

**COMMISSIONERS**  
MIKE GLEASON - Chairman  
WILLIAM A. MUNDRELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE



**BRIAN C. MCNEIL**  
Executive Director

**ARIZONA CORPORATION COMMISSION**

April 8, 2008

The Honorable Janet Napolitano  
Office of the Governor  
1700 W. Washington Street  
Phoenix, Arizona 85007

**Re: Implementation of WCI Proposals in Arizona**

Dear Governor Napolitano:

Last year you joined with the governors of five other western states to create the Western Climate Initiