you very much.

CHAIRPERSON NICHOLS: Thank you. Oh, yes.

Sorry.

Before you leave, sir, we have a question for you.

BOARD MEMBER D'ADAMO: Actually of staff. This is the issue I haven't heard before. Could staff respond?

CHAIRPERSON NICHOLS: They're fully involved in this particular market. Okay. Sorry. I've heard from a lot of them.

Okay. Go ahead.

EXECUTIVE OFFICER GOLDSTENE: This issue called a buyer liability is a rule that we're recommending that says if a regulated entity is turning in an offset as part of their compliance, if somehow that offset becomes
invalidated, the regulated entity is liable for making up the difference. So if an offset fails, say a company turns in an offset --

CHAIRPERSON NICHOLS: There is a question about who should be responsible in that situation.

BOARD MEMBER BERG: Is there some criteria on that failure? I mean --

CHAIRPERSON NICHOLS: Well, yeah. Absolutely. It's just a question of when there is an issue of adjudicated failure, who's going to have to bear the cost. Is it the person who presented that offset for compliance or do we go back?

The people who wanted change want ARB to take responsibility. And basically if the offset turns out not to be good, we would make it up or the system would eat it. So that's the only viable alternative that's really been presented as far as I know.

Rajinder, did you want to comment?

PROGRAM OPERATIONS SECTION MANAGER SAHOTA: I just was going to say specifically to Ms. Berg's question about criteria, the regulation has provisions about what conditions we would invalidate a process for new information to be submitted by the project developers and the entity that owns the offsets before we would invalidate. There is a very well thought out and well
laid out process for invalidation and a lengthy time for if we did invalidate for a buyer to go out and get additional compliance instruments to replace that offset. So we've worked with stakeholders extensively on this, including regulated entities and project developers.

EXECUTIVE OFFICER GOLDSTENE: The companies that are pushing for eliminating the buyer liability provision are entities that are not actually part of the regulation. They're market makers. They're people who make their money on market liquidity. And their main concern, which you just heard expressed, is by having the buyer liability provision in place, it may slow down or reduce market liquidity and they make that money on trades.

CHAIRPERSON NICHOLS: Okay. Thank you.

Kristen.

MS. EBERHARD: Good morning. Congratulations to CARB and California on continuing the march on staying on the cutting edge of clean energy.

The purpose of AB 32, which is the broader program of the Cap and Trade Program we're talking about today is part of, is to change, is to change from a more polluting economy to a lesser polluting economy. It's a change from more polluting fuels, resources, processes, to cleaner resources, processes, and behaviors.

Now, change is hard. That's why teenagers are
hard to deal, with because they're going through a lot of
change.

And there's some real disagreements about how
exactly how to spur that change, exactly how fast it
should be exactly, who's going to make the changes.

But I just want to take us back for a second, a
few things I think everybody agrees with. We all agree we
have to make investments now in the technologies and the
infrastructures and the solutions that are really going to
power our economy in the coming decades.

Second, we all agree that leakage, jobs leaving
the state or pollution leaving the state, is something
that nobody wants. Environmentalists don't want that.
Business doesn't want that. Nobody wants to see leakage.

And finally, I think most of us can agree that
windfall profits where money is going into shareholders'
pockets and not making the changes we need to make, that's
a waste we don't want to see happen.

So we appreciate the process that CARB has gone
through in trying to find the balance in accomplishing
these goals that we all agree with. In particular, we
were happy to see the resolution language for use of
auction value in the utility sector and making sure that
that really gets invested in solutions.

And we think there was a good process on trying
to find the right balance for the industrial sector of protecting those industries that are leakage exposed while not giving too much away for free.

We think there are improvements that could be continued to be made to make sure there is the right incentive to make investments and improvements in that sector. And we look forward to working with CARB in the process as we implement this program. Thank you.

CHAIRPERSON NICHOLS: Okay. Thank you.

I see Rand Swenson is standing by, waiting. You're next.

I agreed to call three people out of order who needed to leave early. And they are Vince Signorotti number 35, number 66, Randy Gordon, and number 56, which would be Debra Man.

So we're going to hear from Mr. Swenson. And then we'll hear from Mr. Signorotti and from Debra Man and Randy Gordon. Thank you.

MR. GORDON: Great. Thank you. Good morning, Chairman Nichols and members of the Board.

My name is Rand Swenson. I'm the refinery manager for our ConocoPhillips facility in Rodeo, California and the San Francisco Bay Area.

Our two California refineries, the ConocoPhillips, are spread over four sites and we produce
15 percent of the state's transportation fuels. Been in operation since the early 1900s.

I'm here today to express my concern for some elements of the regulation that began on day one of the program, January 1st, 2013. We oppose the application of a ten percent cut in free allowances really because of the way it is applied to benchmarking and certain in-state refineries and really does not apply to foreign and interstate refineries.

We do not believe it is necessary for emission reduction purposes to cut free allowances by ten percent in the trade exposed refining sector we work in every day.

And the inappropriate application of the layering and benchmarking results really in certain refineries getting ten percent free allowances and/or receiving a 20 percent penalty. I believe it is appropriate to re-visit this inequity of in-state refining at a future public meeting of the Board.

We've provided two charts, which hopefully will show up. We're working on that right now.

The charts show that there is 15 refineries that -- I believe you might have a package. The Board members have a package inside here that have the charts in them?

CHAIRPERSON NICHOLS: Yes.
MR. SWENSON: There's 15 refineries that manufacture California clean fuels in the state of California. The diversity -- you can see on one of the charts there would be different green and blue colors represent what part of the state they're in. But you can see the size of the refineries varies all the way from facilities that are 250,000 barrels or more in size, all the way down to some of the smaller 25,000 barrel a day size refineries in the central part of the state.

Some large consolidated operations that actually have an economy of scale that helps their operations. Others, really like my sites, are medium multi-operations location connected by pipeline.

So again, some of those ones that are in the middle there have been built up over decades of change and implementation, always with the CARB regulations in mind, always meeting the local air pollution criteria. They've been cobbled together in different ways which create these inefficiencies that show up in the benchmarking.

On average, again, the larger refineries have more economies of scale. We don't think that picking winners and losers through modified benchmarking creates -- does in fact create immediate competitive issues for facilities like mine.

This 20 percent difference is significant and
transfers to tens of millions of dollars out of our local operating budget the first day the program starts. These are the dollars that will be diverted from potential capital investments that we can make to reduce our own emissions and better comply with the goals of the state.

So we do ask you today to include in your Board resolution to review and revise as necessary any portion of the regulation that will eliminate California jobs. Specifically, the reviews should encompass the benchmarking methodology, assesses a 20 percent penalty on some refineries, and of course, the trade exposure issue from imports from states like Washington, Texas, and of course, the foreign imports that are coming in.

CHAIRPERSON NICHOLS: Thank you, Mr. Swenson.

Time is up.

MR. SIGNOROTTI: Thank you, Madam Chairman and members of the Board. I appreciate you taking me out of order. I do have an appointment in two minutes.

I'm a Vice President with Energy Source. We are a start-up geothermal company. We are almost completed with building our first geothermal power plant at the Salton Sea. We support cap and trade for just a couple of reasons I'm going to point out.

Number one is that it provides market certainty, and that is critical for our business.
And secondly, it creates a strong market signal for investors and innovators. And the investment that we have at the Salton Sea represents hundreds of millions of dollars, hundreds of jobs over a 24-month period to build this, and dozens of jobs to operate it over a 25-year period.

So we believe that the regulations are necessary to encourage additional investments at the Salton Sea and elsewhere. I thank you for your time.

CHAIRPERSON NICHOLS: Thank you.

Debra man.

MS. MAN: Thank you, Chair Nichols and members of the Board.

I'm Debra Man. I'm the Assistant General Manager and Chief Operating Officer for the Metropolitan Water District in southern California. I appreciate being allowed to follow the State Water Contractor talk.

As the largest public wholesale water agency in the nation, Metropolitan imports water from Colorado River system as well as the State Water Project. And it distributes it to its 26 public member agencies. This water serves 19 million people, and it is also supportive of the businesses and industries that comprise a one trillion dollar economy in our service area. And our service area encompasses six counties in southern
Metropolitan has actively participated in the Air Resources Control Board rulemaking process. And in that process, we have submitted and provided substantial justification that Metropolitan is not an electric utility. It is not a marketer. It is a public wholesale water agency for which the cap and trade regulations do not appropriately apply.

We have also in this process submitted substantial justification. The Metropolitan should be exempt from the cap and trade regulations for the following reasons.

First: Metropolitan is a consumer of imported electricity. We import electricity for the sole purpose of delivering Colorado River water to our consumers within our service area.

Second: Metropolitan is not an electricity utility. We're not a marketer. We don't sell energy. We are not a retail provider. We do not generate or produce electricity.

The third thing I would like to mention is we are, of course, very concerned about our rates and the rates where the regulations regulating Metropolitan now as an electric utility and later as a water utility would result in duplicative regulatory requirements and
unnecessary cumulative costs on a water rates, which we feel are unreasonable for our rate payers.

Also, I would like to mention that Metropolitan would be required as a public agency to compete against the private for-profit entities in the carbon market. We do not think this is an appropriate place for the public agency.

And finally, our greenhouse gas emissions, which have been assigned to our imported electricity, are already well below 50 percent of what they were in the 1990 levels.

Our comments are separate from State Water Contractors. Although we are very supportive of the State Water Contractors and we ask to be included in the discussions that may ensue with the State Water Contractors per Board Member Roberts' suggestion.

Last thing I'd like to say, we'd like to request the supplemental Resolution that would exempt Metropolitan from the cap and trade regulation, that we would be regulated under a water sector or wet cap regulation that comes in the future instead of the cap and trade, or that the ARB staff be instructed to work with us on alternative compliance measures. Thank you very much.

CHAIRPERSON NICHOLS: Thank you, Debra.

Okay. Now we had Mr. Gordon.
MR. GORDON: Good morning, Chairman Nichols and
Board members.

My name is Randy Gordon. I'm president and CEO
of the Long Beach Area Chamber of Commerce. Our
organization represents over a thousand businesses in the
Long Beach area. We're one of the largest chambers in Los
Angeles County.

Our Chamber has a record of supporting
well-designed initiatives that protect human health and
the environment such as the green port policy in Long
Beach. However, we believe this cap and trade rule as
proposed is not well designed. It will kill jobs and make
California businesses less competitive with other states.

Charging regulated industries up to ten percent
for other emissions allowances is an unjustified energy
tax that will impact all businesses. The resulting higher
energy cost will lead to leakage of jobs, businesses, and
revenues.

With unemployment at 12 percent statewide and
almost 14 percent in the Long Beach area, these are losses
we simply can't afford. Couple the fact that none of our
neighbors in the Western Climate Initiative are pursuing
cap and trade policies at this time, it becomes even more
important that California's program minimizes costs and
leakage. We urge you to revisit the economic impacts of
this proposal and eliminate provisions such as the emissions tax before finalizing the regulation.

Thank you so much.

CHAIRPERSON NICHOLS: Okay. We'll go back to the regular order then. It's David Simmons.

MR. SIMMONS: Good morning.

My name is David Simmons. I'm on the Board of the Local 675. And I worked as a hydrotreater and operator for 15 years, and now I'm a health and safety rep for the refinery.

I have a concern. I've heard people talking about the regulations. I was a proponent of this bill. I worked with the Blue and Green Alliance, because it's something important for California.

But right now, I feel that the deck is kind of staked against us California workers who are taxpayers who care about this state.

Now, myself, I would like to have at least a level playing field, because I'm thinking now everybody has got their interest, but what about us? What about us workers that depend on those jobs? What about us, the people who have families to take care of? And the way that you administer this law could affect our jobs. And we never expected that. We never expected that certain elements of our industry would get a free ride and the
rest of us have it dumped on our backs. We just want a level playing field to give our companies a chance to be competitive so that we could maintain our jobs. And when you sit and think about this law, think about us. Just think about us. We want to be part of the solution, not a problem. But we do want to still have opportunity to earn a good living for our families. Thank you very much.

CHAIRPERSON NICHOLS: Thank you, sir. Ryan Young and then Kathy West.

MR. YOUNG: Good morning, Chairman Nichols, Board members.

I'm Ryan Brisco-Young on behalf of the Greenlining Institute.

Broadly, the Greenlining Institute works to create wealth building opportunities in low income and communities of color. As part of that effort, Greenlining assets program advocates to ensure that California's minority residents are active stakeholders in our efforts to fight global warming and to create equitable health, economic, environmental policies.

Many of us would agree that today's vote is an important milestone. Californians should be proud they are the leaders of what we consider the definitive issue of our times.
Still, there is much work to be done. And in the 2012 election, communities of color expressed overwhelming support for AB 32. AB 32 recognizes disproportionate impact climate change will have on disadvantaged and low-income communities.

California Health and Safety Code must be devoted towards the most impacted communities in California. Now that there will be a comprehensive framework in place, the ARB must turn its attention to ensuring that investments are made in the most vulnerable communities in a manner that reduces greenhouse gases and mitigates direct economic health and environmental impacts. These impacts include disproportionate rising costs for basic necessities, localized pollution, and heat-related illness and death. AB 32 requires it. Our community needs it and it's the right thing to do.

The public support from low-income communities and communities of color are the reason that AB 32 survived the attacks from big oil companies last November and they are watching.

Greenlining looks forward to working with you to ensure there is an equitable distribution of economic and environmental benefits and burdens of climate change as well as our efforts to combat it.

Thank you very much.
CHAIRPERSON NICHOLS: Kathy West and then Mike Miller.

As you're coming up, could I just check. We've been going for two-and-a-half hours. Does the court reporter need a break? We will take a break at 12:30 for lunch, just so you can plan on that. Okay. Thanks.

MS. WEST: Thank you for hearing our concerns. My name is Kathy West. I'm a maintenance mechanic at the ConocoPhillips refinery, a 30-year oil worker and a union member. And as a single mother, I raised two kids with good wages.

At our Santa Maria refinery, we just hired twelve operators and two mechanics five months ago. What's going to happen to their future, their families, also the other 200 folks that walk through the gate each day? Your decisions are going to affect a lot of people.

Our refinery is safe. It's clean. And even though we've been there for 60 years, I run into people all the time that don't even know we're in their neighborhood.

What about your jobs when you get rid of the refining out of California?

I want clean air, too. I wants to protect the planet. But making fuel overseas and tankering it to California does nothing to save the planet.
We also heard that they killed 250 workers building that big refinery. And that's unacceptable.

I ask you to please delay, delay, delay, you know. And find out what long-term effects you're going to have on all the communities that you're going to effect.

Thank you.

CHAIRPERSON NICHOLS: Mike Miller and then Keith Vines.

MR. MILLER: Good morning, Madam Chair and members of the Board.

My name is Mike Miller. I'm the President of the United Steelworkers Local 326 located in Rodeo, California. I'm an employee of ConocoPhillips and have been in the refining business for 22 years. Although we are not against AB 32 and clean air, we are concerned with the implementation date.

Initially, CARB planned two to four percent increases, but has recently announced a ten percent haircut, which creates an uneven playing field for small to mid-refineries. We ask that you consider the potential for plant closures, leakage of jobs, and the possibility of our imports from our counties, disadvantaging California refining.

Benchmarking of refineries creates winners and losers based on refinery configuration. The losers have
to pay allocations to CARB for performing as less
efficient refineries. Imports are not included in this
penalty, giving imports from Washington, India and China a
cost advantage and half of in-state refineries $150
million penalty to share.

I have seen and participated in many local
fund-raising and local events in which our company
provides money -- well-needed money to our education in
our communities and our cash-strapped school districts.

I ask that you please give us the chance to keep
having the American dream and be homeowners in the state
of California. There's nothing better than California
living. Thank you for your time.

MR. VINES: Hello. I'm Keith Vines. I work at
the ConocoPhillips Refinery in Rodeo, California. I've
been there 23 years. I work at the water treatment plant,
so I understand about discharging to the Bay with a clean
product. I understand that every day.

I want to reiterate what my sister said back
there about this is personal for me. My mom and my family
lives in the town.

And reiterate what Mike said. We've seen the
schools, the streets, schools being built. Football
fields being redone. Fund-raisers like he said to keep
the school district functioning. The district office
being built for them. I think this has a major part of
the community and for the company to do so.

I just took my position as unit chair at Rodeo.
And I talked to my people in Philadelphia recently there
the refinery is going to be sold. But within six months
if it's not, they're going to shut their gates.

I went to Dallas to a convention and talked to
some people that their refinery's already shut down and
they don't have jobs. That concerns me.

The lady back here said that people that just got
hired -- we have four classes that just have got hired.
And my concern is looking at them in the face and telling
them they might not have a job.

I just hope that the companies and the Board and
this bill, I just hope we can come together and come to a
resolution and re-think this or come up with a better
plan. I'm not saying we're against it. We're for it.
But give us a chance to react to it in a timely manner.

And most of all, I believe blue. I believe red,
white, and blue. And please don't bring the east coast to
the west coast. Thank you.

MR. ITZIGHEINE: Good morning, Madam Chair and
members of the Board.

My name is Ed Itzigheine. I've been a refinery
operator for the last ten years. I've been in a similar
industry for more than 25 years.

My concern today is our jobs, our families, our communities. I work at the hydrocracker at the Rodeo refinery. We make the cleanest fuels in the world, and we do it the most environmentally safe than anybody else. We have the best workers, the most responsible workers.

We all care about our communities. Our company does so much for the local communities, like Keith was saying. The local high school has a shop program, which is almost unheard of these days. We have volunteers that go to the elementary schools and help tutor the children in reading and math. They do so many fund-raisers and such.

It's really a good place to work. It really affords us to do so many things. Even with our schedules, with our shift schedules, when my son was in school, I was the only father that ever went to field trips or day events or whatever. And all that trickles down. It's a drug-free workplace. That all trickles down into the community.

We need these jobs, and it scares me that your attempt to do monumental great thing, which I support wholeheartedly, will have a negative effect, which will have a negative effect of anybody else following your lead.
If this impacts us economically, no other state is going to buy into it. No other nation is going to buy into it. You need to do this right. That's all I'm saying. You need to do it right. Otherwise, it's going to hurt us all. Thank you.

CHAIRPERSON NICHOLS: Thank you.

I believe there is a few other individuals who have all signed up who are here from the Steelworkers Union. I just want to take the liberty of saying a word or two to you directly.

First of all, I can't tell you how grateful I am to you for the very positive tone of your testimony. You've done everything I could have possibly wished for in terms of presenting your arguments and in a way that is coherent and persuasive and personal. And I think I just speak for all the Board members when I tell you how appreciative we are of that.

I'm also appreciative of the fact that you were supporters and I know you've been supporters because we've seen your support in the past for the environment.

I go back a very long way, not with respect to your particular local, but having been around in the very early days of Clean Air Act, back when we were really first tackling really dirty things like coke ovens and steel plants. So I remember very well that this was one
of the few things that really stepped up and worked hard
for clean air and has undergone some very, very hard
times.

And we are in very hard times right now in our
state. So we are not at all thinking that this is
something that we can do lightly or easily.

I think we've tried hard in designing this
regulation to do it in a way that will not unduly penalize
any sector or any individual company. But I understand
that ConocoPhillips feels very strongly. And they came
here today and said that they feel they're being put at a
disadvantage as a result of this program. We're going to
give hard thought to what we can do, because we are in a
transition period here. Not today or tomorrow or next
week or next month, but eventually our society is going to
have to use less gasoline. That's all there is to it. We
know that's coming.

And really, the question is how are we going to
put together the resources as a society to help develop
those alternative fuels, because we're not going to stop
moving. We're not going to stop hopefully investing in
our economy.

So this is what we have to try to work through,
and we don't think we're the source of all that's done or
this is the end of the story either. We still have to
keep working on this. But I think we've all been very impressed by what you've had to say.

Ron, did you want to add something?

BOARD MEMBER ROBERTS: Yeah. First of all, the testimony has been compelling. And you know, we're thinking globally. And it's all of a sudden bringing the neighborhood. I think it makes everyone probably a little uncomfortable because of the complexity and all this.

I'm wondering -- and part of what you I'm seeing is our system, it basically says, okay, if you're not a refinery and not meeting the standards, you go off and pay a big fee, buy some allowances somewhere, which does nothing for the refinery and maintaining those jobs.

And I was just wondering if you can somehow take that fee, whatever it might be, and establish it in a trust for that refinery to require changes for them to draw down on those funds and to change that refinery. But it does that in subsequent years. It gives them a better chance to meet sustainability.

But if that money gets sent to some forest in Brazil or in some other state or even somewhere out of their region, it seems to me it just increasingly makes it harder for them to maintain those jobs in that industry.

And I don't know what that mechanism is, but it just seems to me that we're not allowing for them to be
able to take those fees and plug them back in and do an
even better job in meeting those goals in the future.

So we're penalizing them, which makes it more
difficult for them to accomplish what it is we want them
to accomplish. I'm not sure -- I'm sure staff is going to
have a very cogent position on all this.

CHAIRPERSON NICHOLS: Well, not really. They
have been doing some thinking about what to do with the
value of the allowances that we are not giving away for
free. And you know, we don't have that proposal out yet.
So I don't know that they can talk about it too
concretely.

But part of the idea of not just handing out all
of the allowances at the beginning of the program and
letting everybody go off and trade is that you would
create a fund that could be used for various purposes, of
which this is one. People talked about ten percent for
environmental justice communities, other percentages for
other things.

BOARD MEMBER ROBERTS: But that's what I'm
talking about, their fees from their refinery would go
into a trust fund to make improvements at that refinery.

CHAIRPERSON NICHOLS: I think that's another
idea.

(Appause)
CHAIRPERSON NICHOLS: Well, thank you. That's a good suggestion. We will bring back all of this I guess at the end of the day before we actually vote on anything.

But in the mean time, I guess we should hear from -- we have a lot of folks left waiting to speak to us.

So Dan Kalb, you are next. And then Ron Espinoza.

MR. KALB: Madam Chair, members of the Board, Dan Kalb from the Union of Concerned Scientists.

First and foremost, this action today, as you've heard before, is indeed truly historic. You are putting a cap on harmful heat trapping emissions, a market price on carbon pollution, and effectively putting us on a pathway to reduce our dependence on fossil fuels through 2020 and beyond.

Let us not forget why we're doing this in the first place. The overwhelming majority of scientists are clear that global warming is real, primarily caused by humans burning fossil fuels. And if we fail to take action to reduce our emissions, we will be subjecting ourselves and our children and our grandchildren to the potentially devastating impacts of global warming which, of course, includes increased air pollution in our communities and threats to our water supply due to
substantial loss of snow pack, among other very serious
impacts.

We note that the petroleum industry has gotten
most of what they have asked for in this regulation, some
would say too much, of course. It's always a compromise.

It is important to remember that, to be
effective, this market-based nature of this program
depends on incentivizing the largest emitters to become
more efficient and to innovate with new technologies and
processes in order to reduce harmful emissions.

If you give everything away, you reduce that
incentive and risk windfall profits to already very
profitable entities, funds that could be better spent on a
combination of rebates to residents in those communities
and investments in reducing emissions and clean energy
workforce development.

But for now, we strongly urge your adoption of
this landmark program. And going forward, we remind
everyone that there will be a need to do rigorous
monitoring, enforcement, evaluation, and oversight of this
program and possibly strengthening adjustments prior to
the start of the second compliance period.

I want to thank our well deserve to the staff for
the hard work over the last few years and few months and
now the really hard work is about to begin. Thank you
very much.

CHAIRPERSON NICHOLS: Thank you.

Ron Espinoza. And then Elvis Villareal.

MR. ESPINOZA: Good morning, still, Madam Chair and members of the Board.

I'm Ron Espinoza with the United Steelworkers, an international representative, staff representative for them.

I think it needs to be said that the steelworkers that you see, they're not all from ConocoPhillips out here in the chairs -- are not here seated behind me dancing for their employers. It needs to be said.

We were in opposition to Proposition 23 last year. And where -- the employers -- we were in opposition to the employers and we were for 23.

We were also for AB 32. We understand clean air.

I worked for Shell Oil for 28 years. And I remember what was like as a kid in Martinez when I was young. And I understand the need for regulation. But what we're here for is that we want to see a reasonable implementation of this plan. The plan we see being submitted by the staff as it currently exists does not meet our goal of reasonable implementation. I would like to read a proposed USW resolution in order to make implementation a more reasonable and feasible plan.
"Whereas, the State of California is faced with adverse economic times with unemployment levels exceeding 12.1 percent.

"And whereas, a 10 percent reduction in free allowances at the start of the program has a potential to disadvantage medium and small size refineries and could lead to lost refinery jobs in a state already suffering double digit unemployment and weaken in-state manufacturing while contributing to leakage of jobs to competitors outside the state.

"And whereas, the ten percent reduction in free allowances selectively increases the operating costs to only some companies, and as a result, provides a direct economic benefit in the marketplace to others operating within the state.

"And whereas, the impact of a ten percent reduction to some of the 15 refineries and not others is not in the best interest of protecting jobs in California and may put at risk inconsistent and comparatively priced supply of clean fuels for California consumption and create an energy and security risk for foreign imports due to supply shortages.

"Now, therefore be it resolved, that the Board approves the Cap and Trade Program with the express proviso that companies will receive 100 percent free
allowances in the first and second compliance period, 2013 through 2017, less the required annual cap reduction. And this will be implemented in regulation by establishing energy efficiency, benchmarks at sector average, as opposed to 90 percent of sector average in other value lower than 100 percent of sector average.

"And where no company will receive greater than 100 percent allowances and where competitive impacts between in-state companies are eliminated.

"And now, therefore be it further resolved, the Board approves the Cap and Trade Program with the expressed proviso of allowances during the first and second compliance period, 2013 through 2017, and all sections in the regulation citing any reduction in free allowances, Subarticle 9 and following, shall be revised to show 100 percent free allowances for the period of 2013 through 2017.

"And be it finally resolved, in 2012, the ARB staff shall develop a public process to quantitatively evaluate the appropriate level for reduction of free allowances to in-state manufacturers as the program moves forward. This will include further evaluation of trade exposure."

Thank you very much.

CHAIRPERSON NICHOLS: Thank you.
Could you please submit a written version of
that? Thanks.

Elvis Villareal and then Steve Swader.

MR. VILLAREAL: Good morning, ladies and
gentlemen.

My name is Elvis Villareal. I'm a United States
Marine veteran of war. And I'm one of the many vets that
ConocoPhillips has provided or helped with providing a job
to provide for our families outside the military.

ConocoPhillips is probably the leading refinery
in providing jobs for veterans coming back from war or
being discharged honorably from the military.

My concern is if ConocoPhillips and other
companies like Conoco are forced to close or move
elsewhere overseas and begin refining overseas, well,
obviously, we'll lose those jobs.

But my concern is what's going to happen when
these countries, Saudi Arabia, Russia, India, Pakistan,
turn their backs on us and all of our companies are in
their territory? That's a concern that I have as an
American and as a patriot.

Thank you.

CHAIRPERSON NICHOLS: Thank you.

Steve Swader.

MR. SWADER: Hello, Madam Chairman, member of the
Board.

I work at ConocoPhillips Santa Maria facility in Rodeo Grande. We represent 80 members. I'm a sulfur plant operator.

Having heard a lot of the conversations that go back and forth, I'd like to give you some economic numbers that go with this. I represent 80 members. If the 80 members lost their job because we've been told if we were no longer be able to make a profit, we will cease to run the refinery. With 80 members losing their job would cost the State $761,000 in State taxes in the first year. Every ten weeks, you would loss approximately $1.2 million of income in the local economy. That would be gone. If you multiply that times ten, that's what you'll get if ConocoPhillips leaves this state.

Your unemployment rate would then go to $36,000 a week in the Santa Maria area. And in a year, you would pay $936,000 in unemployment.

If consumers drive the economy, and they're 70 percent of the economy, you've just taken two-thirds of the economic spending of these people and replaced it with the cost to the state. That doesn't sound like very good business.

You talk about reducing California refining costs or petroleum. We just heard that you're going to drive
the EPA standard to 50 or 55 miles a gallon in 2025. In
14 years, you're going to get most of what you want to do
in two years without the chaos that it will cause.

I support AB 32. I've driven down to L.A. I've
seen the brown haze disappear. I raised two daughters in
this state. We drove the San Diego almost every year.
Drove through that. It's better now.

I've seen tremendous improvement in our refinery
over emissions control. I run a sulfur refinery unit. We
remove over 99.5 percent of the sulfur in a crude unit.
We spend money on emissions. Marty Haul is here from the
environmental from our company. She works closely with
Mark Elliott of the San Luis Obispo County Air Quality
Control Board. He's been in our units looking at things
we do, working with us. We work with the environmental
groups.

But we also need jobs. Without a job, what am I
supposed to do?

Thank you for your concern.

CHAIRPERSON NICHOLS: Thank you.

Charles McIntyre.

MR. MC INTYRE: Good morning. My name is Charles
McIntyre. I'm president of West Coast Protection League.
I've worked in the glass industry 32 years. I'm
a third-generation glass man. I represent glass plants in
California, also cast metal products which is the
foundries, the guys that make the fiberglass.

We're having a really hard time with this. You
know, nobody is arguing about clean air. These
manufacturers are spending millions of dollars every year
to meet different requirements and different standards.
Well, it's getting to a point to where you are going to
put people out of work.

A perfect example is you take the glass industry
back in the early '80s, there was 19 lass plants in this
state. You guys probably remember that. It employed
20,500 union employees which were skilled jobs with
benefits and living wages. Now, we have five glass plants
in the state, and we're down from 20,500 jobs to 2700
jobs.

So this industry and this economy, we are having
a hard time competing. We have glass coming in from
China. We have glass coming in from Mexico. And then the
fiberglass operations. And you turn on the news and all
you hear is about green, green, green. That's good. You
got green jobs right here in this state in different areas
of manufacturing that you're jeopardizing. And you take
the glass manufacturing, for example, you know, the
recycling effort that this industry does. This industry
recycles at an 80 percent rate. Okay. You start shutting
these factories down or they close their doors and move or
go out of this country, what are you going to do with all
the recycled glass? Are you going to ship it to China?
What's the carbon footprint on that going to be? Are you
going to send it to Mexico?

We have to have a level playing field. All
manufacturing here in California needs to have a level
playing field. California manufacturers are leaving the
state at an alarming rate.

At our glass plants, we have the United
Steelworkers are our mold makers in these factories, also,
and the GMP International Union.

So pretty soon, California, if you drive through
the Bay Area and you drive down through southern
California, we're starting to look like the rust belt of
the northeast. And we need to take a look at that. And
we don't want to put these men and women out of work in
this state. Thank you very much.

CHAIRPERSON NICHOLS: I just can't resist saying
that, you know, I feel a lot differently about glass
manufacturing in terms of what I know about the industry
than I do about oil refining. And maybe it's unfair.
But, you know, oil refining is a global industry. And we
keep reading about record profits. And I know it's all
segmented out and maybe individual units have to kind of
prove themselves.

But I think about the problem with global warming, and I think about the fact that Conoco Phillips reportedly reported $14 billion in profits last year. And I think to myself, couldn't they be diverting some of that to helping both save these jobs and meet their requirements here to do something about the problem of global warming?

I don't know what the answer is going to be here, but it seems like they're treating us in California as though we were just a rust belt state. And that's not -- I don't think that as right.

All right. We've got more witnesses here to hear from a variety of places. Next is Steven Kelly from Independent Energy Producers.

MR. KELLY: Hello. And thank you.

I'm Steven Kelly, the Policy Director for the Independent Energy Producers Association, which is a trade association of non-utility owned generation, mostly natural gas fired, combined heat and power, and renewables. We represent about 26,000 megawatts of installed capacity in California today.

And we had circulated a letter to the Board I think dated October 10th that summarized some key concerns we had. So I don't want to spend too much time on those.
And I know prior speakers have already raised those. I would like to make a couple observations about the issue of the treatment of the pre-AB 32 existing contracts.

And I just want to make clear that by -- we're not talking about the entire electric sector here. By definition, we're talking about certain entities that are entered into these early contracts that do not have a reasonable means for cost recovery under the terms of the contract or pass through of the costs, like other obligated entities.

This is a relatively small group, we believe. But unfortunately for this group, it's very, very important that they be recognized for the situation they find themselves in. You can imagine that if you are losing money every hour that you're operating, that creates a huge operational problem. Shut down risk. And unfortunately, we know that economic theory will tell you, you can't make that up in value. So we have a problem here.

And the solution on the table so far has been that these parties should bilaterally renegotiate these transactions. We would support that if that were practical. But unfortunately, it's two parties to the deal and the counterparty, the buyer in these
transactions, is lucky to be getting a windfall that we
don't support -- but will be getting a windfall that will
make it foolish for them to renegotiate these on a
voluntary basis in most respects. We believe we have to
deal with this.

And our members need regulatory certainty. I
want to emphasize that, because these issues have been on
the table for a long time. And we would like some clarity
on when this is going to get resolved.

I just want to make the treatment of these
primarily in-state generation resources that serve
combined heat and power and so forth. I want to contrast
this to what's happening to some other out-of-state
treatment facilities. I'm going to point the finger at
the treatment for Bonnyville Power Administration, which
is an exporter/importer into California. There was enough
attention to their problem that they have a special
carve-out in these regulations in our view, which we think
is going to foster contract shuffling and leakage, which
were two goals that the Board I think has been opposed to.

So we have this juxtaposition, which is somewhat
striking that in-state generators may be faced with a
problem of cost recovery while there is special treatment
for some out-of-state importers. We think it's now time
to direct attention to these issues.
I did submit a Resolution this morning for your consideration in this matter. And I just want to point out real quickly the Resolution in front of you is helpful but not sufficient. It doesn't have a time certain deadline for resolution of this matter.

And I also want to point out that this is not a PUC only problem. There are a number of contracts that are not under PUC jurisdiction, and that's why we are at the CARB to get resolution for this. So thank you very much.


MR. WHITE: Thank you, Madam Chair and members of the Board.

Chuck White, Director of Regulatory Affairs for Waste Management.

Waste Management is the largest provider of comprehensive waste recycling and renewable energy services in California and north America.

We support AB 32. We support the direction overall that the Board is going in. Waste Management is heavily investing in alternative fuels and alternative energy from waste. Our Altamont Landfill gas to LNG is currently producing the lowest carbon fuel available in California on a commercial scale. We're looking at building a second such plant in southern California, and
we're looking at developing other types of alternative fuel and alternative energy projects from waste in the not-too-distant future. We believe that the Cap and Trade Program and a low-carbon fuel standard will support these efforts.

And we certainly support the comments that Steve Kelly made. We are a member of the IEPA. I'm here to speak to you about one issue of concern to us. That's the waste to energy issue and the way it's being dealt with in these regulations.

We don't own or operate any of the three waste to energy plants in California, but we do send waste materials to them. We believe that they are really going to be severely damaged if they are -- have a compliance obligation for their anthropogenic portion of emissions, which is about 40 percent. And the problem -- the way the staff and the Board have gone about developing these regulations, you're just simply looking at what is emitted from the stack as opposed to looking at the comprehensive life cycle assessment of waste to energy as compared to other waste management and recycling activities.

We really think that there needs to be a re-looking at the waste to energy aspect, particularly with respect to the three existing plants, because it would be really disadvantageous if these plants were to...
shut down as a result of the increased cost. We think it could be as much as $8 a ton to comply with these regulations. California would lose a diversion opportunity and energy source.

And so really the approach we've taken is contrary to a number of different programs, including CARB's own program with respect to your renewable energy standard waste to energy is one of the best ways to avoid greenhouse gas emissions. CARB's sister agency, CalRecycle, did a life cycle assessment and concluded that waste to energy is one of the best ways to reduce greenhouse gas emissions overall.

The European Union emission trading scheme similarly views waste to energy as a greenhouse gas benefit. The RGGI specifically excluded waste to energy from their regulatory framework specifically for this reason, because you need to deal with waste to energy not on a specific emission from a stack basis, but an overall life cycle assessment. That's what we encourage the Board to do really in the future. I know you can't make the changes today. But really, there is no other greenhouse gas program in the world that regulates waste to energy as CARB is proposing to do without considering the life cycle assessment of it.

We would just urge you to keep the door open for
further discussions and hopefully we can work with you to come up with a reasonable solution to keep these existing waste to energy facilities operating and working in California. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Bruce Magnani.

MR. MAGNANI: Thank you, Madam Chair and members of the Board.

I'm here today on behalf of the California Cogeneration Council, natural gas-fired cogenerators throughout the state of California.

My comments are related to language that was in the Resolution 10-42 that directed the Executive Officer to review treatment of combined heat and power facilities in the Cap and Trade Program, to ensure appropriate incentives are provided for increased and efficient use of cogeneration.

Our membership that deal and operate these facilities across the state don't believe that the rule in front of you, the regulation in front of you, adequately addresses the concerns, the complex ownership nature of combined heat and power facilities, and how services are provided.

We would ask the Board to adopt language moving forward that ensures that staff conduct workshops and
address these problems prior to the first auction that happens in the state of California. Otherwise, these facilities will be hard-pressed to continue to operate under the circumstances. So thank you very much.

CHAIRPERSON NICHOLS: Thank you.

Norman Pedersen.

MR. PEDERSEN: Good afternoon. I'm Norman Pedersen for Southern California Public Power Authority.

You know, cap and trade has been in retreat the last two or three years. Today, however, I've got my Washington crossing the Delaware tie on. You'll remember that Washington was in retreat from the British in 1776, but the tables turned when he crossed the Delaware and beat the Hessians at Trenton.

Your Cap and Trade Program has been pragmatically designed to attain the AB 32 goal, while minimizing economic and political risk. You have a program before you that has been designed to succeed. If there is going to be an event that's going to turn the cap and trade tide, this is likely to be it.

Here are some of the key features that you have pragmatically incorporated to achieve success.

First: Direct allocation. A direct allocation to retail providers of electricity on behalf of their rate pays to mitigate the impact on electricity consumers and
direct allocation to industrial sources to mitigate leakage.

Second: Allowing the use of offsets as compliance instruments to cover up to eight percent of an entity's compliance obligation.

Third: The cost containment reserve.

However, while your program has been designed to achieve success, there is some potential pitfalls that we'll be addressing I hope next year.

First: There may not be an adequate supply of offsets. We urge you to move aggressively next year to approve additional offset protocols to assure that the market will have an adequate supply of offsets.

Secondly: The prohibition in the regulation on resource shuffling as written could adversely affect the wholesale electricity market. It could create uncertainty and a loss of liquidity in that market. We appreciate the direction to the Executive Officer of page 10 of the Resolution that you'll be considering today to continue discussion with stakeholders about amending the resource shuffling provisions.

Third: While we applaud the creation of a cost containment reserve, we share Dr. Sperling's concerns about the market we're creating. The Regulation does not create a mechanism for refilling the reserve if it's
exhausted. The Adaptive Management Program does not reach market issues.

We support the direction on page 12 of the Resolution to the Executive Director to work with stakeholders on market issues next year.

We look forward to working with you and supporting you on the issues that remain to be addressed in 2012, including the offset resource shuffling and market issues. And thank you very much.

CHAIRPERSON NICHOLS: Thank you. I think you get extra time for the tie. The tie is amazing. Great.

Thank you.

Steven Schiller. And then I'm going to call out of order number 74, Catherine Lyons from the Bay Area Council.

MR. SCHILLER: I guess I should have put the Bugs Bunny tie on this morning.

CHAIRPERSON NICHOLS: You get extra time for special ties or caps.

MR. SCHILLER: My name is Steve Schiller, the Board Chair of the California Energy Efficiency Industry Council. The council is a statewide trade association of non-utility companies that provide energy efficiency products and services here in California.

The Council supports the adoption of the proposed
cap and trade regulations for the purpose of putting a price on greenhouse gas emissions.

We see the proposed regulation as another positive step in California's leadership by demonstrating how to develop an energy infrastructure in a carbon-constrained world.

We believe the regulation will also support a stable energy and business environment that will result in our member companies in the efficiency industry be able to grow and employ more Californians.

We do offer a few suggestions to implementation that are contained in a letter we submitted. One, that the Air Board and the PUC must establish strong oversight to ensure that the funds generated as a result of the regulation are spent only on consumer rate relief and mitigation measures. And I guess it will be up to ConocoPhillips to decide how to spend their money.

Secondly, a good way to meet the State's goal of maximizing cost effective energy efficiency is to utilize a fund, such as the Air Pollution Control Fund. We just ask that it be absolutely clear that those funds can be used for mitigation measure such as efficiency.

Also with respect to efficiency, while it's an excellent opportunity for mitigation and a cost effective way to meet the cap, we do ask you to use some caution in
enforcing and implementing the program to make sure there isn't double counting, which is certainly a possibility that can occur with efficiency in a capped system.

And then the fourth point is that all participants must realize this is only one part of our overall efforts and can't replace our other greenhouse gas mitigation policies an energy policies, in particular, the funding of the public goods charge.

So the Efficiency Council member companies alone employ over 5,000 people in energy efficiency jobs. Our companies will continue to hire more individuals in California and continue on the basis of the strong policy that the Board has shown and will continue to show with this environmental stewardship.

I guess last, on just a personal note speaking -- listening to all this today as an appointed regulator and actually the world's largest greenhouse gas mitigation mechanism, the Kyoto Protocols mitigation mechanism, I know there is going to be some bumps in the road and there will be some pain with this. But that pain will have returned in that just coming back from Africa where our last Board meeting was and seeing directly the impacts of climate change, the challenges of that, it's important for us, as Californians, to show that Americans can and will provide the leadership so that the rest of world can reap
the benefits of climate change mitigation.

With that, I thank you and the staff also.

CHAIRPERSON NICHOLS: Thank you. Okay.

Ms. Lyons.

MS. LYONS: Good afternoon, Madam Chair and members of the Board. Thank you for taking me early.

My name is Catherine Lyons. I'm representing the Bay Area Council Jim Wunderman and the business communities of the Bay Area region.

I'm here to announce our support of the implementation of the California Cap and Trade Program without further costly delays to the California economy and environment. The Bay Area Council is proud to have been the first business group -- or the business group to negotiate and the first business group to support California's landmark effort to address global climate change back in 2006. We are happy to be at this point in the process.

Our members are business leaders of some of the region's largest employers, and they know how much is at stake if we don't take steps towards reducing emissions.

The following reasons compel the business community to act on this issue. California's momentum to become the center of clean technology innovation would be lost if we back pedal on our commitment to become a clean
energy based economy. Investors, manufacturers, and workers in California's clean energy sector face fierce global composition, and our partners in emission trading are moving forward with developing our growing market and need a clear signal from California that would stabilize carbon pricing.

Now the real work begins, and the business community is committed to ensuring that our state reduces its emissions by the required 15 percent by 2020.

Thank you again for your leadership. And thank you to the staff. And we look forward to working with you in the future. Thank you.

CHAIRPERSON NICHOLS: Thank you. Thanks for the support.

Patrick Lenz and then Mike Hertel.

MR. LENZ: Good morning, Madam Chair and members.

Patrick Lenz, the Vice President for Budget and Capital Resources for the University of California, Office of the President.

I'm encouraged by the testimony I've heard this morning, Madam Chair, and the openness of the Committee, particularly as it's outlined in the Resolution that indicates that the design of the regulations -- and I'll paraphrase -- "seeks to minimize the cost and maximize the total benefits and encourages early action to reduce
greenhouse gas emissions."

I indicate that, because we're concerned that the current regulations that are being considered by the Board would require U.C. to purchase 100 percent of our allowance starting in year one of the Cap and Trade Program at an annual cost of between 12 and $28 million. We have serious concerns about any additional cost in this kind of a fiscal climate where the university has taken a $650 million budget reduction in the 2011-12 fiscal year and is likely to face another $100 million reduction.

The university supports the goals of AB 32, and we've never sought an exemption from the Cap and Trade Program. However, the University believes that public entities that are regulated under the cap and trade should be treated no worse than industrial facilities or the utilities companies.

We have been working with your staff, Madam Chair, and I know with you over the past couple of years on the development of a compliance path that maintains the Cap and Trade Program integrity while minimizing any negative impact on the University's mission of teaching research and public service.

The University has a proposal that we would still like to be considered. In exchange for a free allocation of allowances, CARB would require our regulated U.C.
campuses to invest a sum commensurate to 125 percent of the market value of freely allocated allowances in the abatement projects. U.C. will commit to reducing the regulated emission by 7 percent by 2020. This is in line with the overall statewide emissions reductions that CARB is targeting with its Cap and Trade Program.

The University is deeply committed to AB 32 and its goals. And we are encouraged by Supervisor Roberts' comments that would look at an alternative where we are making investments, not penalizing the University, in our efforts to reduce greenhouse gases.

I appreciate your time, Madam Chair, and look forward to working with you and with the staff on this issue.

CHAIRPERSON NICHOLS: Thank you very much.

Mr. Hertel. Mr. Harris, not Mr. Hertel. Okay.

MR. HARRIS: We've upgrading. Mike is still here.

My name is Frank Harris. I represent Southern California Edison.

I appreciate the opportunity to speak today.

Southern California Edison agrees that a well-designed Cap and Trade Program is the most efficient and effective way of achieving the State's GHG reduction goals.

To that end, Edison continues to support the
development of a broad national Cap and Trade Program and has appreciated the opportunity to work with all the staff and the leadership of the Board. We commend the staff and the leadership for the significant efforts of developing the regulation.

Many elements of this regulation have taken a great deal of work. The allocation of -- the allowance allocation of allocating allowances for the distribution of utilities on behalf of our customers we believe is a great step to help reinforce the concept that a Cap and Trade Program can be developed effectively and efficiently.

And Edison supports the disposition of this allowance value, all of it, to our customers. And we'll continue to work with the California Public Utilities Commission in their efforts. By providing all this allowance value to our customers, this would mitigate the cost that these customers have already borne in terms of reducing the emissions from serving their load and reducing -- providing more renewable energy, some of the energy efficiency programs, and other investments that the utilities have been making on their behalf.

While we understand the concerns that were expressed by some of the water utilities that appeared here today, we urge the Board to consider those same
investments and the extent to which the water utilities have made those investments, because certainly that was a key part in the negotiation on the allowance allocation.

And another key element of this was the manner in which the allowance value would be returned to the eventual customers. As the Board considered the issues presented by the water utilities, we hope you'll keep that issue in mind.

Similarly, we urge the Board to take caution in reopening power contract agreements that have already been negotiated with a broad set of parties. These contracts balanced many issues on both sides of the transaction that were important to all these parties. And we hope the Board wouldn't step in to address one issue that is on one single side of the party -- of the contract. Reopening these negotiations we feel would be a real problem, a real challenge. And won't really help us to continue the reliable service here in California.

There are other elements of this regulation that we -- I ran out of time.

Can we pretend I have Norm's tie on?

There are other elements that we agree need to be continued to be worked on. We understand that the Board is considering an amendment process and new rule making. We simply urge you to begin this rulemaking as soon as
possible.

Thank you very much for the opportunity.

CHAIRPERSON NICHOLS: Thanks for your comments.

BOARD MEMBER BERG: Madam Chair, may I just ask Mr. Harris a question?

CHAIRPERSON NICHOLS: I just want to give him more time.

BOARD MEMBER BERG: And it isn't because of his tie.

Mr. Harris, could you just please -- I don't understand your comment on the long-term contract, when, in fact, on the post AB 32 contracts, my understanding is that the price of carbon can, in fact, be included within the contract, but the pre cannot? And so if you're getting allowances and funds to be able to mitigate that, I'm not making the connection as to where the issue is on the other side. If you could just help me with that.

MR. HARRIS: Certainly, these contracts include language that allows for the pass through of the compliance costs. That was part of the negotiated agreement. I think that's one of my key points. And that is one element that's already in this agreement.

Whenever you design these types of contracts and you engage in these transactions, there are a variety of different elements that each side of the transaction is
looking -- a variety of different goals each side of the transaction is looking to achieve in this contract.

And so in these contracts that I'm referring to, the ability to pass through the GHG costs is present there in the contracts I'm referring to. There are certainly a number of elements that both sides had to agree to accept that perhaps they would have preferred not to accept. And so reopening the contract on the basis of one of those concerns we feel doesn't really support the power procurement practice that we engage in here in California.

BOARD MEMBER BERG: Am I understanding correctly that the contracts that you're speaking about, they do have the ability to recover compliance costs, which would include the greenhouse gas?

MR. HARRIS: Yes. For southern California Edison, my understanding, we have no contracts that don't allow it.

BOARD MEMBER BERG: Thank you very much, sir.

CHAIRPERSON NICHOLS: Thank you.

Nico van Aelstyn and then Susie Berlin. And that will be it before we break for lunch.

MR. VAN AELSTYN: Thank you, Madam Chairman and members of the Board.

My name is Nico van Aelstyn. I'm here today on behalf of Powerex Corporation. I know I have a challenge
in front of me as stomachs are beginning to rumble. I'll just take a moment.

Powerex Corporation, if you don't know, is a wholly owned energy marking subsidiary of the British Columbia hydro and power authority. It's a crown corporation that is wholly owned by the government of British Columbia.

Powerex is a low-carbon supplier of energy from large hydro and renewable sources. And it is one of the largest importers of electricity into the state of California. As it turns out, it is licensed by FERC as a rate authority.

Powerex supports the cap and trade regulation today and urges its adoption. We are very supportive of California's efforts, and also those of the Western Climate Initiative to develop a Cap and Trade Program and to combat global climate change.

And we are very appreciative of all the work that's been done by the staff and in particular with regard to these issues of electricity markets because they are very complicated. We notice that the first speaker today was from the CPUC, and I think that's appropriate given a lot of overlap here.

That said, however, there are a number of problems in the regulation that do need to be addressed
preferably in the first quarter of 2012. We second the
calls of many today to commend the Resolution 1132 and its
specific calls for a number of regulatory refinements and
also the call those be done early in 2012 so the program
will be ready to launch full implementation in 2013.

In particular, in Resolution 1132 at page 10, we
support the call to continue discussions with stakeholders
to identify potential amendments to the regulation. And
in particular, the first one up that is mentioned is to
address resource shuffling. We notice the CPUC gentleman
addressed that as well. That was one of our comments.

There are three other comments that are very
important that really do need to be addressed if the
regulation is to work, to be a workable program, and for
it to be frankly fully defensible. Those are the asset
controlling supplier provision that must be addressed, the
RPS adjustment, and the qualified export adjustment. All
three of those are dealt with in detail in our written
comments, and we provided simple and discrete proposed
changes that would address the potentially very
significant problems in the current language of those
three provisions. So we hope that more specific direction
can be given to Board staff to address those as well as
resource shuffling per Resolution 1132.

And again, we support the Resolution, the
regulation, and urge its adoption. But we also strongly support that these issues be addressed in early 2012.

Thank you.

CHAIRPERSON NICHOLS: Thank you.

Susie Berlin.

MS. BERLIN: Good afternoon, Madam Chair, members of the Board.

My name is Susie Berlin. I represent the Northern California Power Agency. NCPA is a JPA that is comprised of publicly-owned utilities that provide electric service to customers throughout California basically from Redding down to Lompoc. NCPA supports the proposed changes and cost containment and provisions that not only facilitate electrical distribution utilities in their ability to meet their obligations under the program, but also further the objections of AB 32 more broadly.

Particularly, NCPA supports the finalization of the allowance allocation methodology for electrical distribution utilities, the metric upon which that allocation is based was thoroughly evaluated by a broad range of stakeholders, as well as CARB and the Cal/EPA staff, not just the electric utilities.

As CARB and others have repeatedly concluded, it's the electrical distribution utilities that have the most direct link to all California residences and
businesses and provide the most cost effective and efficient vehicles for delivery of that value of the allowance value back to the residents and businesses while advancing the objectives of AB 32.

While we've heard the concerns of the Water Contractors, we believe those concerns are addressed by the return of the allowance value to all the customers, which is done thorough the electrical distribution utilities.

NCPA also supports the direction for ongoing monitoring of the markets and urges the Executive Officer to act promptly if the market manipulation or volatility is discovered. The success is contingent of the efficacy of the program structure, including the cost containment provisions contained therein, such as the reserve account.

NCPA also supports the Resolution's direction to have the program reviewed by an independent monitor and for market simulations prior to the January 1, 2013, enforcement of the program. But we would urge a slight modification that would require a report to the Board prior to the launching the first auction. And that if shortcomings or concerns are identified in the simulations that the first auction be postponed until those concerns are addressed.

Thank you very much for your time.
CHAIRPERSON NICHOLS: Thank you.

I know it takes a little time to get out and find a place to grab lunch around here, although there is a cafeteria on the first floor. But I'd like to try to get back here in 45 minutes, if we can, rather than a full hour, just because we have a lot of witnesses again ahead of us I should say. Some are for and some are against us. But hopefully they're all for us.

So I would like to ask everybody though if you're thinking about testifying and you didn't turn your card in, please turn it in before you leave, because I'm not going to be just continuing to accept more blue cards as we go along. We've already had a bunch while we're speaking. So we'll cut it off before we start up again. Thanks.

(Whereupon a lunch recess was taken at 12:34)
CHAIRPERSON NICHOLS: We'll just resume our hearing at this point.

And I believe that the next person on the list to testify is Jeffrey Volberg. Go right ahead.

MR. VOLBERG: Madam Chair and member, I'm Jeff Volberg with the San Diego County Water Authority. And I'm here on behalf of the Water Authority to talk about the treatment of both the State Water Project and the Metropolitan Water District under this plan.

I will associate myself with the comments of both the State Water Contractors and Debra Man from the Metropolitan Water District and keep things brief. But there are a couple of points I would like to make.

One is that this plan is going to have an impact on the water rates of the San Diego County rate payers who have in the last three years faced a 60 percent increase in their rates. And it will do that without any corresponding benefit in terms of water supply, water supply reliability. So that is a concern we have. And mitigating the cost to the rate payer of this through the electrical companies rebating, accrediting doesn't sync up very well, because water customers and electricity customers aren't necessarily the same.
And as an example, a farmer who uses a great deal of water and very little electricity would not be receiving the rebate to the extent that somebody that uses a very large amount of electricity and very little water would receive. So the two don't sync up well.

I understand that this is the final version and that it can't be changed here today. I would join with the others who have suggested that the Board do start working on and seeking amendments to resolve these problems in this final document as soon as possible, preferably within the year.

And again, I'd like to reiterate that this will have a strong impact on rate payers in southern California and the San Diego area in particular. There's been an article in the Union Tribune yesterday and also an editorial this morning that indicate what the impacts will be. And so I hope you take that into consideration as we go forward in the coming years to make amendments to the regulatory scheme.

Thank you very much for your time. Appreciate the opportunity.

CHAIRPERSON NICHOLS: Thank you.
Kris Rosa from Silicon Valley Leadership Group.
MR. ROSA: Good afternoon.
Kris Rosa on behalf of the Silicon Valley
Leadership Group. Just a quick word about the proposed regs.

The Silicon Valley Leadership Group believes that the cap and trade is the most efficient and effective way to reduce global warming pollution and also spurring the clean energy innovation. We respectfully request that the Board take final action to adopt the proposed cap and trade regulations. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Marlia Maples. I'm sorry. I'm wrong. It's Mary Kay Faryan. I skipped a couple of lines here.

MS. FARYAN: Good afternoon, Madam Chair, members of the Board.

My name is Mary Kay Faryan. I'm counsel for Navy Region Southwest here on behalf of the Admiral French and the military installations in California. We've provided detailed comments on the unique issues this regulation raises with military facilities, so I won't belabor that point, except to say that any future discussions with staff will have to be consistent with the issues we have raised in those correspondence.

You've also heard from Navy's leadership in D.C. on this important matter. We remain committed to work with California to demonstrate reductions from federally mandated greenhouse gas and energy reduction mandates.
These exceed those called for in this regulation.

The DOD also demonstrates tremendous leadership in the development of alternative energy sources and renewable energy development. Despite your warning, we would like to thank your staff for their hard in crafting a temporary solution to concerns. We look forward to working with them and the Board on long-term program that reflects the military's commitment to this issue as well as the limitations we face with the current program.

Thank you.

CHAIRPERSON NICHOLS: Thank you. So next we'll hear from Ned McKinley.

MR. MC KINLEY: Good afternoon, Chairman Nichols members of the Board. My name is Ned McKinley. I'm here on behalf of Major General Anthony Jackson, the commanding general for marine corps installations west. I'm here today not just on behalf of the Marine Corps, but also the Department of Defense, just following on Mary Kay Faryan's comments.

Currently, one installation in the state exceeds the applicability threshold of the Cap and Trade Program. This is the Marine Corps air ground combat center at 29 Palms. This base is a vital national security asset as demonstrated by the fact that 95 percent of marines require training at this base before deploying overseas.
Now, in the military, we have a special challenge. We need to meet our national security requirements and the national security strategy which itself is dictated by Congress and President, while at the same time meeting a broad range of environmental mandates. Many of these mandates require reductions in greenhouse gases. For example, President Obama issued Executive Order 13514 in 2009.

In the case of the combat center, they have a comprehensive plan to meet those mandates. They are on track to reduce greenhouse gases by 34 percent by 2020, which exceed the goals of AB 32.

Some of the ways they will be achieving this is by the use of greater renewable energy. Currently, they get about five percent of their electricity through PV. They also have one cogeneration or combined heat and power plants. And next year, a second one will come on line. When this comes on line, the base will be essentially independent of the grid, which will be important for the base to meet its energy security goals.

And also very noteworthy is with the second CHP plant, the base will produce about half as many greenhouse gas emissions as power purchased from the grid.

Now, as currently designed, the Cap and Trade Program does present legal obstacles to participation by
the Department of Defense. Those obstacles we have
described and comments we have previously submitted to the
Board, we have -- we're very appreciative of the dialogue
of the past year with the Board and the staff to work
through those things. And we do look forward to working
with you to establish a framework for ensuring that the
military reduces greenhouse gas emissions in a way that is
consistent both with our national security mission and the
goals of AB 32. Thank you.

BOARD MEMBER D'ADAMO: Thank you.

Marlia Maples.

MS. MAPLES: Good afternoon. I'm Marlia Maples. I'm
from Bakersfield, which is in Kern County. I'm
self-employed business owner of a small business, woman
owned. I'm a mother. I'm married. I volunteer.

But I'm here representing the community at large.

In our area, we have 16.2 percent unemployment. We live
in an area that leads the nation in our air resources and
we have alternative energy in our solar. But our main
income and job producers is the petroleum industry or ag.
Either way, you're going to be impacting us.

I travel across the nation, and I look at things
like diesel prices. And if you impose this ten percent --
and I buy my diesel in Oklahoma, you're going to be
charging me 95 cents a gallon more, because every one of
these costs are going to be passed onto me as a consumer. And I cannot afford one penny more in anything. I cannot help support one more homeless shelter. I cannot help one more unemployed family. I'm taxed out.

And I just don't understand why people don't seem to get it. One-hundred percent of nothing is still nothing. When these jobs leave California because I filled up my truck over in Nevada or Arizona and I came over and I picked up my load of fruits, nuts, veggies, whatever, I had 200 gallons of gas. And I didn't have to get gas again until I got back into Nevada. So I didn't pay this precious tax.

So I'm just speaking as a consumer. I know this is a job killer. And until we get these folks back to work, the young men, the veteran this morning said, we need jobs for our veterans. We need jobs for our veterans bad. We need jobs for everyone. And losing them to other states, while it may keep everything okay nationally, it's not helping California. California is destitute without doing something.

I feel like the solution to the problem is let the business owners run their businesses, make a profit. Profit is not a dirty word. Incentivize the individuals who make those profits. And tell the young woman or man who's getting the hand-out or temporary assistance, look
what you can achieve if you try. It's available.

BOARD MEMBER D'ADAMO: Thank you.

Next is Norman Plotkin, followed by Erick Verduzco Vega.

MR. PLOTKIN: Thank you, Board members.


We believe that -- actually, we're deeply concerned that the current climate policy construct will lead to widespread curtailment of domestic oil and gas production. To reiterate our previously filed comments, we were posted on the CARB continuing on the path of adoption of the Cap and Trade Program. As noted previously, as CIPA began the climate change policy journey with the position that market mechanisms most efficiently provide for compliance flexibility, the evolution of our position has been influenced by two irrefutable factors.

First, the emissions numbers. The Legislative Analyst's Office has covered quite comprehensively that enough activity has been undertaken, numerous programs and policies put into place, coupled with the dramatically reduced economic output have allowed us to achieve or at least establish a glide path toward emission reduction targets envisioned by the framers of AB 32.
Secondly, we look at the market design features of the currently proposed program and inherently understand that no matter how well intentioned, they pretend disaster for the economy as a whole and regulated parties specifically.

CIPA asserts again that CARB has met all of the emission targets required by AB 32 and need only eliminate the cap and trade program from the current policy mix to arrive at a combined strategy that satisfies AB 32 and does not set us up for a re-run of the terrible crisis the State experienced last time it embarked upon an untested and Rube Goldberg policy regime.

Having registered our opposition to the cap and trade scheme, we understand you likely have no intention of abandoning this train wreck today. Therefore, we note the following areas of major concern.

While developing a soft start to the Cap and Trade Program, it is a nice gesture in these economic times. The ten percent reduction, known as the haircut, poses potential significant problems for the availability of allowances at the onset of the program when uncertainty is expected to be greatest. At the very least, this will lead to severe inefficiency of the market and will likely increase the already significant cost burdens to industry sectors.
No documentation or information substantiating the need for the haircut has been presented. In reality, the reductions originally planned during the first compliance period now occur up front, instead of staggered over a three-year period.

Also, the reduction in allowances has no relevant air quality benefit or emission reductions. It basically will generate hundreds of millions of dollars for no stated purpose and is a hidden tax on industry.

With respect to the benchmark, other than the initial guidelines on how sector benchmarking would identify allowance allocation to various industries, staff has not provided information on the individual protocols. For example, the proposed oil and gas extraction benchmarks are derived from a process that remains a black box to the regulated community. The generation of these benchmark values cannot be duplicated by the public sector. The methods and protocols used by staff should undergo the same scrutiny -- final note, if I may -- self-generation of -- emissions related to self-generation is going to have a substantial impact on oil production.

BOARD MEMBER D'ADAMO: Thank you.

Next, Erick Verduzco Vega, followed by Edwin Lombard.

MR. VERDUZCO VEGA: Good afternoon, members of
the Board. My name is Erick Verduzco Vega.

I want to talk to you today as the President of the South Bay Latino Chamber of Commerce, which represents about 360 businesses in the South Bay region of Los Angeles County and also as a small business owner myself. Our goal at the Chamber is to foster a healthy economic climate for our businesses. And also very important is to be able to provide responsible growth opportunities for our Chamber members.

With the current state of California's economy, our mission to foster that type of climate has been more challenging than it's ever been before, specifically in my last 11 years as part of the Chamber of Commerce.

As a small business owner myself, I can honestly say that my business, much like many of the other members of our Chamber of Commerce, we simply can't afford an arbitrary price on carbon. We're concerned because even if we, as small businesses, don't have to pay directly for greenhouse gas emissions, we do know that these costs are going to come from the higher energy costs that will be associated with the costs of producing products that we then have to sell to our customers.

We're also concerned because oftentimes in order to stay in the black to remain profitable, these large companies that will be responsible for paying these added
costs, we believe that more than likely they are going to have to cut back on a lot of the purchases of products and services they get from our Chamber members. We're very concerned because it's those products and services that we provide to the larger companies that often are the key elements that help our businesses stay profitable and allow us to keep our employees and even hire more employees.

Right now, the number one priority in the state of California should be protecting and creating jobs, especially protecting those businesses that create those jobs.

I'm very concerned, because quite frequently, I've been getting a lot of requests and I've seen a trend from other states, like Nevada, for example, to attract businesses to take them from California to their state, always claiming that their business climate is friendlier and, hence, more conducive to profit.

We respectfully urge you to correct a serious flaw in your cap and trade regulation before putting even more jobs at risk. Thank you very much.

MR. LOMBARD: Good afternoon.

My name is Edwin Lombard. I'm the owner and operator of Edwin Lombard Management. I'm an advocate for minority small businesses throughout the state of
California.

Today, I'm here representing the Black Business Association and 27 Black Chambers throughout the state.

There is no doubt that a lot of work and time and energy has gone into crafting of the cap and trade regulation that you and your staff have created. And we'd like to commend you on your effort.

But among my stakeholders and people in my community, there is concern that this rule is seriously flawed. The decision to eliminate up to ten percent of free emission allowances will have the effect of increasing energy costs. This is of critical interest to small and minority-owned businesses and communities of color since we spend a higher percentage of our budgets on energy and can least afford even small increases in any cost, especially those for utilities and fuel.

We'll be hard hit when the cost of food, transportation, clothing, and other necessary items goes up as cap and trade costs are passed along because we are the end users. Our small businesses are worried that in order to pay the bills under this regulation, we'll have to lay off workers.

Families are worried about losing paychecks and health care benefits, at the same time, the cost of living will be going up under cap and trade. Small and minority
owned businesses are worried about losing customers who
can no longer afford to buy their products and services
because of cap and trade-related costs increase. It
doesn't appear that the economic gratifications have been
sufficiently explored.

Throughout the AB 32 regulatory process,
stakeholders have been told, "Don't worry. There will be
no cost or economic pain."

I'm here to tell you that we are worried, and we
would like to see you modify this rule to eliminate
sources that create the pain such as the emission tax.

Thank you very much.

BOARD MEMBER D'ADAMO: Thank you, Mr. Lombard.

James Brady.

MR. BRADY: Good afternoon. My name is James
Brady. I'm here representing 100 Black Men of the Bay
Area, as well as my own private business, Continue.

I'm a green business here in Sacramento. And we
recycle universal waste, which is dry cell batteries,
florescent lightbulbs, and compacts. I'm doing my part to
reduce carbon emissions around the state, as well as in my
water supply.

I'm particularly worried about the cap and trade
regulation, because it's clear that the emissions
allowance tax, there will be much higher energy prices and
that businesses will be passing those prices onto their customers. That means I'll not only be paying more directly for the utilities and gas, I'll also be paying more for things I use every day. I want AB 32 to succeed, but not by reducing my businesses carbon footprint to zero because the costs would really put me out of business.

Now, I have somewhat of a unique business in that I don't have to transport anything. So most of the waste that I recycle goes by Fed Ex right out of the state. There is some carbon footprint there, but it's not from me as a small business person.

In the one thing that I want to emphasize is water. I hear a lot of talk about water. And one of the biggest use of water is the utility companies. There is a new technology out called atmospheric water generation. At some point in time, I hear people talking about cap and trade. We need a cap on the tap, because eventually people are going to start revolting because of the price of water going up. And I think that if there was a way, a demand put on water districts and water companies to generate drinking water atmospherically, it wouldn't cost $550 per acre feet to transport water from one location to another.

So I think that we are on the horizons to some things that are going to occur in the next couple years.
And it's already happening in Davis and Stockton where the cities no longer can afford to keep up with the price of water. Therefore, we're going to have to figure out a better way atmospherically to provide and generate water to those people in those communities that can't afford it.

Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

Kassandra Gough.

MS. GOUGH: Madam Chair and Board, my name is Kassandra Gough, and I'm here today representing Calpine. Calpine is the state's largest independent power producer. We're also the largest cogenerator, and we're the largest supplier of renewable energy to the state.

We're strong supporters of carbon regulations at both the state and national level. But I want to emphasize because we're an independent power producer and we sell to load serving entities and municipalities, we are not receiving any free allowances. We're not here today to talk about receiving free allowances, but to talk about some other issues -- well, actually want to sort of receiving some allowances.

Since 2001, Calpine has met the call of regulators and legislators to build clean efficient power plants in California so that we can be independent and not have to import dirty coal. Calpine has invested seven
billion dollars since 2001 to do that. We are currently
today, this very day, employing over 300 construction
craft men and women in Hayward, California, to build a
power plant that's the first in the nation to have a
greenhouse gas limit in its federal air permit. We're
very proud of that.

We support cap and trade, but we urge the Board
and staff to make further refinements to the regulation
that we think will improve it and treat parties equitably.

First on the long-term contract issue, Calpine is
in the position of holding some pre AB 32 long-term
contracts. In our case, these are for combined heat and
power for either sales of electricity and/or steam to
private parties. These are not CPUC jurisdictional.
These are not contracts within Edison, SCG&E, or PG&E.
These are with private parties. In some instances,
they're receiving free allowances for the emissions, yet
we're the obligated party. In others, they're not,
because the other party is too small. These contracts
were drafted in the 1980s, and we would like to resolve
that issue and work with the Board before the first
auction. We need certainty. And the Resolution currently
doesn't have a time frame.

Second, Calpine, as I told you, is a very
efficient company. But we're also very large. And
because of our size and the investment we made in California, we're not afforded the same flexibilities that other market players are with regards to banking, which is a huge cost containment mechanism. Right now, I heard staff earlier today say they had a holding limit and they put that in place for fear of market manipulation. Yet, the six million allowances that you're allowing any party to hold, including bankers and brokers who have no obligation, that's it. You're not tying the holding limit to the size of an obligated entity's emissions. So we are not afforded the same flexibilities. We will have to over-comply and retire allowances earlier.

Again, we urge certainty. We urge the Board and staff not to look at these and monitor these issues. We urge them to take action, before us certainty before the first auction, good, bad, or indifferent. Thank you.

CHAIRPERSON NICHOLS: Oh, sorry. Kassandra, excuse me, before you go, we have a question.

BOARD MEMBER D'ADAMO: I have a question on the language. I know you and I met before this draft Resolution came out. So have you taken a look at page 10?

MS. GOUGH: I have. And I appreciate that they had mentioned auction frequency, holding, and purchase limits. And that's good.

But the language says that staff will work with
stakeholders during the initial implementation of the cap and trade. We had suggested language that would be more specific to say prior to the first compliance -- or the first auction or at least that regulations would be completed before 2013. And I know those were resisted.

So what I read is during the initial implementation, I read that as meaning sometime during the first compliance period we'll get to it. I know earlier discussions with staff was we would re-look at and re-visit the issue for the second compliance period. And we maintained that the holding and auction purchase limits should be adjusted for the first compliance period.

CHAIRPERSON NICHOLS: Thank you.

Tim Tutt.

MR. TUTT: Good afternoon, Madam Chair and members of the Board.

I'm Tim Tutt representing the Sacramento Municipal Utility District. Thank you for the opportunity to speak here this afternoon.

SMUD supports and applauds the adoption of the proposed cap and trade regulation. It's been a great process. And the staff deserves a commendation, even though you asked us not to commend the staff. They've overcome a lot of hurdles in the last year to get to this point.
We look forward to working with you and your staff as the cap and trade is implemented through the market monitoring activities and auctions, potential linkages with other jurisdictions, and other program modifications.

There are four items in particular that we would appreciate you directing staff to work on during the initial implementation of the program. And these are:

Additional flexibility for the procurement of biomethane resources to achieve the zero GHG treatment these resources deserve;

Modifications to remove disincentives for cogeneration contracts. We heard a lot about this today where the GHG allowance costs fall on one party and they're not easily able to be passed on in the contractual relationships;

And continued direction to your staff to consider how allowance policies could be modified to account for the growth of electric transportation, a topic that has not been included in the regulations to date and, thus, remains from your Resolution in December of last year as something for staff to work on and discuss and address.

And finally, continued consideration of greater conformance with the cap and trade and the state's RPS, particularly the 33 percent RPS that was passed by the
Legislature.

As the cap and trade regulations stand, there's a potential for new renewable development in the RPS, eligible for the RPS, that would provide zero GHG benefit to the purchasing entity. That's some thing we want to continue talking about with you and your staff.

That's it. Thank you for your consideration of my comments today. In closing, I just want to say a simple, well-deserved congratulations to everybody. Thank you.

CHAIRPERSON NICHOLS: Bob Reeb.

MR. REEB: Thank you, Madam Chair and members.

Today, I'm here appearing on behalf of Desert Water Agency. The Agency is a retail service water provider for the city of Palm Springs and pays for and receives an entitlement from the State Water Project.

The agency supports the requests by the State Water Contractors for the Board to direct the Executive Officer to allocate an allowance in the future to the State Water Project in recognition of the potential cost impacts of water consumers.

Desert Water Agency is a customer of Southern California Edison, but also a customer of the State Water Project and therefore deserves consideration of an allowance on the basis of fairness and equity.
As a public agency, Desert Water is not allowed to profit from this enterprise. Therefore, any savings resulting from a savings from the State Water Project will necessarily benefit its customers.

Finally, as a side note, Desert Water in partnership with Southern California Edison has installed a 37 and a half kilowatt solar project in one portion of its corporation yard and is currently evaluating an expansion of that facility, continuing its commitment to clean energy, as well as an investment in water conservation programs that will not only reduce gallons per capita per day water consumption, but reduce electricity demand as well. Thank you.

CHAIRPERSON NICHOLS: Jeanne Merrill.

MR. MERRILL: Thank you.

I'm with the California Climate and Agriculture Network. And we are a coalition of sustainable agricultural organizations.

We are farmers and advocates who came together out of concerns for California agriculture's unique vulnerabilities to climate change. We're supporters of AB 32. Many of our farmers wrote letters in support of AB 32 and opposing Prop. 23.

I'm here to talk to you a little bit about offsets and next steps. As we proceed in implementation
of cap and trade, we're concerned about having a plan that
will help California agriculture address climate change
sustainably and effectively.

And we think through offsets that take a whole farm systems approach and full life cycle analysis along with allowance value investments in research, technical assistance for farmers, and financial incentives for those farmers who can't participate in the offsets market are essential components to helping California agriculture begin to address climate change.

We are not there yet as a state. We're the largest ag state in the country, and we have yet to really fully flush out a plan for making sure that California agriculture remains viable and sustainable in the long term. We're very interested in working with the staff and the Board on those issues. Thanks.

CHAIRPERSON NICHOLS: Thanks for your comment.

Brenda Coleman.

MS. COLEMAN: Good afternoon. Brenda Coleman here on behalf of the California Chamber of Commerce.

My comments today are on behalf of Cal Chamber and also the AB 32 Implementation Group, of which Cal Chamber is a member of.

Members, as it stands, we have several concerns there are still several flaws with the proposed regulation
ranging from the imposition of buyer liability to other issues that have already been outlined before you today.

If left unaddressed, these flaws will only exacerbate the current fragile economy that we are facing and ultimately jeopardize the success of the program going forward.

With regard to the haircut, we believe this is an illegal tax that will negatively impact businesses and consumers at a time when they can least afford it.

Arbitrarily with holding up to ten percent of allowances will only put California companies at an immediate competitive disadvantage. It runs contrary to CARB's recognition of a soft start to the program and does nothing to mitigate economic or emissions leakage.

Members, with a twelve percent unemployment rate, it is unwise to ignore the economic impact of the haircut by continuing to move forward with this tax proposal.

We strongly encourage CARB to keep in mind that constitutionally fees must provide a direct benefit or service to the fee payer or be directly connected to a reasonable regulatory program serving the fee payers. Otherwise, these fees are taxes and are subject to a two-thirds vote of the Legislature.

We, therefore, ask if you plan to vote the Resolution through today that you commit to addressing the
design flaws in a way that is consistent with the AB 32 requirements of maximizing benefits and minimizing costs.

We ask you to be cognizant of the fact that every industry sector is hurting, struggling with the nation's second highest unemployment rate. Modifications in 2012 are crucial in order to ensure that the program is ready, functional, and efficacious.

Finally, we believe creating a metric that assesses economic leakage and other economic impacts that may be attributed to the regulation should be made a priority. This will entail reviewing the program on an annual basis, much like what is being proposed under the Adaptive Management Plan. Measuring and mitigating these impacts would send the confident signal needed for successful implementation of the program, as well as successful linkage to future regional and/or federal programs.

Thank you.

CHAIRPERSON NICHOLS: Willy.

MR. GALVAN: Madam Chair and Board members, thank you for allowing me to speak today.

I'm Willie Galvan, State Commander of the American GI Forum, a veterans family organization with 26 chapters throughout California.

Our veterans are very concerned, both in
businesses and others. Most of the veterans live in regions that have high unemployment rate. Now, the regulation being proposed now would require California manufacturers to pay CARB tens of millions of dollars throughout the years. This money could cause companies to stop hiring or even lay off employees. That's why the veterans are really worried. They're coming from Iraq fighting our wars and now looking at unemployment lines as it is now. And with this, they may be looking at more.

We have a lot of veterans working for manufacturers. CARB does not need to take allowances for manufacturers in 2013. They have the necessary reductions included in the declining cap.

We, as the veterans and the local community, ask you to re-think taking money from California manufacturing sector and redirect this money, as it were, to private venture capital into the businesses that would not survive without subsidies.

Thank you very much for letting me speak and to really think about the veterans and our businesses that are hurting at this time because of the economy. But again, think about the tax, then ten percent tax on carbons that will reduce hiring for us. Thank you very much.

CHAIRPERSON NICHOLS: Greg Karras.
MS. MAY: I'm Julia May. This is Greg Karras.
We'd like to switch if that's okay.

CHAIRPERSON NICHOLS: Of course.

MS. MAY: So I'm Julia May of Communities for a Better Environment. I'm a senior scientist at CBE.

We strongly oppose the regulation adoption as shown in our specific comments.

You heard from our many dozens of community members who drove all night from all over California last August to oppose cap and trade. They also protested the severe adverse impacts in communities of color suffered due to the extreme air pollution in California that is not being addressed as required in which CARB has acknowledged could be made even worse by the regulation.

The regulation certainly does not maximize the reduction of co-pollutants as required by AB 32. So we're here again today, and despite promises, the cap and trade regs have not gotten any better. They already failed to address harmful and ineffective offsets, fraud, over-allocation, banked credits in early years causing failure to reduce greenhouse gases in later years and many other issues, one of which was brought up earlier today.

I also wanted to thank -- here's some examples of how it's gotten worse. You've added exemptions. The staff has added exemptions, the worst possible benchmarks
for oil refineries using secret data and changes to the
definition of permanent reductions, so that permanent now
means a finite time period.

    I did want to thank Supervisor Roberts for
brining up the problem of taking money from local
refineries and using that money to pay for offsets
projects outside California. If CARB instead chose to
clean up air pollution right here, we'd get massive public
health improvements and create local jobs.

    For example, if CARB required that oil refineries
replace old boilers and heaters, that would create scores
of great union jobs, reduce millions of tons per year of
greenhouse gases, and substantial co-pollutant reductions
as well.

    This is a straight-forward plan the EJ community
has repeatedly asked for. Ditch cap and trade. Require
local refineries and other industries to clean up and
modernize equipment here in California and keep and create
jobs here.

    Instead, ten days ago, staff proposed this new
Adaptive Management Plan, which has been schlep into the
regulation hiding gaping deficiencies with a completely
inadequate ten-day notice period. This plan is apparently
supposed to take place of actual mitigation for the
potential negative air impacts CARB has acknowledged might
occur due to cap and trade.

The plan is a plan to plan later for the purpose of fixing cap and trade in an unidentified way after a third-party consultant is hired to figure out what to do and after CARB has a conversation with local air districts about how to develop the plan. But you can't adopt an idea as mitigation.

Just to finish, CARB in its own document quotes the fact it may not be able to determine if there is an increase in pollution. And it may not be able to determine whether it was caused by cap and trade or other purposes.

So we really urge you to re-think this. You've added a year on to your enforcement. You have the time to re-think this. Many people have asked you to do so.

CHAIRPERSON NICHOLS: Thanks.

Greg.

MR. KARRAS: Thank you.

I want to highlight two really important points from our comments. We think we proved this. Want to make sure that you understand, because we think it demands that you not adopt the plan.

First, the proposal, as proposed, will exacerbate disparate impacts of pollution on communities of color. You know, I think, and we believe it's proven beyond
dispute, that pollutants do disparately impact some communities in our state. In particular, refinery emissions of GHG copollutants, like particulate matter, disparately expose low-income people of color at refineries in the state. That's proved. And California refinery emissions are the extreme high among U.S. refine regions, even on average. Your staff on the record has acknowledged that fact.

So that higher emission intensity, when it's lower elsewhere and refineries are staying in business, that's unnecessary. Therefore, allowing continued emissions at that level, as your plan would do, would cause disparate impacts, whether or not the emissions increase.

My second point, we believe we proved that the emissions are very likely to increase and by amounts so large that you really can't ignore them.

Refinery emissions are driven mainly by crude quality. Your staff has also acknowledged that's a

driver.

Your staff has also acknowledged that crude quality is changing quickly in the refining sector now. We believe we've shown that your proposal by giving free emission credits now -- emissions credits that are cheaper than the price discounts on dirtier cheaper oil later and
then benchmarks that actually encourage retooling, adding
capacity, making refineries more complex to refine the
dirtier oil, that's almost a done deal.

We've actually done a lot of peer reviewed research. I've done a lot of peer reviewed research. Why? Because ARB and other agencies, our groups, and the environmental justice community had to do it. So we can predict with great specificity how dirty it will be. It depends how dirty the oil gets more than anything else.

We're talking about something in the range of 20 to 50 million tons per year of increased emissions due to your plan. It won't fix the climate. That will overwhelm everything else you talk about doing if you let that happen. It won't work, and it will violate environmental rights.

Please, we urgently ask you -- and it's not too late yet. Rethink this. Do not adopt this flawed, illegal, unjust plan.

CHAIRPERSON NICHOLS: Alegria de la Cruz.

MS. CRUZ: Good afternoon, Chairman Nichols, members of the Board.

My name is Alegria de la Cruz with the Center on Race, Poverty and the Environment.

My organization represents environmental justice communities from the San Joaquin Valley. We remain
dedicated to engage in the process and the best and most proactive way we can to protect our community's public health.

I'm here today to express our opposition to the Board's approval of this regulation. I stand here in solidarity with my union brothers and sisters in our opposition, even if we have different perspectives on our concerns with this rule.

The environmental justice movement has long advocated for direct regulation at the emission's source because those regs create good union jobs. They promote California's green economy and create the situation for a just transition.

They also pave the path for corporations to be good neighbors and protect jobs and public health in communities where they are located.

The risks that working people and people of color will suffer as a result of this program have not been addressed.

And we have given you our best. We have shared with you our personal testimony about the severe health realities our communities face every day. We have provided you some of the best, most cutting edge data and research about cap and trade's failures in every jurisdiction where it has been implemented. Failures not
only to reduce emissions, but also to protect communities most vulnerable to localized pollution impacts. We provided information as to how a trading program will fail to maximize co-benefits to California's green economy. At every step in this process, you have dismissed those concerns.

Only now, ten days before this final approval, did you release an Adaptive Management Plan, which purports to address the health concerns we have raised for years. Given the short time we have had to review and respond, I'm grateful this plan was short and unsubstantive, but it's brevity and lack of substance also speaks to its flaws. This plan recognizes that there is a risk that copollutants and toxic emissions may increase under this program, yet this plan does nothing to address the immediate and imminent threats to our already overburdened community's health.

Instead, the plan adopts a wait and see approach. Combined with its vagueness, its lack of enforceability, and its over-reliance on CARB's discretion as to when the program must be adjusted, this program can not adjust the real and imminent threat to our communities they will face when cap and trade is implemented.

This plan requires CARB find a cap and trade rule cause an increase in emissions and the increase has an
adverse impact before it acts. Yet, in almost the same breath, that plan says it will be very difficult to determine when there is a direct or indirect causal link to the reg. And it will also be very difficult to determine when an adverse impact is caused by the reg. Given these two impossibly high hurdles, an Adaptive Management Plan will certainly not be able to address the impacts we know will happen.

AB 32 requires that you design regulations in a way that does not disproportionately impact vulnerable communities. Similarly, California Government Code Section 11135 prohibits unlawful discrimination by a state agency in its conduct of its program and activities.

A cap and trade program will disproportionately impact communities of color, as they will suffer from the increase of emissions at its source or because of these communities will not equally enjoy the cobenefits of emission reductions.

We believe in AB 32. We worked to draft it, to pass it, to defend it. And we will continue to use all tools we have to make sure its intent and promise survive this process. You have the power to do this right. You do. Please do it.

CHAIRPERSON NICHOLS: Thank you. I'm going to ask you a question, which will extend your time for a
moment.

What exactly are you advocating as a way to protect the refinery jobs that the people here are talking about that you believe will get you the emissions reductions from AB 32?

MS. CRUZ: Direct regulations at the source of pollution -- pollution emissions provides certainty to the industry of how they need to address those reductions. They provide good clean jobs to California's union workers by giving jobs to pipe fitters and folks that need the put those pollution controls at the source.

CHAIRPERSON NICHOLS: You think if we told each refinery to reduce its emissions by a certain percentage that would then get those emissions reductions and no threat to the jobs in those refineries, that the companies would just go ahead and do it and not pass the cost along?

MS. CRUZ: You've heard from our union brothers and sisters today that the plan you have in front of them right now there also create those same risks. The same risks exist that corporations must face in order to move towards a green economy. There are different ways to achieve that goal. We have said time and again that direct regulations at a pollution's source are the way that we can both provide a path to green jobs for California's economy and protect people who suffer from
localized pollution. Thank you.

CHAIRPERSON NICHOLS: Thank you.

Andrew Barrera.

MR. BARRERA: Honorable Chair and members of the Board.

My name is Andrew Barrera. I'm a member of the Los Angeles Metro Hispanic Chamber of Commerce and also on the Board of Directors for the southern region for the California Hispanic Chamber.

In L.A., we're already feeling the effects of AB 32. Through the laws and policies, we have seen a substantial increase in energy costs. The Los Angeles Department of Water and Power already faces enormous costs to comply with the renewable portfolio standard. Example, we already have high rates right now in Los Angeles, and they're asking for higher rates because they need to comply. Those costs gets passed down to us, to the consumers.

We simply can't afford a new emissions allowance tax on top of everything. This is not a case of just basically taxing the large emitters. But those costs travel down to the consumer, to small businesses, and our communities and our families.

Some will argue that they need to put a price on the use of carbon as a conservation measure. But we say
and I say representing thousands of businesses in Los Angeles and in the country that we don't need any such regulation or tax to pull back and to conserve.

We operate on such thin margins. The economy is so tight right now that we're trying to do everything that we can to cut down on the costs so we can survive, so we don't have to downsize, so we can keep goods and services in the community.

And you know, we have a stake in these issues. I know we've come here. I've come here in the past, and it almost seems like it's a ho-hum status quo. I really implore to you that we have a stake. We have real people and real communities that are looking to you for your guidance and direction.

You know, this is not a concept where the whole country, the whole world is participating. It's California by itself. And you, yourself, have acknowledged in the past that cap and trade cannot succeed without a regional effort. And clearly, California is doing it by itself. And it's making our community, our state business unfriendly. We're asking you, please, take a look at us. Just don't take us as a group of people coming in and trying to plead our case.

As a representative of the California Hispanic Chambers, we represent over 600,000 businesses and
hundreds of thousands of family members and millions of consumers.

So I ask you to eliminate this tax. And we see it as an unaffordable increase. And I want to thank you very much for your patience.

CHAIRPERSON NICHOLS: Thank you.

Julian Canete.

MR. CANETE: Thank you, Madam Chair. Good afternoon.

Julian Canete, President, CEO, California Hispanic Chambers of Commerce.

As you know, as I’ve said in the past, we’re supportive of the reduction of greenhouse emissions. But as you know also, we have been concerned about the costs of the implementation of AB 32. And in reviewing the proposed cap and trade regulations, our concerns have increased.

In particular, by putting a price on emission allowances, you are, in effect, imposing a multi-billion dollar energy tax, not just on the regulated entities, but all businesses and consumers in the state, small and minority owned businesses, which make up the minority of our businesses, will suffer the most as they operate on very narrow margins. As my colleague said previously, on very narrow margins to begin with. Because of this new
energy tax, they are likely to have to lay off workers, who in turn will lose the wages and benefits upon which their families depend.

This agency has always maintained that to be effective, a Cap and Trade Program must be part of a regional multi-state effort, but the other states in the Western Climate Initiative have decided not to go forward at this time in order to protect their economies. This will put our businesses at even a greater competitive disadvantage than we are already at.

The Scoping Plan acknowledges that California, acting alone, cannot materially impact worldwide climate change. Under the circumstances, forging ahead with a California-only cap and trade policy that includes arbitrary fees for emissions allowances will be a little more than expensive, but an effective gesture that will further harm our businesses, our communities, and our economies.

The California Hispanic Chambers of Commerce urges you to eliminate these superfluous costs before finalizing a cap and trade policy.

Thank you for your time.

CHAIRPERSON NICHOLS: Thank you.

Alex Esparza.

MS. SOLISE: I'm Silvia Solise here for Alex
Esparza today. And Alex and I are here on behalf of Mayor Antonio Villagairosa, Mayor of Los Angeles.

We would like to thank the Board and particularly the Chair's leadership in showing that California can blaze the trail and showing that it is possible to establish ambitious emission reduction goals while ensuring a fair and equitable Cap and Trade Program that minimize impacts on electric rate payers, particularly low income customers.

Mayor Villagairosa remains committed to working with you and the Brown Administration to achieve the 33 percent renewable portfolio standard to transition away from coal and increase energy efficiency programs throughout the city.

While we realize that further refinements will be made in 2012, we are confident that the Board will work closely with the L.A. Department of Water and Power and other stakeholders to resolve any remaining issues so that this critically important program may commence without further delays. The Mayor strongly supports the Board's adoption of this AB 32 regulation after addressing remaining concerns of interest to the Department, which you will hear about in more detail from Cindy Montanez and Cindy Parsons of the Los Angeles Department of Water and Power.
Thank you very much for listening.

CHAIRPERSON NICHOLS: Thank you for your testimony. Would you please convey to the Mayor also our appreciation from the city's efforts on climate as well.

MS. SOLISE: Yes. Thank you.

CHAIRPERSON NICHOLS: Good afternoon.

MS. MONTANEZ: Good afternoon, Madam Chair and Board members.

I'm Cindy Montanez. I'm here on behalf of the Los Angeles Department of Water and Power.

I just first have to start by saying we greatly appreciate the very thoughtful leadership that you have consistently provided throughout this process and this proceeding. There is no question that you set the stage for historic reductions in greenhouse gas emissions in California.

You have much to be commended for, and I personally must say that I'm very proud of the city of Los Angeles and that the Mayor continues to stand very strongly in support of AB 32.

We remain steadfast in our commitment to do our share to reduce statewide greenhouse gas emissions back to 1990 levels. L.A. DWP emissions have been reduced by 20 percent from 1990 levels. We achieved our 20 percent RPS goal in 2010 and continue to evaluate the most cost effective measures to reduce our emissions in the years to come.
effective means to move away from coal, increase reviewable energy, and aggressively pursue renewable energy efficiency measures to help the State achieve its AB 32 goals.

L.A. DWP appreciates the tremendous amount of work that's gone into the development of the regulation by each one of the Board members, the ARB staff, other agency staff, and many other stakeholders. We submitted written comments on both 15-day packages.

First, we support the administrative allocation of allowances to the electric utilities. The allocations combined with the existing State mandates and goals for coal transition, RPS and energy efficiency will set parameters for L.A. DWP to transition its resources and dramatically reduce its greenhouse gas emissions in a manner that is much more sensitive to our local rate payers, many which come from low-income communities.

Second, we support the option for publicly-owned utilities to directly surrender allowances to ARB for compliance. This will save the administrative cost of consigning to auction and purchasing back the same allowances with no environmental benefit.

We appreciate the course you have taken. There are two issues that we would kindly ask be further examined prior to adoption.
First, we ask that the resource shuffling provisions in the regulation provide greater clarity so it reflects our mutual interest to incentivize early divestiture of high-emitting sources. In particular, L.A. DWP would like certainty that divesting its ownership interest in the Navajo generating station in Arizona will be treated as an emission reduction and not be considered resource shuffling.

We appreciate the language that's in the Resolution right now that provides directive for us to continue to work with the Executive Director and with the staff to ensure that the regulation does not discourage an early transition from coal, but that we are able to come up with something that works for all of us.

Second, L.A. DWP has concerns with amendments to the definition of electricity importer. As both a regulated provider and a transmitter of energy for others, we are concerned that the shifting of the compliance obligation from the entity that owns the electricity that's being imported to the entity that's physically scheduling the power has broader implications if possible unintended consequences for specified resources. Cindy Parsons from the L.A. Department of Water and Power will get more into that issue.

Finally, I just want to thank you for the
opportunity you've given us to make sure that L.A.'s voice has been heard. We do think L.A.'s voice has been heard in this proceeding. We look forward to continuing to work with you, because we understand the success of the AB 32 is very much dependent on the success of Los Angeles. The more emissions that we are able to reduce, I think the more success we are going to have. We take our responsibility very, very seriously. And we look forward to strengthening our partnership with the Air Resources Board.

CHAIRPERSON NICHOLS: Thank you.

Cindy Parsons.

MS. PARSONS: Good afternoon. My name is Cindy Parsons with the Los Angeles Department of Water and Power.

As Cindy Montanez mentioned, I'm here to bring to your attention issues that we have identified with regards to the definition of electricity importer and the consequences that has on how electricity in ports are treated.

The second 15-day package, there were some revisions to the definition that shift the point of regulation from the owner of the electricity to the scheduler or the transmission provider. This change seems contrary to the point of regulation that was recommended
to ARB by the CPUC and CEC, which was the first deliverer point of regulation is the entity that owns the electricity as it is delivered to the grid in California. The point of regulation was vetted at the Energy Commission for over a year, and they rejected proposals that made schedulers the point of regulation and went with making the owner of the electricity the point of regulation.

For the past three years, during development of the cap and trade regulations, everything has been designed around the first deliverer approach based on ownership. It seems strange that it would be changed at the very last minute like this.

Changing the definition of electricity importer by deleting three words, "holds title to" and substituting "delivers" make all the difference when it comes to who is responsible for reporting the import and satisfying the compliance obligation.

Here are a few examples of issues created by this change: Allowance allocation.

Allowances were allocated to each utility on behalf of their customers. If utilities are not responsible for reporting their own imports, some utilities will be over-allocated and other entities will have to cover those emissions.
The cap and trade regulation requires each utility to be in compliance with the reporting regulation in order to receive their annual allocation. If electricity is reported by another entity, it is outside the control of the utility. And if that other entity is not in compliance, could that prevent the utility from receiving their annual allocation?

These are just a few of the problems created by the revision to this definition. In addition, this change was proposed during the second 15-day package and was not vetted before it was incorporated into the final version of the regulation. L.A. DWP asked the Board direct staff to either stick with the original point of regulation that was recommended to ARB by the CPUC and CEC or work with stakeholders to fully explore the consequences of changing the point of regulation before changing it.

If I may just finish.
Keep the door open to fix this issue next year.
And if you have any questions, I'd be happy to entertain them. Thank you very much for your consideration.

CHAIRPERSON NICHOLS: Thank you. No questions. Thanks.

Jake Alarid.

MR. ALARID: Good afternoon. My name is Jake
Alarid. I'm the past National Commander of the GI Forum. I'm also on the Board of the Latino Institute for Corporate Responsibility. I live in Whittier, California, L.A. County.

The California Air Resources Board will vote today on new regulations that will cost energy producers and energy intensive industry millions of dollars if they want to continue to operate in California. This new rule, part of CARB's implementation of a cap and trade system under AB 32, will require large energy uses to purchase emission allowances to stay in business and provide the fuels, products, and services essential to our every-day lives.

We are not opposed to a well designed Cap and Trade Program as an element of California's greenhouse gas emissions reduction strategy. However, we have significant concerns that the rule currently contemplated by the California Air Resources Board will increase energy costs and lead to losses of businesses, jobs, and economic activity. This directly contradicts not only the requirements under AB 32 that such regulations must minimize negative economic impacts, but also the Governor and Legislature's stated goal of preserving and creating jobs as the most important means of fueling our state's economic recovery.

The rule as written includes unnecessary ten
percent reduction in the amount of carbon emission allocations for major industries. That means refiners will be required to purchase a ten percent emission at a significant cost. This so-called haircut is an unjustified and not needed to meet the cap. By forcing trade exposed industries to purchase up to ten percent of emission allowances, CARB will be, in effect, imposing a new tax on regulated entities. We believe this tax will lead to a dramatically higher energy cost that will harm virtually every sector of our economy.

Refineries that process mainly heavy high sulfur, crude oil, receive crude oil via pipelines from California and both foreign and domestic crude oil by tanker via the Port of Long beach. Refineries produce a high transportation fuel such as gasoline, diesel fuel, and jet fuel. Other products include fuel-grade petroleum coke. Refineries also produce California Air Resources Board gasoline using ethanol to meet the government mandated OSH ten requirements. Refined products are distributed to customers in southern California, Nevada, and Arizona by pipeline and truck.

With twelve percent unemployment in California, we cannot afford businesses shutting their doors and moving their businesses to another state. Thousands of currently employed people could be affected by losing
their job, not to mention the domino effects on small businesses and communities as people become unemployed.

As past National Commander of a veterans organization, I'm also concerned on veteran unemployment, especially Iraq and Afghanistan returning veterans. This state of California needs to retain its workforce, create more jobs, and bring businesses into California and maintain its business competitiveness. Thank you.

CHAIRPERSON NICHOLS: Thank you, sir.

Tim Maples.

MR. MAPLES: Thank you very much for having this opportunities.

I'm a member of the Western States Petroleum Association. I'm employed by National Oilwell Varco out of Houston, Texas. We have operations in Bakersfield, California.

It's kind of ironic to see who's on what side of the issue. I notice that the municipalities, the geothermal plants, and the hydro electric plants are over here, and us bad guys are over there that do the fossil fuels.

Basically, what I want to say is that our company is a job provider. We just purchased a Los Angeles-based company for $770 million, 2900 employees. And they produced my little company back ten years ago for a nice
figure. As an entrepreneur, I had a nice chance to grow my business. I had 19 employees. And I think that is what's at stake here.

It's kind of troubling to me to see that the carbon offsets that we're going to be debating and the haircut I keep on hearing about, that these boats that come into the Long Beach harbor and L.A. to be off-loaded, they don't have the constraints. They don't deal with the same issues that we do.

We need to keep our domestic production and our domestic energy policy to help the economy of Bakersfield and of California. We are the highest generating revenue base in the state through fuel taxes and local, state and local taxes and city taxes.

When you put your fuel in the car, I know everyone knows here that we are also supplementing the green technology. We pay for one of the largest wind farms in the Tehachapi area in northern Kern County. We also have one of the largest geothermal facilities just north of us at the China Lake Naval Weapons Center, geothermal project.

We are very, very conscious of what's going on. We want to be in support of growing California, growing jobs. Thank you very much.

CHAIRPERSON NICHOLS: Thank you.
MR. LARREA: Good afternoon. John Larrea with the California League of Food Processors.

I want to thank you, first of all, for inviting us to be able to comment here.

The California League of Food Processors is a trade association representing fruit, vegetable, and dairy processors in California.

And just to keep it short, I wanted to let you know that we do echo the concerns of both the Cal Chamber and the AB 32 Implementation Group in terms of the incompleteness of this particular regulation at this particular time.

It's best to remember that industries like ours, the medium-size industries, are the job generators for California. We are going to have to generate jobs in order to get out of this recession. If AB 32 continues to go over the next four or five years, we're going to have a very difficult time increasing our processes as well as eliminating this. And it's going to cost us a lot of jobs and a lot of money.

That said, I just want to say that the regulation for us is still incomplete, and there still seems to be a misunderstanding how this is going to impact ag and food processing. One of the examples is the NAICS code. Food processors are still lumped together under a three-digit...
NAICS code. That means you're putting seasonal processors such as fruit and vegetable, lumping them in with meat processors and dairy processors that operate on a 24/7/365 day operation. These are completely different operations, and you cannot lump us all together just in one. You need to understand what the differences are in our industry.

Secondly, on benchmarks, we have been working a year-and-a-half now with the staff on coming up with a new benchmark. We've shown them why the old equation didn't work, and we presented new equations there. But we have yet to establish benchmarks for industry that represent our actual operating procedures out there.

The original benchmarks, which are set way too high at 85 percent, are not reflective of California, nor of the nation, where this it was supposed to be going in the first place. So we need to establish that again.

Finally, on our leakage risk, we've been set at a medium leakage risk. This means we are going to be increasing our costs for each compliance period. You've got to remember, we operate in some of the highest unemployment areas in the state. These people are not facing twelve percent unemployment. They're facing 18 to 24 percent unemployment. These are communities of 5,000, 15,000 people where if we end up throwing hundreds of thousands of dollars away on allocations means that we may
end up losing 50, 100 people. And that ripples down to those communities.

The food processing industry represents less than one-half of one percent of the total emissions in California. And that's based on the most recent data that's just been posted by here.

And we feel that you need to understand our industry, and you need to understand the impacts of AB 32 and specifically of the cap and trade on us before you roll us into this. It may be a better idea to move us into this on 2015 as we have one of the largest natural gas users here. This will give us time to understand the industry and what the impacts are going to be.

Finally, I would like to thank the Board because you will be taking up another study to study our industry. And we are appreciative of that. It just goes to show that really you need to understand the industry before you put us into this.

CHAIRPERSON NICHOLS: Thank you.

Emily Rooney.

MS. ROONEY: Good afternoon, Madam Chair and members of the Board.

My name is Emily Rooney. I'm here with Agricultural Council of California.

Ag Council is a public policy association
representing approximately 15,000 farmers ranging from farmer-owned businesses to the world's best known brands. Many of our members will be participating in cap and trade. And our members participate in global and domestic markets and routinely work to improve their environmental footprint. Not only are the consumers demanding it, but it's also the right thing to do.

Ag Council has been working with staff through this process, and we still have a few outstanding issues. The benchmarking issue that John just recently cited, but also we are concerned that the cost containment measures in this regulation are not strong enough. In fact, a price floor of $10 per allowance we think is counterproductive to some of these efforts.

But our biggest concern for this effort for this regulation still remains the same as it did in December. We believe the food manufacturing industry should be moved from a medium to a high leakage risk category due to the international domestic market competition and the inability to pass on costs.

That said, Ag Council supports the language in Resolution 11-32, page 11, that allows staff to take a deeper look at food manufacturing. And we look forward to collaborating with staff on that project.

Thank you very much.
CHAIRPERSON NICHOLS: Thank you. Appreciate the collaboration that's been ongoing here.

Jeff Clark.

MR. CLARK: Good afternoon. My name is Jeff Clark, Secretary/Treasurer of the United Steelworkers Local 5 in Martinez, California. We represent approximately 1800 workers in the refining and petrochemical industry, including Chevron, Shell, and Tesoro refineries.

We rise in opposition to the proposed ten percent reduction in credits. We don't need to provide any encouragement in this industry to encourage refining companies to import finished product. We've already seen the impact of importing finished product on the east coast. There are currently three refineries on the east coast that are up for sale and if they are not sold in the next few months will be closed.

We think there is a direct correlation to the level of imported finished product and those refineries futures. We think the reduction of the ten percent credits would only encourage refining companies to import finished products into the state of California. We think it's an economic issue for the state, and we think that the importation of finished product will put jobs in jeopardy. We encourage you to reconsider the ten percent
reduction in credits.

I would like to say on my own personal opinion, not speaking from an organization, I was interested in the concept that was mentioned by Dave Campbell who's the Secretary/Treasurer from Local 675 about exploring options for the top ten percent that you're considering eliminating. And I think it's a good discussion to have about possibly finding ways to make sure that those aren't turned into profit and those are turned into meaningful, environmental, and safety changes for the workers in those facilities. Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

BOARD MEMBER BERG: Madam Chair, may I ask him a question?

Mr. Clark, could I just ask a question quickly? I've been working on this ten percent quite a bit, even from when we voted in December.

But as I've learned, we're looking at a range here of companies that, of the ones that you mentioned, some that will actually do very well and have some allowances to sell to some that are short. And it's causing a problem. So if we eliminate the ten percent, just for sake of argument, we're not going to eliminate the problem that you're talking about, because those that are doing well will do better and those that are having
problems will just have a little less problems.

MR. CLARK: I agree.

BOARD MEMBER BERG: So don't you think part of
the problem is addressing the gap? And maybe I -- I mean,
I'm sure we're going to have a lot of discussion about
this. But it really isn't the ten percent itself. It's
really the gap between those that came out well in the
formula versus those that are really short in the formula.

MR. CLARK: Correct. I think that's why you
don't see those that came out well in the formula in the
room today. We would encourage --

BOARD MEMBER BERG: But again, time after time,
we've heard let's just reduce -- let's just get rid of the
ten percent.

I would submit to you that this group up here if
we were to vote to get rid of the ten percent, these
members would go home happy, but the problem wouldn't be
resolved. So that's all I'm trying to say.

MR. CLARK: I agree with you. And we would
strongly encourage you to reconsider this whole ten
percent issue and the whole disparity you're talking
about. We would love for you guys to take more additional
time to consider this. And we'd be happy to continue to
be part of the process.

I know the steelworkers have been. We have a
good history of working with Blue Green Alliance. And we'd love to be part of an ongoing discussion of this issue in particular as it relates to refineries.

BOARD MEMBER BERG: I understand what you're saying, and I don't want to belabor the point. But again, it isn't just the ten percent. I think we're just looking at the gap. And I'm sure the Board will have lots of discussion about it. But I just want to make sure that I understood the issue. Thank you.

CHAIRPERSON NICHOLS: Okay. Mike Rogge.

MR. ROGGE: Mike Rogge with California Manufacturers and Technology Association. We are members of the AB 32 Implementation Group and endorse their comments regarding the elements of the rule that would unnecessarily raise costs on manufacturers, put them at a competitive disadvantage, and lead to economic and environmental leakage.

I especially want to highlight how those new costs will impact the future of California manufacturing. We have already difficulty attracting manufacturing investment into the state. We have data from a national survey firm that tracks level of investments in new or expanded manufacturing facilities across the country. Between 2007 and 2009, the average rate of investment across the country was $1,335 per
resident. But in California, we were only able to track $235 per resident.

This is far less than our fair share. We have 11 percent of the U.S. manufacturing force, but we attract only 1.3 percent of new U.S. manufacturing investment. If we want to retain manufacturing jobs, we need to improve this rate of investment. We can't count on venture capital investment to make up the difference.

Since 1995, we have been getting more than 45 percent of the country's venture capital. But this has not been translating into manufacturing jobs and investment in California. We believe that the high cost and the difficult business climate is the reason for the low rates of manufacturing investment. Additional burdensome costs from an overly expensive cap and trade will further discourage new investment just when we should be sending a strong signal that California wants manufacturing jobs and investment.

We recommend that CARB not approve the rule until issues that would raise costs on state manufacturers are resolved. Thank you for the opportunity to speak today.

CHAIRPERSON NICHOLS: Thank you.

Berman Obaldia.

MR. OBALDIA: Good afternoon, Madam Chairwoman, members, Mr. Goldstene. Good to see you.
Berman Obaldia representing the California Hispanic Chamber of Commerce.

You've heard testimony from some of the other members of the Chamber earlier just a few minutes ago.

What I'm here to do is echo the sediments of what my colleagues have said, but also enter into the record a statement by David Lizárraga, one of the preeminent hispanic business leaders in the only in California but throughout the country. He was unable to attend due to keeping his business in shape, but wanted me to convey his thoughts via his letter that will hopefully be entered into the record.

I'm speaking on behalf of the David Lizárraga, past president of -- he's the President of TELACU, also the immediate past Chairman of the United States Hispanic Chamber of Commerce.

"First, I'd like to commend and your staff on your efforts with respect to implementing AB 32. This is a monumental tasks, and your actions will have far ranging impacts throughout the California economy. That is why extreme care must be taken to ensure that the Cap and Trade Program you adopt does not have a price tag that will make California dire economic situation worse and ultimately doom the policy to


failure.

"As you know, other U.S. states in the Western Climate Initiative, as well as the federal government, have decided to postpone action on cap and trade because the cost to businesses and consumers would be too high.

"There seems to be a significant disconnect between this conclusion and the direction of the California-only cap and trade proposal.

"Since California is going it alone, we should do everything we can to make cap and trade as affordable as possible.

"With all respect, the proposed emissions allowance fees would do the opposite by adding the arbitrary costs that does nothing to directly take into account the investment that providers and users of that energy would have to make in order to comply with the cap and pass along to their consumers along with the emissions allowance fee.

"As is the case with any regressive tax, the emissions fee will hit hardest those least able to afford it.

"As I said earlier, I wear two hats:
The business hat of the Chamber and the business and nonprofit hat of TELACU. In both situations, I represent a significant segment of the community that suffers from disproportionately high unemployment and faces unique economic challenges.

"With the state budget growing by the hour, there is no pressure -- there is more pressure for higher taxes, while at the same time there are fewer and fewer resources available in the social safety net, which is increasingly strained. This is not the time to impose dramatically higher energy costs. As proposed, that is what this cap and trade regulation will do.

"We hope you will seriously consider doing away with the emission allowance fee to create a fair less costly policy.

"Thank you for your consideration."

CHAIRPERSON NICHOLS: Thank you. I'm not quite sure what the emission allowance fee you're referring to. Does anybody? No. There's an AB 32 fee, which is a separate item we're going to be considering.

Lori Bateman.

MS. BATEMAN: Hi there. My name is Lori Bateman.
I work for Valero, but I'm not actually representing Valero.

I've been at the refinery in Benecia for 23 years in operations as an operator. I support continuous improvement of our state as an environmental world leader in emissions reduction. I have even put solar panels on my house. However, I don't support jeopardizing my jobs for what will likely be a net negative effect on climate change.

In calculating the effectiveness of AB 32, the agency cannot take credit for the emissions improvement as a result of a California refinery getting shut down. The loss of production means that we need to make up the difference with foreign fuel from other states and countries that don't have our strict environmental regulations.

That's what I mean by negative effect on climate change. A refinery with some of the lowest emissions in the world gets shut down and its production gets replaced by gross polluters elsewhere in the planet. A loss of a refinery in California due to AB 32 must reflect as a black eye on the agency and in no way a victory due to the calculated emission reductions from the refinery being shut down.

Proposition 23 didn't pass because environmental
groups slandered us by saying that we're Texas big oil
showing pictures of big black smoke billowing from the
refinery. You know we don't operate our refineries like
that.

We're just California citizens desperate to keep
our jobs in a collapsing economy. I'm a single mom, and
know jobs like mine just aren't out there. If AB 32 is so
onerous it causes California refineries to leave, it is a
negative impact on the environment and the California
economy. I, like my co-workers, am scared. I wish that
more of the USW was here. We're scared you're going to
regulate our employers right out of business and our
families and communities dependent on our industry will
suffer for nothing.

Regarding the comment ConocoPhillips made $14
billion last year, why can't it invest some in reducing
emission and saving jobs? My reply: I'll -- just at the
Benecia refinery, we've put in more than a billion dollars
just to invest to get in compliance with CARB regulations.

Refineries in California are money pits.
Companies can keep dumping their profits in these money
pits as they already have to comply with California
environmental regulations, or they can pull out of
California and invest in refineries elsewhere where
they're not penalized and are more profitable. That's
what we're all afraid of. Thank you.

CHAIRPERSON NICHOLS: Gary Gero.

MR. GERÖ: Good afternoon, Madam Chair, members
of the Board. Thank you very much for this opportunity.
I take note of its historic nature.

I'm Gary Gero, the President of the Climate
Action Reserve. We are a greenhouse gas registry with
over ten years of experience and nearly 500 offset
projects in our system, having certified some nearly 20
million emission reductions at this point. We talk from
real experience about the role of offsets.

And I think the important thing -- we've heard a
lot about offsets today. I think one of the most
important things is not, in fact, the cost containment
mechanism, although that is very important. But these are
real emission reductions that occur at unregulated sources
throughout the economy. And offsets give you that
opportunity to go after those places where you're not
going to regulate or simply cannot regulate and actually
achieve real emission reductions. I think that's an
important point to always remember.

We've also heard some comments about offsets
supply and we have some experience in this regard. We've
done our own projections based on the projects in our
system. I can tell you from our projections we believe
that the four protocols alone are sufficient to meet demand in the first compliance period.

Now, that said, I think for robust supply and for varied supply, we certainly urge you to adopt additional high quality standardized performance-based protocols that have gone through a public process.

One of the key things I really want to talk about today is program integrity. And we talk a lot about the importance of integrity of emission reductions. We view ourselves as an environmental organization. And I make these comments jointly with the verified carbon standard association with whom we've had some relationship.

Offset registries provide the on-the-ground experience to oversee and review both projects and verifiers. It's our job to actually make sure that what is occurring is real.

And in that regard, we believe that registries should held to a very high standard. In fact, as high a standard as verification bodies themselves, if not higher. In particular, we think that ARB can and should actually improve the regulation, strengthen the regulation to ensure that registries meet very high financial, competency and conflict of interest standards.

Finally, let me just say this is -- and started with this -- historic moment, not only for California. We
are building the new green economy. And this is going to create new jobs and new opportunity here in California. We will be a leader. But also around the world. We spend a lot of time talking about people around the world. And every day, we hear about the California experience. People want to know what we are doing. They are looking to us leadership and saying if California can do it and demonstrate it's doing it correctly and actually getting the job done, they, too, will emulate. I think we will see California's leadership here drive regional action, national action, and international action.

CHAIRPERSON NICHOLS: We have one more witness who's not on the board but he signed up with the Clerk, Eric Emblem.

MR. EMBLEM: Good afternoon, Board.

My name is Eric Emblem. I'm here representing the Joint Committee on Energy and Environmental Policy. This was a Committee put together by the California locals unions of the Sheet Metal Workers National Association. We represent 25,000 workers who work for 600 employers throughout the state. We have 15 training facilities located geographically throughout the state. And we are here today to testify in favor of the cap and trade regulation as you proposed it and suggest you pass it.

We also realize that any regulation and anything
we put in place can be improved upon. There is no such thing as the perfect regulation. And moving forward, you know, we want to work with you on improving that.

Our stake in this -- and we believe very strongly this is a job creator and not a job taker, is going to be in the efficiency field and in transforming these industries that are going to be challenged at first, but forced to become efficient in the second stage to create jobs. Those jobs are going to effect all of the workers whether it's manufacturing or construction or efficiency. We feel strong that by implementing this now that we're going to send a message.

I agree with a lot that's been said here. The automobile emission standards started in California. They rolled out across the country and across the world. The Title 26 and the building energy efficiency standard started here in California and they moved out across the country.

I, too, believe this cap and trade, as you're going to vote on, will do the same. It's going to be a job creator. It's going to be good for the economy, good for the environment. It's going to take a while. We're here to support you. Thank you very much for all your hard work.

CHAIRPERSON NICHOLS: Thank you. That is the
last witness as far as the list I have is concerned. Does anybody know of any others?

If not, I think we're going to close the hearing, and I will ask if you have any final comments. I'm sure the Board members are going to ask a lot of questions and we'll be engaging in some interaction. If you want to add any concluding remarks at this stage, you're welcome to.

EXECUTIVE OFFICER GOLDSTENE: Only to say we've been listening carefully and look forward to Board discussion and will do our best to respond to any questions.

CHAIRPERSON NICHOLS: I'm going to close the record as far as this agenda item is concerned and let people know this is it as far as documents or testimony for the record.

I think what we should do is actually turn to the Resolution then. I believe everyone has copies in front of them. And we should probably just to keep this formal process have a motion and a second, and then we can start looking at amendments that people may want to add to the Resolution, if that's okay.

Dr. Balmes.

BOARD MEMBER BALMES: Do we do the main Resolution first?

CHAIRPERSON NICHOLS: We do have the approve the
Resolutions in order I believe. Correct.

CHIEF COUNSEL PETER: We're going to do the environmental evaluation first before we can start talking about approving the project.

CHAIRPERSON NICHOLS: Correct. Okay.

BOARD MEMBER BALMES: How about ex partes?

CHAIRPERSON NICHOLS: Yes. Good point. At this point, do we have ex partes people want to or need to disclose? All right. We can start down at the far end.

No.

BOARD MEMBER BERG: Yes. I'll go ahead, Board Member Berg.

On October 13th, I had a call with WSPA. And I will turn in the names for you.

On October 17th, I met at Ellis Paint Company with Calpine.

On October 18th, I met with ConocoPhillips, PG&E, and I had a call with CCEEB.

On October 19th, I had a call with the State Water Contractors, with the independent energy producers, and with NRDC, the Union of Concerned Scientists. Thank you.

CHAIRPERSON NICHOLS: Dr. Balmes.

BOARD MEMBER BALMES: Yes.

On September 29th, I met with Gary Gero, Climate
Action Reserve. And we talked about pretty much what he just testified about.

On October 14th, I had a call with CCEEB. Participants were Bob Lucas, Mik Skvaria, and Lisa Rodriguez.

I also had a call that day with WSPA. Participants were Mike Wang, David Arrieta, Lloyd Garcia, and Barbara Cornio.

October 17th, I met with Stephanie Williams of ConocoPhillips and also that day with PG&E. Participants were Dean Kato, Kate Beardsley, and Mark Krausse.

CHAIRPERSON NICHOLS: Okay.

BOARD MEMBER D'ADAMO: October 5th, meeting with State Water Contractors. Participants were Curtis Creel, Tim Haines.

October 11th, call with Gary Gero from CAR.

Same day, Stephanie Williams with Conoco.

October 13th, call with WSPA. Participants were Kathy Reheis-Boyd, Mike Wang, Barbara Corinalio.

Same date October 13th, call with LS Power,

Jennifer Chamberline and Lisa Rodriguez.

October 14th, meeting with Calpine, Kassandra Gough and Barbara LeVake.

October 14th, call with CCEEB, Bob Lucas, Mik Skvaria and Lisa Rodriguez.
October 18th, I testified before the Rural Caucus Committee in Fresno. And at that meeting, the Ag Council and California League of Food processors, a number of others from the public where we had a dialogue about the food processing provisions.

October 18th, call with PG&E, Dean Kato, Kate Beardsley.

October 19th, call with Independent Energy Producers, Steven Kelly, Jan Smutny-Jones.

And then October 20th, University of California Tony Garvin.

CHAIRPERSON NICHOLS: Supervisor Roberts?

BOARD MEMBER ROBERTS: I have a few to report.

On October 6th, I had a meeting with Stephanie Williams and Chris Connors representing Conoco Phillips.

October 7th, I met with State Water Contractors, including Curtis Creel, Tim Haines.

And on October 12th, I met with Brian Prusnick, San Diego Gas and Electric; Frank Harris, Southern California Edison; and Kate Beardsley, PG&E.

CHAIRPERSON NICHOLS: Ms. Kennard, none.

Dr. Sperling.

BOARD MEMBER SPERLING: October 13th, a call with Calpine. Number of people there that included actually someone from Lockheed, Cassie Gillson, I guess.
October 14th, a call with CCEEB, Bob Lucas, Lisa Rodriguez, Mik Skvaria.

October 19th, a meeting with PG&E at U.C. Davis, Dean Kato, and Kate Beardsley.

And a phone call on the 19th with WSPA. And I forgot to write down who was on that phone call.

CHAIRPERSON NICHOLS: Well, as the only full-time member of this Board, you can appreciate that I have met with the vast majority of the people that spoke before us today. In fact, if you didn't meet with me, there's something wrong and we should have had a meeting before today.

But in all seriousness, my calendar is public record and it will be part of the record if anyone wants to look at it. But I did have extensive discussions with really all the groups that are affected in one place or at one time or another. And I think I have a pretty good sense of both the hopes and the fears and concerns and where we are today. And I appreciate all the people who educated me about some of the very thorny details that we've worked our way through.

So with that, I think we can probably deal with the responses to comments and the -- on the functional equivalent document proposed findings and so forth. Do that all at once.
BOARD MEMBER D'ADAMO: I make a motion that we adopt that Resolution.

BOARD MEMBER D'ADAMO: Second.

CHAIRPERSON NICHOLS: Second.

Any further discussion on that piece of this? If not, all in favor say aye.

(Ayes)

CHAIRPERSON NICHOLS: And then we can move to the major piece here, which is the Resolution, which will direct staff as to what we want to see them do next with respect to this program.

So if you would like to begin, anybody? I have a couple of things, but Sandy, you look like you're ready to jump in.

A couple of areas where it seems as though we have continuing concerns. One I know Supervisor Yeager raised with me during the break is about the need to harmonize our State and local programs. I don't know if you had any specific language on that that you wanted to propose.

What was recommended by the air districts I think was mainly that we tell you to keep talking with them, but also that we direct you to come back and report. Maybe we should park that along with some other issues in the come back and report category where you know people are seeking
more than just a statement of good intentions on our part to keep communicating or keep working on something, but actually want to have the Board set deadlines for things to be completed.

And I think -- although I'm sure if I were in your choose, staff, I would not like that. I think it's probably healthy that we do that just to keep all of us on our toes. So you could be thinking about whether it was April they were proposing that we get a progress report on how we're doing with the districts. I believe that was the language that was presented.

EXECUTIVE OFFICER GOLDSTENE: I think they wanted actually February. I think in their proposed language it said first quarter.

CHAIRPERSON NICHOLS: First quarter. You're right. Sorry.

EXECUTIVE OFFICER GOLDSTENE: I'll just read the language that they proposed.

"The Board further directs the Executive Officer to report back periodically to the Board on the nature and extent of this partnership, with the first report due in the first quarter of calendar year 2012."

I don't know if you want to go --

CHAIRPERSON NICHOLS: Is that acceptable?

EXECUTIVE OFFICER GOLDSTENE: I'm not sure what
they mean by nature and extent of the partnership. We'd like to report on the work we are doing.

    CHAIRPERSON NICHOLS: You could say the state of the partnership is great.

    EXECUTIVE OFFICER GOLDSTENE: There is no issue. We're planning on keeping the Board involved.

    CHAIRPERSON NICHOLS: I think the concerns now are down to some pretty basic issues that will affect people who are participants in the market as far as permits and what's going to be in the permits and what's going to come to ARB. I think that's what I understood they were primarily concerned about.

    EXECUTIVE OFFICER GOLDSTENE: Both on the permitting and adaptive management.

    CHAIRPERSON NICHOLS: And implementing the adaptive management.

    EXECUTIVE OFFICER GOLDSTENE: We committed to working with each other very closely.

    CHAIRPERSON NICHOLS: I'm sure it's going to affect the resource allocations.

    EXECUTIVE OFFICER GOLDSTENE: Right. That's what we would report back to you on.

    BOARD MEMBER D'ADAMO: I think this goes without saying, but my interest there is streamlining the process, one-stop shop. Local air districts that are dealing with
them on permitting anyway, that's the whole point behind it.

I hope this doesn't go to the local districts and then they have one division over here and they're not talking to each other. So the whole idea is to facilitate this for those that are getting the permits.

EXECUTIVE OFFICER GOLDSTENE: Well, we'll do the best we can. We're not involved in the permitting process, but we want to make sure that the Title 5 permits reflect a particular entity might have to comply under the Cap and Trade Program.

And we also wanted to make sure that the districts are able to work with us on the adaptive management commitments we're making to monitor this.

CHAIRPERSON NICHOLS: I think it's a good idea to just put this in as a quarterly report on specific progress that's being made on issues. And that will give everybody the incentive to keep moving on it.

There is another --

BOARD MEMBER ROBERTS: Chairman, I don't know who authored this strike-out Resolution, but there is a lot in it that I thought --

CHAIRPERSON NICHOLS: I'm not sure.

BOARD MEMBER BALMES: I think that's WSPA.

That's who gave it to me.
CHAIRPERSON NICHOLS: I don't know.

BOARD MEMBER ROBERTS: I gave reference to the surveillance and marketing or monitoring --

BOARD MEMBER BALMES: That's a whole other set of issues that Dr. Sperling raised about reporting back to the Board about the economic situation, monitoring the market. He brought that up in the context of the adaptive management bifurcation Ms. Chang mentioned.

BOARD MEMBER ROBERTS: I didn't mean to interrupt, if you want to keep the flow going. But I thought we want to pick up on some of those things or at least discuss them.

BOARD MEMBER BALMES: We definitely need to discuss those.

CHAIRPERSON NICHOLS: Okay. I just started because -- if you all would like to take a break for a few minutes before putting your thoughts in order, that would be okay, too.

BOARD MEMBER BALMES: It's actually PG&E, not WSPA. Sorry. Both on the same day.

CHAIRPERSON NICHOLS: I don't have that document. Somebody else is going to have to put it in front of me. I had another one on page 11 where we have "be it further resolved" with regard to the waste to energy situation. And on that one, I believe they were looking
for a time deadline for the additional information to come
back to the Board to deal with their issue. And also
they're looking for assurances that we're going to be
reviewing all the best science that's available. And I
think that would be something that I would recommend that
we try to accommodate. It's not -- I know that they were
looking for some very restrictive language about peer
reviewed science and so forth. I don't think that's
necessarily a good idea. But I do think that we should
make sure that they understand that we are going to be
studying these issues. And we are going to be looking to
use the best science that's out there.

BOARD MEMBER D'ADAMO: I have a comment on that
one as well.

CHAIRPERSON NICHOLS: Sure.

BOARD MEMBER D'ADAMO: Just to reference life
cycle emissions, I think that's what they're looking to
do. And for whatever reason, that term of art is not in
the Resolution. Staff have any --

BOARD MEMBER BERG: Madam Chair, on that issue,
it does appear to me that some of the things that we are
talking about that there might be some philosophical
differences between the way we see them fitting into cap
and trade and the way they see themselves either not
fitting in.
So maybe the staff needs to come back to us on specific areas and with our rationale for how we are including them and how we see it fitting into the broader picture and how we're either going to help them bridge the gap they seem to have or come back to say that in studying the issue and looking at the life cycle analysis that there is a case that is credible not to include them. Because what I keep hearing from the waste to energy people is they shouldn't be included or they should be given free allowances.

And I think one of the things that we need to all understand, there is only 100 percent of the allowances available. And they've all been allocated. So when we talk about giving a little here or giving a little there, we then have to talk about who we're going to take them away from. So not that that isn't an appropriate discussion. It's just we can't forget that.

CHAIRPERSON NICHOLS: No. I appreciate that. I liked the language that was in here before. And I've had some discussions about this in the past I know with some of you about the need to work with CalRecycle and others to have a broader view of emissions reduction opportunities in that area. And that moves over to the ag sector. It's a much bigger issue than just these municipal waste burners.
Re-litigating the issue about how good they are versus other options just continues an old fight, which we probably can't do anything to resolve anyway.

I'm not intent on making changes to this language, other than I think that we should add something about using good science while we're doing it and probably setting a deadline for ourselves to bring this back to the Board again. But may be the second quarter. Summer. June.

DEPUTY EXECUTIVE OFFICER FLETCHER: Yeah. I think the language is fine that's being proposed, and we would propose to change that both in there is a whereas clause as well as a be it further resolved clause. So we would make the appropriate changes in both of those.

And it is a broader issue looking at not just the waste to energy, but also the competitive issues associated with what's creating their problem, which is landfills are not necessarily in the program either. So the solution to this may be part of this comprehensive evaluation.

So it is a complicated issue. We have responded. I think the comment was made that we didn't do the analysis that the Board had asked us to do originally on this issue. And in fact, we did, which led us to the conclusion that we came to.
But that is the analysis they would like to have re-evaluated. We're willing to do that. And I think using the best available information is the key there and working as well closely with both the stakeholders and CalRecycle. And I think we can come back with a recommendation in the summer.

CHAIRPERSON NICHOLS: That sounds good.

BOARD MEMBER BERG: But just to clarify my point, Madam Chairman, I'm not asking for things to be re-reviewed or the old arguments to be rehashed.

But what I am asking for is that we can kind of draw a line in the sand so as a Board remember I recognize what has been resolved and what we're looking at going forward.

CHAIRPERSON NICHOLS: Right. I just had one other thing that I needed to raise as a resident of Los Angeles and customer of L.A. DWP. And that is, I still don't understand this issue about the point of regulation that was brought up here today. And I don't know where we are or why. But I really appreciate an explanation on that one.

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: So the issue that PG&E is raising -- L.A. DWP is raising is regarding who is the point of regulation for imported power.
In the regulation, we removed the term "title" specifically because it's not our concern who owns the electricity, but who's actually the first deliverer. So we, in fact, did workshop this. We had talked to L.A. DWP after we put out the 15-day language and said well, we did workshop this. And they said, fair enough. We understand that. But this presents a problem for us, and we didn't realize it at the time of the workshop.

The issue that comes about is that L.A. DWP would have to be on the hook for power that they deliver to Glendale and Burbank. And that essentially means that somehow they have to figure out how they are paid back for complying with the regulation on behalf of the electricity they serve to Glendale and Burbank.

We believe that the POUs have a lot of opportunities in the regulation for flexibility. There is potentially the ability for Glendale and Burbank to cosign their allowances at auction and use that to pay back L.A. DWP. And potentially there's other options.

But we're certainly committed to moving forward and looking at how our definitions affect the electricity market. We need to be cognizant of how this is going to impact markets moving forward. And in fact looking at what's happened in the past isn't always the best indicator of what we're moving forward since we're adding
cap and trade.

So we'll continue to work with them and try to determine if there are solutions that allow them to comply. And if not, then we have to come back and make recommendations.

CHAIRPERSON NICHOLS: So if there is a need to attend the actual regulation, what was the reason for the change in the first place, I guess?

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: The problem with defining the importer as who owns the power, means it's not exactly obvious to individuals who the owner of the power is when a transaction happens at what they call trading node which is physically located outside of the state. But that power comes into the state where we have jurisdiction.

CHAIRPERSON NICHOLS: All along, their attitude has been we want to deal with it when it crosses our border.

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: That's right. There is ambiguity between who owns the power between that where the trading occurs at some trading hub and when it's actually delivered to the California grid. So instead of relying on who owns the power, we rely on another mechanism, which is, the first deliverer is who is listed on the ETAAC when it crosses
state boundaries. That's the purchasing and selling entity as listed on this document that's generated when it crosses balancing authorities. For L.A., they're the scheduling coordinator. By default, that puts them on the hook for the emissions associated.

CHAIRPERSON NICHOLS: So what's the mechanism for them to get compensated by Glendale or Burbank or anybody else?

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: Presumably, they have a contract as a scheduling coordinator. And that contract is to provide services. That could also include the cost of compliance for cap and trade. Burbank and Glendale are receiving free allowances for the electricity they serve their rate payers.

CHAIRPERSON NICHOLS: So they have the ability to do that.

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: Right. It's not a cost impact issue. It's simply they need to consign the allowances.

CHAIRPERSON NICHOLS: The mechanism needs to be created?

CLIMATE CHANGE PROGRAM EVALUATION BRANCH CHIEF CLIFF: That's right.

CHAIRPERSON NICHOLS: I think we need to stay on top of this, because anything that changes the way the
electricity market works is something we need to be worried about.

I agree we don't have the answer to it right at this moment. But hopefully we can direct you to report back on how we're doing on that issue as well. Certainly before the program launches at the end of next year, this is something you need to have squared away.

I know there are other big issues that have been presented, but I think other people had things they wanted to bring up. So I don't need to continue to go on here. I'm open for further changes.

Ron.

BOARD MEMBER ROBERTS: I'll start. You won't be surprised what I'm going to start with.

I understand the time constraints we're on. But I remain very apprehensive over this water issue. I know staff has done a good job.

We have a situation that they're saying here we're going to have a fee here, and we're going to give a rebate there. Okay. It's like saying, okay, we're going to tax the number of kids you have and we're going to give you a rebate on the number of pets you have because we think there's some correlation. It doesn't necessarily line up at the end of the day. In this case, I don't think it's really lining up regionally, nor is it when it
breaks down.

And I want to see a different solution. I said that last December. And you know, I know there is a lot of work being done on this. I don't think this is such a good solution that we couldn't come up with some other ideas. And virtually has been offered since then.

I'd like to see some very strong language in the Resolution that is going to direct a lot of -- not just energy. It's going to give us the opportunity to craft something that is going to work.

You've heard testimony from virtually all of southern California here today. To hear from the San Diego County Water Authority and MWD, both on the same sides of an issue hasn't happened in about a century. I think there is a message in that.

And I'm concerned. I don't want to throw a wrench in everything today. And I want to be able to vote for this, because I really believe in the bigger picture.

But as I said, the devil is in the details. So that's one of my concerns.

I'm concerned about the cogen issue, especially with respect to the universities. DeeDee has got some ideas on that. CAPCOA has expressed some interest in some language, and I want to see if there is a way to accommodate that.
CHAIRPERSON NICHOLS: I think that was --

EXECUTIVE OFFICER GOLDSTENE: We're going to take
the CAPCOA language on the --

CHAIRPERSON NICHOLS: I think we're okay on that
one.

EXECUTIVE OFFICER GOLDSTENE: The periodic
reporting and the first --

BOARD MEMBER ROBERTS: I think we're all aboard
on the Market Monitoring Board and the Market Surveillance
Committees. I don't know if that's reflected in the
Resolution right now. But to have those done and a
commitment to the market simulations I think is extremely
important. And I think there needs to be some reference
to those things.

So those are some of the openers that I'm
concerned with.

Let me, if I can, make a statement. The last few
weeks I've been at a couple national conferences, and it
was really an eye opener. I'm concerned a little bit
about what I hear that there seems to be in some quarters
a belief that you just set regulations and it's going to
make your economy better. I don't believe that for a
minute.

And I would also tell you that having been to a
conference, one on intelligent highway design and public
transit just the last few weeks, the enormous amount of work that is going on directly effecting this issue. I was thinking back to our SB 375 hearings and some of the comments that were being made. And it's in the absence of seeing where the world is going, I have a feeling there is going to be a lot of others bringing solutions. Maybe it's going to make this heavy lifting not so heavy and the final analysis to reach those goals because of other changes going to be made.

But I do think we need to -- even in the absence of the western states -- step up and do some things. But I wouldn't just assume that because we have a regulation that's going to mean a robust economy.

In fact, the one thing I would tell you I think as compared to maybe when we were in the air pollution infancy, the issue that we're on here today, I would say a disproportionate amount of the research is going elsewhere. A lot of the creative thinking is going elsewhere. And the University of California maybe because of some of the changes and challenges they've been faced with might not be the Citadel of all knowledge as he once was. I would like to see that change, all due respect.

BOARD MEMBER SPERLING: Blasphemy.

BOARD MEMBER ROBERTS: Just a lot of the papers that we were seeing, a lot of things that are being done,
the focus is not California, irrespective of if you adopt
this or not in terms of things that are going on.

I'm a little concerned. I'm concerned when I
hear people are worried about their jobs. We went through
an energy deregulation once. And what we found out it was
like a wildfire of California crisis. It just didn't
work.

I want to make sure that we have braking
mechanisms inside of this internally in those reviews that
are happening often enough. And we're able to respond
quickly enough, but we don't want that to happen again.

Early on, we had somebody from the PUC testifying
that we can remedy things. Well, they weren't able to
remedy anything when we went through that particular
crisis. And they may have forgotten, but I'll tell you,
in San Diego, we haven't forgotten. There's things of
that nature.

And I think maybe with the periodic review and
the review being often enough and we're really taking a
look at what is it doing to the average guy and the
average business out there that hopefully we can make
adjustments if they are needed. But not to be blind to
them and just be the brightness of this bigger picture
obscuring the fact there may be people on the ground who
are being effected in a significant way.
So I don't know how to roll all this into a concern, but I thought I'd list some of the things.

CHAIRPERSON NICHOLS: Sure. I think you've raised a number of the issues that everybody is concerned about and done it in a very cogent way.

We are on the cusp of doing something that's very important. Every time you make change or do something, you always run a risk, because there's always going to be some unintended consequence that you could not possibly foresee. And the question is are we smart enough and have we designed a system well enough so that if those consequences turn out to be not good because some of the things we don't foresee are going to turn out to be better than what we thought they were able, then we have the ability to take action. I don't think that's something that should be assumed, because I, too, lived through the California electricity crisis and saw what it took when people were desperately trying to deal with it.

It's actually kind of ironic that some of these power contracts that we're dealing with here that people came in to talk about are ones that they have because of that situation. And now we're at a point where they're going to have to be changed and re-negotiated if we are going to do justice going forward.

So there is that constant tension between sending
a clear enough signal to the market that people can and will continue to invest versus being able to be flexible when you actually need to be flexible. That's sort of the high art of policy design here. And we're definitely at a very high stage when it comes to that. So all we can do is just kind of keep working at it until we get it as polished as it can be.

I do want to say that I know it's sort of easy to draw a contrast. But this really is a situation where the people who have the inventions, who have the ideas, and who have the businesses that want to find ways to succeed in terms of efficiency and renewable energy and clean tech are waiting to be told this can happen, because California is going to be open for business. And those who are apprehensive, what that means is it's going to take something away from them.

And it's true in a way that if there are costs to emitting carbon, those are going to initially be seen by the people who have the carbon that has to be controlled.

But what we're trying to do with this program is to swiftly move the point to where those funds are going in the direction of the benefit of the consumers and the businesses themselves who are able and willing to invest in the new.

And I, by the way -- this is not a bash -- not
bashing the petroleum industry, because you know, oil companies are investing in renewable energy companies. They're investing in new technologies. They are giving money to institutes and universities so they can stay on top of what's new out there in the world of technology, because they're as smart as anybody in the world about how to go about using chemicals or microbes or algae or anything else to generate fuels that don't require petroleum resources or that don't use carbon.

So this is not about winners and losers in that sense. It's only about trying to construct a system in which the technologies that have the most promise for the future have an opportunity to compete and get on board and giving enough time for that to happen. And that's what we've been working with here.

Hopefully, because this program does ramp up slowly over a period of time, and we have time before we start it to deal with some of the specific issues that have been raised here, I think we have can be in a pretty good comfortable position that we've gotten as much done that needs to be done to compete this stage of the rulemaking process.

But I still want to hear from people about specifics they want to have in the Resolution.

BOARD MEMBER SPERLING: To bring it back to that
suggestion by PG&E where they went through very carefully through the Resolution and marked it up, I'm not sure I agree with all of it because they added a lot more specificity to it. But I think some of that is a good idea.

I think -- so any way, I'm bringing it up more. I don't have a strong view, except that I think that more oversight is a good idea and more mechanisms of oversight that are more -- a little more formal and a little more transparent is a good idea.

BOARD MEMBER BALMES: If I might just add a brief comment here and then turn it over to someone else.

Virtually every stakeholder that met with me in the last couple weeks brought up that they wanted more Board oversight as this was being rolled out, because it's so tricky, so new, and so scary to some. And I told them all the same line as a professor in the U.C. system I'm not afraid of information. I mean, we can get information overload sometimes. But as long as it's quality information, I think we should be looking at the economic impacts. We should be looking at how the market is operating.

And I think the Board should be involved. Because this is -- as we've heard today, this is a very important issue to various sectors of the California
population. People are worried about their jobs. Companies are worried about their businesses. So I think it's our duty as Board members to stay on top of this. There is a political responsibility for us to do that.

CHAIRPERSON NICHOLS: I agree.

We've already talked about having quarterly reports back from staff before we even get the program launched. And I think that will probably need to continue, you know, on a regular basis going forward.

BOARD MEMBER SPERLING: Chairman Nichols, on that point --

CHAIRPERSON NICHOLS: Yes.

BOARD MEMBER SPERLING: I think that instead of quarterly reports overall, I think what would be valuable to the Board and most useful is reports on specific issues and topics. Because every time we get a general one, it's superficial about everything. And it would be I think much more useful.

So there would be one -- it could be one on market oversight or could be one on offsets. So it could be one on some aspect of the electric utilities.

But this is going to be a long process. Many year process that we're going through. And I think of that as it's part of the educational. It's partly being transparent. But that would be a more effective way than
just a general briefing every now and then.

CHAIRPERSON NICHOLS: Yes. Oh, I agree. I didn't mean general briefing. Sorry. I assumed we'd have assigned topics. But that's a good amendment to my suggestion. Absolutely.

DeeDee.

BOARD MEMBER D'ADAMO: I was going to say just that. So I marked up my Resolution. On any comment where it had to do with a report back, I just put T for time. You know, we've got to come back in a certain amount of time.

And one of the things that I'd like to find out more about. I know this is going to create a lot of workload for staff. I like your suggestion, Dan, about coming back in subsections. But during the 2012 time period, there's going to be some simulating going on; right? And staff will be developing even more information as they run these models through. And I just think that, getting back to what you said, Madam Chair, about this sort of tension between trying to guard against unintended consequences but then also providing for certainty. I don't mean to upset certainty as we go forward. But if you have information, why wait until the second compliance period.

Because that's what I kept hearing from a lot of
stakeholders. They don't want to wait until the second compliance period if we have information say, for example, on holding limits, purchase limits or the various mechanisms that we have there. So I think if we can get that information back to us sooner, with the idea as we go through to develop additional mechanisms for flexibility and also to address some of the inequities that have been raised. Because that's another common theme. Inequities not intentional, but just as the program works out.

And one example that comes to mind is the situation with Calpine. In an effort to prevent market manipulation, you have a company that has a large compliance responsibility. And maybe there is a little bit of inequity there because what they need for compliance may push up against what the purchasing limits are or holding limits. And that's just one example.

And now that I'm here, I'm going to quickly go through, because I don't want to have to take up a lot of time later.

I absolutely concur with Supervisor Roberts about the State Water Project. I think we need to deal with that and come back in a time certain.

And with respect to the University of California, I know we've talked a lot about this. But I really like what they've proposed in terms of creative solution, 125
percent. Maybe if we keep negotiating with them we could get a little bit more. And I would like to see if we could explore that further to come up with a creative solution.

I can't help but to think of just the university in my own backyard, University of California Merced. There is no cogen. It is LEED certified, gold certified, and it is setting the tone for the entire valley. Why not get the universities to push up their commitment even further in terms of reducing emissions and also doing additional research and state-of-the-art things on campus. That just really I think helps to spread what we're trying to do here. So I'd like to continue discussions about creative ways of getting them in compliance, but also dealing with some of the challenges they've had.

And then just want to quickly mention food processing. I think we had a good outcome in the Resolution. I'm very comfortable with it. And just wanted to make my commitment to continue to work with that group. And as I talk with food processors, it's just one other example, like with all the covered entities, about the challenge we're going to have with compliance. And if the technology is not there, then we have to have offsets.

And that brings up the other point, and that is I really would like to see us come back time certain to talk
about offsets, new protocols, what's the status, what's in the cue.

And then also want to continue to do some work on the forestry protocol now that we have some additional information, white paper that CAR has put out. I think offsets -- if we had more offsets and, of course, we need to have offsets with integrity, if we had more offsets, I think we wouldn't be hearing as much or as loud from some of the sectors that are going to have to comply.

CHAIRPERSON NICHOLS: Okay. Additional, Sandy? John?

BOARD MEMBER BALMES: So I'm surprised that Supervisor Roberts didn't bring this up again, because I thought his idea this morning about how to deal with the differences in impacts on different size refineries was something he was going to bring up again. I thought it was a good idea.

BOARD MEMBER ROBERTS: I was looking back at my notes, there was a couple things I missed.

BOARD MEMBER BALMES: I was very impressed with the testimony from the steelworkers. And I'm sensitive to the fact that we don't want to see a refinery or several refineries close down was a result of this program.

And you know, I'm not here to debate about whether ConocoPhillips can afford to use some of their
profits to fix the refineries or pay the allowances. But I do think that Supervisor Roberts' ideas of using some of the revenue generated from the current allowance mechanism, allowing that money to go back to ConocoPhillips and other small refinery -- medium to small refineries.

CHAIRPERSON NICHOLS: They're not a small refineries.

BOARD MEMBER BALMES: When they lobbied me, they said they were a boutique refinery. I thought that was pushing it a little bit. Smaller than Chevron.

And you know, I do think that the idea of having some of the allowance revenue go back to the refineries so it can make improvements to reduce greenhouse gas emissions is a good idea. And I realize that we probably can't put that into the Resolution precisely today because we want to move forward with the cap and trade.

But I strongly think we should look at this, because I think it would be a mistake for this program to be associated with refinery closings at its start. Whether that would be true or not, I think there would be other factors aside from cap and trade costs, I don't think it would be good for the program. We need public support for the program. And we need a group like the steelworkers that has been involved with the Blue and
Green Alliance, has been there trying to support AB 32 not be as impacted as what I'm hearing.

So there is a second for Supervisor Roberts.

BOARD MEMBER ROBERTS: Thank you.

CHAIRPERSON NICHOLS: Okay. Great.

Sandy.

BOARD MEMBER BERG: I have three issues other than the ones that my fellow Board members have brought up. And I'm supportive of all of them. But I think all of the things I'm bringing up could be resolved under the market simulation project. And that is I'm concerned like Board Member D'Adamo about the holding limits and the purchase limits. I'm hoping during those market simulations they will hopefully be looking at those very large obligated entities. And as they go through the auctions, at each auction what they're going to need and how they're going to be moving their allowances through their accounts and what does that mean for the market and the price. And so that would be one issue.

The only thing I'd like to say on the long-term contracts, it seems to me that any utility that we're giving free allowances that have contracts that deal with people that are purchasing allowances on long-term contracts, that we should have some sort of negotiation ability to help them and strongly encourage them to
resolve that. So if you're getting free allowances, that should be something we should be able to do.

If it is with a utility that's buying auction, buying their allowances and the other people are buying their allowances, they got to work that out. But the ones with the free allowances, I think we should be able to really help out that along.

I'm comfortable with language in the Resolution. I'm not asking for anything more. I'm asking for you to be strong with those that we're giving free allowances to.

And then, you know, on the industrial side, I'm really hoping that the simulation will also -- you'll be able to look at the gap. I think the gap in between those that are very efficient and are for all intents and purposes except for the cap reduction are made whole versus those that are far below and have a large shortfall in the first compliance period could be problematic. It could be problematic in the pricing of goods, the competitiveness. It certainly is problematic with a perception.

So I'm hoping that through the next six months as you're really looking at scenarios in this that you can really determine if we have the gap right.

I don't think sitting up here and suggesting we go eight percent or five percent or some other formula is
going to be helpful at all from my perspective as a Board member. But I'm concerned about whether we have the gap correct. And I would really appreciate if staff would continue to look at that and continue to make sure that we aren't disadvantaging within an industrial sector the haves and the have-nots or the needs to improve more and the good guys, the guys that have improved all along.

I also would appreciate the reporting back on a more regular basis. And I support my colleagues in very specific reporting topics, so that my head doesn't swim with trying to remember which topic we're talking about. Thank you very much.

BOARD MEMBER YEAGER: Just a few comments.

I appreciated what Chair Nichols was saying about working closely as we do with the air district partners. And I know she had mentioned including the language that they had proposed and would certainly support that.

Also appreciated what Board Member D'Adamo said about the regular updates. And I'm particularly concerned about leakage. And if it looks like some businesses will begin leaving California. And I think with the periodic updates and not waiting until we're further out to try to get an understanding what's happening it's going to be important.

I guess it's going to be hard to know how fast we
can actually shift policies when we need to if we're finding out that businesses are leaving, how fast can we adapt? Is that information you would try to get back to us as soon as possible? Or how do we know it's being monitored as closely as we believe it should be?

EXECUTIVE OFFICER GOLDSTENE: We're going to do all we can to track economic trends and data and do what we can to be very alert to and aware of any disproportionate impacts that this regulation or any of our other regulations has on businesses. There's always a tension between regulating and going for the environmental benefit again and the cost.

So we will do our best to keep you posted about what's going on, just like we did with the truck rule. So we're planning on providing updates to you regularly, even if you didn't want us to. But I'm glad you all want us to. Because this is so large and so important. And particularly as we get the program rolling, what we had envisioned is regular updates about where we are in the process. And then maybe to Professor Sperling's point, also picking out certain areas that we can highlight to give you longer, more in-depth updates as we go through the years.

So I think you'll be hearing back from us quite regularly in 2012, because that's where the bulk of the
work is going to be done immediately to get the program up
and running.

BOARD MEMBER YEAGER: Thank you.

BOARD MEMBER SPERLING: Since we're leaderless
here, let me fill the vacuum here.

One big idea that just occurs to me is that
everything we're talking about are unintended
consequences, equity impacts, economic impacts,
environmental impacts. It tends to be it's either impacts
or kind of negative things that might happen. And a lot
of this comes back around because we're thinking of this
from a regulatory mind-set.

What we need to also be thinking about is how are
we stimulating innovation? Because that's the real point
of all this. This is a market instrument we're talking
about with cap and trade. And I'm not quite sure exactly
where I'm going with this yet.

I can imagine there should be someone at ARB kind
of like a Chief Technology Officer, Chief Innovation
Officer that is overlooking this and saying, okay, is this
really working in terms of stimulating innovation and new
technology and new ways of doing things that reduce the
emissions in a cost effective way? And we haven't talked
about that. That's not the language we've been using.

But that is what cap and trade is all about.
So I mean, I don't want to propose a new position or a new report necessarily, but I think I guess I'd like to ask the staff to think about that a little bit about how we might look at this in a more positive way that, you know, that really is market-oriented that really is innovated-oriented.

EXECUTIVE OFFICER GOLDSTENE: Most of the time, we do have that view. The work we're doing will lead to innovations that we have not even thought of yet and that we'll need to track and pay attention to. Similar so what we're doing, for instance, on the low-carbon fuel standard, for instance, because we are going to be coming back in December to give you an update and make some changes to the rule. That rule has had an effect on how companies are thinking about creating, inventing, blending their fuels. We expect something very similar and broader under this program as well.

STATIONARY SOURCE DIVISION CHIEF COREY: This is Richard Corey.

I just wanted to add a little bit to James' comments as well. I was actually thinking along the same lines with the discussions with the Advisory Panel and the low-carbon fuel standard. One of the things we're looking at is the flow of venture capital and the responses in terms of investment in biofuel and trying to understand
what's going on, what the direction of industry is. I think that kind of look as we move forward and is useful in the form in the long view.

And I think also something will play into this. Another piece of the puzzle in terms of the kind of encouraging innovation is looking at the energy audit and co-benefit regulation. And the specific actions that the industry -- some of the largest industries in the state actions they're planning over the next several years, many to reduce GHGs and other co-pollutants as well and looking at those specific actions and seeing if there are some relationships with the signals with the relationships here.

EXECUTIVE OFFICER GOLDSTENE: Professor Sperling, you want to direct us to report back to the Board about the effectiveness of the program and innovations or other things that come out? Because we don't have anything in the Resolution on it.

BOARD MEMBER SPERLING: I would suggest that. But it would be in the language of how is this simulating investment and innovation, is the way, you know, to express it.

BOARD MEMBER KENNARD: If I could, thank you. I just want us to kind of step back a bit, because we are really charting new ground here. And it's
never been done before. And the world, the country, and
the world is looking at what we're doing. And I want us
to be very clear that we do not have all the answers.
There will be missed steps. As hard as the staff has
worked, there will be unintended consequences, as Chairman
Nichols said.

And I think the role of the Board is to be at
that 50,000 foot level and leave it up to the staff and
the communities who will be very engaged, as they have at
this point.

But I'm worried about our Board being so engaged
that there is just too much to be done and we're not
seeing the forest through the trees.

So you know, all this is fantastic. But I'd like
us to really focus on these initial stages and get them
right before we layer on all these other requirements and
thoughts. It's all good. But we're just at the initial
stages. And I think, as a Board, we have to be very
conscious of the burdens that we're all putting on the
staff to get this right.

BOARD MEMBER BALMES: I don't disagree with
trying not to overburden the staff and us and having to
digest multiple reports.

On the other hand, as I said, the stakeholders
that came to talk to me wanted us to be involved in the
process. I don't think it's because they distrust the
staff. But because this is such a new program, it's so
important, as you just alluded to, they want to make sure
that we get it right.

And so I think there is a balance between
micromanagement from the Board, which we don't want, and
having the Board stay appropriately involved so that we
can provide stewardship to launch this important program.

EXECUTIVE OFFICER GOLDSTENE: We will strive to
find the right balance.

BOARD MEMBER D'ADAMO: And I will say, since
we're kind of killing time here. I don't know where our
Chair went.

I'll just say -- I was just going to wrap -- I
agree with Dr. Balmes. I heard from a lot of stakeholders
and just want to extend that as we go forward for folks to
feel comfortable to contact us. I would only ask it not
be the week before an item. It's good to get involved
early on. And if that helps, as far as the stakeholders
are concerned, you know, just having additional access
points. I think a lot of us want to be there for you.

CHAIRPERSON NICHOLS: I think it's definitely
going to help. I think that when this whole program
started, the Air Board had no experience working with
these kind of issues at all. It was a pretty steep
learning curve.

But people came up very quickly. And in particular, you know, with some of these big regulations that we got involved with, people have really gotten the whole picture of it all.

Do we need to take a brief break for the staff to actually write up language to deal with these specific points that have been made, or are you -- would you like to do that, to take 15 or 20 minutes to work through this are you ready now? What do you want to do?

DEPUTY EXECUTIVE OFFICER FLETCHER: I can attempt to summarize what I think I've heard on conditions to the Resolution.

CHAIRPERSON NICHOLS: There's only one that -- I'm sorry. I stepped out of the room. I was in a place where I could listen. I didn't hear whether this came up with respect to the PG&E. I did not see. Was that discussed?

DEPUTY EXECUTIVE OFFICER FLETCHER: No, but I can address that.

CHAIRPERSON NICHOLS: Okay. Because there's parts of it I like and there's parts that I think they're just out of line. We're all in agreement.

DEPUTY EXECUTIVE OFFICER FLETCHER: You can start by telling us what you like and then --
CHAIRPERSON NICHOLS: Well, I could do that.

What I liked was the language about the market monitor and the language about market simulations. And I guess the further be it further resolved and on page 2 and the be it further resolved, the Market Surveillance Committee. I like those, too.

What I did not like was the specificity on the allowance price containment reserve. I just don't think we should have to do that now. We might at some point in the future. I don't like all the specific language about what's to be in the annual report, because we've just said we want to be monitoring all these things more frequently than that anyway. So you don't need an annual report if we're going to do it on an ongoing basis.

I particularly don't like the injunction to have all the issues about natural gas solved before March of 2012. I don't think that's necessary either.

BOARD MEMBER BERG: How about the specificity on the actual make-up of the Committee?

CHAIRPERSON NICHOLS: Yeah. We probably should allow the discretion to make up the Committee as we see fit. I don't think the Governor would appreciate that.

EXECUTIVE OFFICER GOLDSTENE: Chairman Nichols, maybe at the break is go through and make sure we capture this properly.
CHAIRPERSON NICHOLS: I think that would be smart actually.

EXECUTIVE OFFICER GOLDSTENE: We also have some rough draft language for the water issue which we need to --

BOARD MEMBER ROBERTS: Actually, I had some, too.

CHAIRPERSON NICHOLS: Well, the two of you ought to talk.

BOARD MEMBER ROBERTS: Maybe if we just took a couple minutes.

CHAIRPERSON NICHOLS: Why don't we give ourselves a 15-minute break. Let's just make it 4:20 when we come back. Okay.

(Whereupon a recess was taken.)

CHAIRPERSON NICHOLS: We're ready to resume, if you can take your seats.

During the break, the staff was doing a lot of writing and having their shoulders looked over at various points by some of us. But I think it's time now that we go back and ask Bob Fletcher to run through the changes that they would propose to make to the Resolution in response to what we heard here today. And also highlight other features of the Resolution that we may not have focus on that respond to some of the things here, also.

DEPUTY EXECUTIVE OFFICER FLETCHER: Every one of
the "be it further resolved" is lovely, but I don't think I'll go through all of those.

I'm going to start, and I'm going to follow the order of the Resolution. And I will give you the suggested changes that staff has come up with on each of those.

So we start with on page 10, you'll see in the middle of the page there is a one and a two and a three. And essentially these are directing the Executive Officer to continue discussions and then identify and propose potential amendments to the regulation, including but not limited to the follows areas:

We're proposing to add a new number four that deals with water. And it would read, "Distribution of allowance value associated with cap and trade compliance costs from using electricity to supply water and the expected ability of the allowance allocation and other measures to adequately address the incidents of these costs equitably across regions of the state."

BOARD MEMBER ROBERTS: Would you read that one more time?

DEPUTY EXECUTIVE OFFICER FLETCHER: Sure. And I'll try to be clear.

BOARD MEMBER ROBERTS: For the benefit of the court reporter.
DEPUTY EXECUTIVE OFFICER FLETCHER: This would be a new number four, and it would read, "Distribution of allowance value associated with cap and trade compliance costs from using electricity to supply water and the expected ability of the allowance allocation and other measures to adequately address the incidents of these costs equitably across regions of the state."

BOARD MEMBER SPERLING: Is that really -- equitably across the state. I mean, that depends how you define equitably. But I think it's more tying it to -- I mean, is that equally? I think it's tying it more toward to the cost and the energy cost, isn't it?

CHAIRPERSON NICHOLS: Those are equitable issues, too.

DEPUTY EXECUTIVE OFFICER FLETCHER: Yes. And I think one of the issues that had been raised by the State Water Contractors was the potential wealth distribution because of how the allowances are allocated versus how the water is allocated. It's in part going to addressing that issue and providing clarity on what that is, basically the analysis of that impact.

BOARD MEMBER ROBERTS: I'm pleased with it.

CHAIRPERSON NICHOLS: We're good.

DEPUTY EXECUTIVE OFFICER FLETCHER: The next one has to do with the issue of -- issues related to the
in-state competition questions. So the be it further
resolved directly under the one I was just discussing,
it's at the bottom of page 10. And it reads, "Be it
further resolved" -- that we will amend it to read, "Be it
further resolved, the Board directs the Executive Officer
to continue to review information concerning the emissions
intensity, trade exposure, and in-state composition of
industries in California." So the add is the in-state
competition.

Questions?

CHAIRPERSON NICHOLS: This is the intended to
deal with some of the issues raised about of the refining
sector?

BOARD MEMBER BERG: Doesn't that also just say
that we're going to do that in the second compliance
period started with 2015?

DEPUTY EXECUTIVE OFFICER FLETCHER: It says,
"prior to the initial allocation of allowances for the
second compliance period." So you're right, actually.
That does cover that. So we probably need to fix that.

CHAIRPERSON NICHOLS: Take out that "prior to."

DEPUTY EXECUTIVE OFFICER FLETCHER: What we can
say is "prior to initial allocations of allowances for the
first or second compliance period as appropriate."

BOARD MEMBER BERG: I'm comfortable with that.
DEPUTY EXECUTIVE OFFICER FLETCHER: So the next one has to do with the issues that I believe L.A. DWP raised on jurisdictional deliveries of electricity. So it would read -- I'm still at the bottom of page 10. This is a new one. And I think that is probably the right place for this to go. But we may want to move it around someplace in the Resolution to make more sense. But for now, it's at the bottom of page ten. It would read, "Be it further resolved, that the Board direct the Executive Officer to work with California Public Utilities Commission, California Energy Commission, and the California Independent System Operator and stakeholders to evaluate requirements for first jurisdictional deliverers of electricity and report back to the Board in the summer of 2012." Okay?

The next one is actually just a technical edit. There is on the fifth be it further resolved on page 11, the last word reads "additionally." And it really should read "additionality." So that's just a correction there.

The next one is directly below that. It's the one that has to do with the waste management issues. So we're making a couple changes here. And it should read now, "Be it further resolved, the Board directs the Executive Officer to continue to work with CalRecycle and other stakeholders to characterize life cycle emission
reduction opportunities." And then there is no other changes until the last sentence which reads, "The Executive Officer shall identify and propose regulatory amendments as appropriate so that AB 32 implementation, including the cap and trade regulation, aligns with statewide waste management goals, provides equitable treatment to all sectors involved in waste handling, and considers the best available information. The Executive Officer shall report on progress in the summer of 2012."

BOARD MEMBER SPERLING: One tiny, I would say instead of life cycle, it's really systems level is what is the real issue here. You're comparing it to recycling and so on. And I think that's what the real concern is. It's not life cycle so much.

CHAIRPERSON NICHOLS: It's their word. It's what they want.

BOARD MEMBER SPERLING: Well, they're wrong.

(Laughter)

CHAIRPERSON NICHOLS: That could well be true. Unfortunately, we are in a process here where we're trying to address stakeholder concerns. I think we should give them that word.

DEPUTY EXECUTIVE OFFICER FLETCHER: I will defer to the Board.

The next one I put at the bottom of page 11.
Again, it may be something that gets moved elsewhere. This one has to do with the State Universities, and it will now read, "Be it further resolved, that the Board directs the Executive Officer to coordinate with State universities and stakeholders to evaluate options for compliance, including options on the use of auction revenue, and report back to the Board in the summer of 2012." And I need to work in there, "including amendments to the reg as appropriate."

But I want to separate out back to the Board in June 2012 from the amendments, as appropriate. Because I'm not sure we can do the amendments as appropriate by 2012.

CHAIRPERSON NICHOLS: All right. That would be creating a false expectation.

DEPUTY EXECUTIVE OFFICER FLETCHER: The next are on the middle of page 12, and there are actually two be it further resolved there.

One in that begins, "be it further resolved the Board directs you to coordinate with the Market Surveillance Committee." That's the forth one down and the fifth one down.

We're actually not proposing to make any changes to those two. But I wanted to indicate that those all in combination with the Resolution provisions that are in the
previous Resolution all go towards the concept of market monitoring, market simulation, market oversight, and market surveillance. And we are not proposing to make changes. We have incorporated some of the PG&E changes into these. But they are pretty much working in combination.

To date, we actually have three RFPs out on the street, one of them dealing with auction services. One of them dealing with financial services, and one of them dealing with market monitoring.

We also have an interagency agreement that we are working on with the University of California to provide simulation activities as well as working on a Market Surveillance Committee. So we think we've addressed the concerns that PG&E was raising in theirs.

I would note that in the fifth bullet there where we talk about the allowance price containment reserve and other key design features, this gets to the issue of holding limits and purchasing limits. We know we need to re-evaluate those anyway in the context of linkage with the Western Climate Initiative, because those are not all necessarily on the same basis. That is a harmonization issue that we need to make sure that we are in sync with those jurisdictions prior to linkage. So we think we've adequately covered the issues associated with markets.
Any comments on that?

CHAIRPERSON NICHOLS: No.

DEPUTY EXECUTIVE OFFICER FLETCHER: At the bottom of page 12, we have an edit on the last be it further resolved. Since we created a new be it further resolved for the State Universities, we will strike the last part of that sentence, the last sentence there, and put a period after Resolution 10-42.

The next one is at the top of page 13. We've already talked about this one. We will simply include the language -- the CAPCOA language where the Board directs the EO to report back periodically with the first report due in the first quarter of calendar year 2012.

And last, but certainly not least, we want to add in the very last bullet where we do the annual updates, two additional provision, one of them being on the effectiveness of the Cap and Trade Program, which seems like it would be a good thing to know. And the second is how the cap and trade program is stimulating investment and innovation. I think that's a really interesting provision to add. And I think that captures it from our perspective.

CHAIRPERSON NICHOLS: Okay. Given the amount of emphasis there has been on transportation and fuel today, I think it is important that we indicate that we intend to
actually initiate a dialogue with our partners at the CEC on how to do this kind of an evaluation on the impacts on California's gasoline supply. This isn't something that we have the sole responsibility for accessing. We have a lot of experience and we don't always agree with each other, all least going in. But we've always managed to find ways to come up with some pretty good information and has a lot of durability to it.

So you don't have to write this down. I just want to indicate this is part of the thinking of how we're going to do it. Just saying ARB is going to do it. I think this is a broad-based issue of concern.

BOARD MEMBER ROBERTS: Is the staff done?

DEPUTY EXECUTIVE OFFICER FLETCHER: Oh, yes.

BOARD MEMBER ROBERTS: Are we ready?

CHAIRPERSON NICHOLS: Yeah, I think we're ready.

Yeah.

BOARD MEMBER ROBERTS: I would -- first of all, I appreciate the efforts of putting these things together. And I think as the Chair is saying, sometimes we don't see eye to eye. But I think it's good when we're listening and maybe work these things out. It's clear to me we really do have to move to a low carbon economy. And I hope California will be a leader in that. And I hope there is economic investment and economic return along
with the environmental benefits.

And with that, I will move the amended Resolution.

CHAIRPERSON NICHOLS: Thank you.

Who would like to second? Ms. Berg.

BOARD MEMBER BERG: Second.

CHAIRPERSON NICHOLS: All right. Any additional comments before I call for the vote?

If not, I'm ready to call for a vote. Would all in favor of adopting this Resolution please indicate by saying aye.

(Ayes)

CHAIRPERSON NICHOLS: Any opposed?

Very good. Thank you, all.

(Applause)

CHAIRPERSON NICHOLS: We have a come of additional things to do. I trust that you know this, but I'm going to say it anyway just to make it clear for the record. The Resolution includes or incorporates the Adaptive Management Plan that was put before you as a separate document. And although I have to say it didn't garner a lot of comment except perhaps from those we would have hoped and appreciated it and didn't, I'd like to say that the Adaptive Management Plan is actually a first of its kind ever for this or any other agency.
CHIEF COUNSEL PETER: State agency.

CHAIRPERSON NICHOLS: And it's something that I think will turn out to be a landmark in its own right. I'm proud of that, as well as of the action we've taken here today. I think that we will look back on this as an important day in California's transition to the clean energy economy. So I really want to thank everybody who participated.

We, believe it or not, have one more agenda item today, although it's very short. But it's related to AB 32. And that's about the cost of implementation fee regulation. So if there's anybody that doesn't want to listen to that, you're welcome to take your leave. But we need to stay here and work this one through.

EXECUTIVE OFFICER GOLDSTENE: We're going to hear a proposal now to amend the AB 32 cost of implementation fee regulation. As you'll recall, the AB 32 fee regulation funds the AB 32 climate change program. Without this fee, we would not be able to meet the ambitious goals of the greenhouse gas emission reductions set forth in AB 32.

Staff is proposing to amend the fee regulation primarily to conform the regulatory language with recent proposed amendments to the regulation for mandatory reporting. Other amendments clarify various provisions to
improve implementation of the fee regulation.

Bill Blackburn from our staff is going to provide
a short presentation on these amendments. Bill.

(Thereupon an overhead presentation was
presented as follows.)

AIR POLLUTION SPECIALIST BLACKBURN: Thank you,
Mr. Goldstene.

Good afternoon, Chairman Nichols and members of
the Board.

Today, I will provide background on the AB 32
cost of implementation fee regulation, fee revenue, and
regulation details, proposed amendments, potential
impacts, suggested modifications, and staff's
recommendation.

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AIR POLLUTION SPECIALIST BLACKBURN: First, I
will give a quick introduction.

As you know, AB 32, the California Global Warming
Solutions Act of 2006 established a comprehensive
multi-year program to reduce greenhouse gas emissions in
California. To pay for the cost of implementation, AB 32
authorizes ARB to adopt a fee schedule to be paid by
sources of greenhouse gas emissions. The fee regulation
was endorsed by this Board in September 2009 and became
effective July 17th, 2010.
AIR POLLUTION SPECIALIST BLACKBURN: I will next discuss the AB 32 fee revenue.

The fee is used for two purposes: One, to cover the State's annual AB 32 implementation costs. And two, to repay loans, with accrued interest that were used to fund the first three years of the program.

The fee is applied to approximately 80 percent of the statewide greenhouse gas emissions. There are approximately 300 fee payers, such as oil refineries, utilities, cement producers.

During the first four years of collecting the fee, a portion of the revenue will be used to repay loans which funded the early years of the program. We will fully repay the loans in the next two years, which will significantly decrease the revenue we need to collect. If program costs remain at today's levels, the revenue needs will drop by more than 40 percent. Implementation costs which make up the total required revenue, are approved each year by the Legislature in the State budget.

Currently, the agencies that have the programs funded by the fee include those shown in the slide. The column on the right shows approximately how much each of these agencies received for fiscal year 2011-2012. This includes staff, contract, and program-related costs. As
you can see, ARB accounts for the majority of the funded programs.

For the first fiscal year the fee was in effect, 2010-2011, ARB sent out invoices to collect $62.1 million. Of the total required revenue, 35.2 million is in program costs and 26.9 million is in loan repayment.

To provide some perspective, the top ten fee paying entities make up about 75 percent of the fees collected, where invoices range from about $100 to just over $7 million.

For 2010-2011 fiscal year, we were able to collect more than 99.9 percent of the revenue invoiced. We recently mailed fiscal year 2011-2012 invoices, which were based on $61 million in total required revenue.

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AIR POLLUTION SPECIALIST BLACKBURN: Now let me discuss some details of the fee regulation.

AB 32 fees for greenhouse gas emissions are assessed in three primary ways, upstream from the combustion of fossil fuels, including those shown here on this slide. The fee is as assessed on non-combustion greenhouse gas process emissions from refineries and cement manufacturers.

Finally, a fee is imposed on the greenhouse gas emissions associated with the generation of both in-state
and imported electricity generation.

Fees are based on annual fuel and greenhouse gas emission data. Data is reported using ARB's online greenhouse gas reporting tool. The fee liability is determined as follows: Adding the annual loan repayment to the annual program costs, then dividing that by the sum of the reported emissions and fuel data.

Currently, the fee rate is about 17 cents per metric ton of CO2. Each invoice is calculated by multiplying the fee rate by an entity’s reported emissions and fuel data.

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AIR POLLUTION SPECIALIST BLACKBURN: Next, I will discuss the proposed amendments. Because emissions data is used to determine fees, we must conform, where possible, to the mandatory reporting regulation. Staff consulted with the public and regulated entities on potential amendments, including a public workshop on January 21st, 2011.

The amendments are mainly technical in nature and do not significantly change applicability or the fee calculation. Several proposed changes are clarifications, such as when payment is due. As a result, the overall program framework is unaffected. In the following slides, I will summarize the proposed amendments.
AIR POLLUTION SPECIALIST BLACKBURN: To conform with the mandatory reporting regulation, we proposed to modify the threshold for electricity-generating facilities by raising the minimum applicability from 2,500 metric tons of CO2 to 10,000 metric tons of CO2 equivalent. The change to CO2 equivalent mirrors the changes made to mandatory reporting regulation and allows the fee to more completely cover emissions of greenhouse gases.

Staff anticipates because of this between 20 and 25 electricity-generating facilities will no longer be subject to the fee. Other changes include: Definitions, minor adjustments to the calculation of fees, and minor changes to reporting requirements.

Again, these changes are proposed to better conform with the mandatory reporting regulation and improve clarity. Next, I will discuss potential impacts.

We anticipate no significant environmental impacts as a result of amendments to the fee regulation. We also anticipate no significant economic impacts.

This includes: No net change in collected revenue, between 20 and 25 facilities, the ones that I previously mentioned, will no longer pay fees on electricity generation. Several factors contribute to slight variations in fees assessed for 2011 and subsequent
report years.

Since the release of the Initial Statement of Reasons staff report, we have updated our economic analysis on the proposed amendments to the fee regulation. Overall, the impact of the fee collection will not change, but some entity's fees will be reduced while others may increase. Assuming minimal variation in fuel use from year to year, on average, we don't expect entities to see more than a one percent increase in fees that would result from these changes.

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AIR POLLUTION SPECIALIST BLACKBURN: I will discuss staff's suggested modifications of the initial proposal that we are recommending be addressed through the 15-day change process.

Because of recent 15-day changes to the mandatory reporting regulation and the cap and trade regulation, we propose to make conforming modifications to the fee regulation. These include definitions and aligning calculation of fees for electricity delivered into California.

We will also be clarifying reporting requirements for natural gas deliveries in response to public comments.

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AIR POLLUTION SPECIALIST BLACKBURN: I will close
with staff's recommendation.

Staff recommends that the Board approve the proposed amendments and suggested modifications to the AB 32 cost of implementation fee regulation.

That concludes my presentation. We would be happy to answer any questions you may have.

CHAIRPERSON NICHOLS: I don't think we have any questions.

We have four witnesses who want to speak on this item. Why don't we just hear from them quickly. If it's an indication of a fine job that you've done we only have four people who want to speak. And they all claim to be neutral, whatever that means. So let's hear Mr. Kate Beardsley, Lily Mitchell, and Frank Harris.

MS. BEARDSLEY: Good afternoon. Hi, again. I will be really, really brief. I'm sure you're all quite brain dead.

(Laughter)

MS. BEARDSLEY: So we participated -- as I am. Maybe you're. Sorry.

CHAIRPERSON NICHOLS: We are actually sitting here eager for more and actually upset so few people signed up.

MS. BEARDSLEY: I apologize. I'm going to start over, if that's okay.
So just very briefly, we participated in the fee, the development of the initial fee regulation back in '08. We were supportive of it. You absolutely have the right to collect this fee.

One of the key design features of the regulation was to collect it from upstream sources with the assumption they can pass the cost on downstream to the actual sources of greenhouse gas emissions. That totally makes sense. It's a much easier approach. And I'm just here to as an FYI. We've been trying to move that ball forward on passing the costs along to our customers. We haven't been able to. So we're just in kind of an awkward situation. We appreciate any further coordination between ARB and the PUC on this issue.

CHAIRPERSON NICHOLS: Yes. I understand there is this pending at the PUC. And we're all waiting for action. I keep meaning to find some legally permissible way to intervene in the proceeding and say hurry along. But I believe the message has been heard this is something important for them to decide.

MS. BEARDSLEY: Okay. Great. I appreciate that.

That can.

CHAIRPERSON NICHOLS: Lily Mitchell.

MS. MITCHELL: Good afternoon. I'm speaking for the Southern California Public Power Authority.
I'll make brief comments because we've already submitted written comments on these changes. We support the changes to increase the consistency of the fee regulations and commend the comments in the Initial Statement of Reasons and the Resolution that further changes will be needed to reflect the even more recent changes to the mandatory reporting regulation that's quite significant in terms of calculation of the fee for electricity sector entities.

Just a couple points in particular, that we request the fee regulation be amended in 15-day changes to clarify that those fees imposed on electricity that's imported from either specified or unspecified sources in linked jurisdictions -- linked in the cap and trade program, that no fees imposed on qualified exports again either from specified or unspecified sources. And that there is a deduction for what was previously called the replacement of electricity and is now called the RPS adjustment in the management reporting regulation. That has complications for the fee regulation that need to be followed through in the calculation of the common carbon cost and in the fee liability calculation.

And as a final point, we just noticed in today's changes the fee for the electricity sector entities is calculated on carbon dioxide equivalent emissions,
including greenhouse gases with a fee for other entities, other sectors calculated on carbon dioxide without including greenhouse gases. We request they be consistent treatment or consistent calculation of the fee for all sectors in that record. Thank you.

CHAIRPERSON NICHOLS: Okay. Cindy Parsons.

MS. PARSONS: Good afternoon again. I'd actually like to take the opportunity to thank the Board and staff for addressing our concern about the point of regulation. This is something that is definitely near and dear to our hearts, because we are going to great efforts to try to reduce our emissions. And having to take responsibility for other utility's emissions is definitely not something that we relish. And we definitely hope that ARB is able to resolve this in a positive manner and that the point of regulation is not shifted away from the owner of the electricity.

That being said, we did submit written comments on the fee regulation. The point of regulation, of course, would be an issue under this regulation as well. So if L.A. DWP is required to report imported electricity that belongs to other utilities, we would have to pay fees on that electricity as well. So, of course, we're hoping that that will be resolved appropriately.

The second item I just wanted to highlight very
briefly, which Lily Mitchell actually touched upon as well, was the basis for assessing the fees for the electric sector is CO2 equivalent, which includes CO2, CH4, and N2O. For the fuels, it is only CO2 emissions. It's just a matter of fairness that if you're dividing up the pie of the fee amongst all the emissions, that the basis should be consistent across all the sectors.

And lastly, on the qualified exports, we actually talked to staff about it. The way it was described would limited the qualified exports only to the specified sources, which that is inconsistent with the definition. And so we're hoping that staff will be able to make the definition in the equation consistent with the definition for qualified exports so that all qualified exports can be deducted and fees will apply to those. Thank you very much.

CHAIRPERSON NICHOLS: Thank you.

Mr. Harris. This time, you're hearing your own name.

MR. HARRIS: We thought about sending Mike up here just to kind of play a late afternoon trick, but everybody is a little bit too tired.

Frank Harris with Southern California Edison. Aside from her opening statement, I agree with precisely everything that Ms. Grant said.
And Pacific Gas and Electric and San Diego Gas and Electric submitted a joint letter on this issue, and we at Southern California Edison had an opportunity to sign on to that letter. We chose not to, simply because there was a significant element of the fact they referred to the natural gas sector. And of course, we don't have that. We don't think it was really appropriate.

Having said that, the elements of their letter that are addressed to the electricity sector, like the Board to recognize that Southern California Edison is in complete agreement with that. Recognizing the barriers that exist and the appropriate jurisdictional concerns that exist between the ARB and the Public Utilities Commission, we also share the hope that there will be some way of coordinating some of that. This upstream disposition of key can actually be recognized in the PUC process and passed to the downstream users.

Thank you very much.

CHAIRPERSON NICHOLS: Okay. Thank you. Staff have any response to the specific points that were raised about the inclusion of non-CO2 gases or we've heard the point of regulation issue.

CLIMATE CHANGE POLICY SECTION MANAGER MALLORY: This is David Mallory of the staff.

That change was made consistent with the MRR and
it is something we'll need to look at in terms of being consistent across all sectors.

CHAIRPERSON NICHOLS: We do. Yes, we do. So that's you're thinking about it possibly addressing that.

CLIMATE CHANGE POLICY SECTION MANAGER MALLORY: Yeah. That's our intent is to deal with that in the 15-day changes.

CHAIRPERSON NICHOLS: So the intent is to take care of that in the 15-day changes. Great.

And on the qualified exports?

CLIMATE CHANGE POLICY SECTION MANAGER MALLORY: Again, those changes were made consistent with the MMR, and I believe the 15-day changes that we posted would reflect that consistency.

CHAIRPERSON NICHOLS: Okay. Good. All right. Anything else we need to do other than to take this up to a vote? All right.

Is there a motion, please?

BOARD MEMBER D'ADAMO: So moved.

BOARD MEMBER ROBERTS: Second.

CHAIRPERSON NICHOLS: All in favor, please say aye.

(Ayes)

CHAIRPERSON NICHOLS: We have one more thing to do before we adjourn for the day. And this is a somewhat
sad occasion as all changes are, as we've been talking
about changes a lot today. But this is involves a change
in this Board.

Tomorrow, we'll be welcoming a new Board member,
which we're very excited about. But today, we're saying
goodbye to someone who's been with us since August of
2004. Lydia Kennard indicated that she wished to step
down. She seems to think that she has a life other than
working for the Air Resources Board. We don't understand
this, but it appears to be the case.

Actually, we're very grateful to her for her
faithful service and really just excellent contributions,
her common sense, level-headed sensible approach has
proved very useful in many situations, not to mention her
overall good cheer.

But there is some specific things I want to call
out that have been accomplished during the time that Lydia
has been a member of this Board and she has contributed
to, because I think it's worth just repeating.

So during your time on the Board, Ms. Kennard,
the Air Resources Board adopted the first ever low-carbon
fuel standard. The Board adopted regulations to implement
the Climate Change Scoping Plan, of course, the plan
itself and then today's action on cap and trade. But in
addition to that, there was the mandatory reporting rule.
There was the adoption of the first ever in the world emission standards for greenhouse gases from passenger vehicles, as well as actions to improve the efficiency of long-haul tractors/trailers through aerodynamics.

The Board implemented the Goods Movement Emission Reduction Plan, which has set emissions limits for new and in-use commercial harbor craft. We required cleaner fuel for ships that operate off the California coast and harbor craft. We limited idling by heavy-duty sleeper trucks and required control technologies on new and in-use diesel cargo handling equipment.

We also implemented the Diesel Risk Reduction Program, some of which also related to goods movement, of course. And this is something that's near and dear to the hearts of those of us who live in places with harbors, including reducing diesel particulate matter from heavy-duty trucks and buses, reducing diesel particulate matter from off-road diesel equipment and forklifts.

We also set VOC limits for over 31 categories of consumer products and reduced toxic emissions, limiting formaldehyde from composite wood products and required best available control technology to be used on chrome plating facilities.

It's no wonder that we feel like a lot has been accomplished during that time. That is an impressive body
of work for any group of people. And you were a part of it all.

We want to thank you for your dedication and tell you that we're really going to miss you and wish you well in the future.

BOARD MEMBER KENNARD: I'm going to put all of that on my resume.

Well, thank you, all. I'm very grateful to have the opportunity to have sat on this Board for seven years. It doesn't seem that long. And I really thank you for that list of our accomplishments that occurred during that period of time.

Unfortunately, my business activities have accelerated, and I can no longer serve.

I've really sincerely appreciated the opportunity working with the amazingly talented staff. And James, thank you for your leadership. And a very thoughtful and dedicated Board.

I wish you all the best as you continue to make more and more strides toward improving the quality of life for Californians. And today, as we saw, I'm proud to have been participating today. Really creating the template for people around -- communities around the country and the world to do the same. And so I'm very grateful to have this opportunity. And I hope that our paths cross
again in some context in the future.

(Applause)

CHAIRPERSON NICHOLS: Thank you so much.

EXECUTIVE OFFICER GOLDSTENE: Other than to say staff will miss Lydia because she always understood our perspective.

But no, there's nothing else.

BOARD MEMBER KENNARD: You're on your own now.

EXECUTIVE OFFICER GOLDSTENE: I'd like to remind everybody we start at 8:30 tomorrow morning.

CHAIRPERSON NICHOLS: Thanks, everybody.

EXECUTIVE OFFICER GOLDSTENE: Chairman Nichols, I don't know if there is any public comment.

CHAIRPERSON NICHOLS: I didn't call for any. We hadn't heard from anybody. No one is signed up. Okay. Thank you. We are adjourned.

(Whereupon the Air Resources Board meeting adjourned at 5:22 PM)
CERTIFICATE OF REPORTER

I, TIFFANY C. KRAFT, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing hearing was reported in shorthand by me, Tiffany C. Kraft, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said hearing nor in any way interested in the outcome of said hearing.

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of October, 2011.

______________________________
TIFFANY C. KRAFT, CSR, RPR
Certified Shorthand Reporter
License No. 12277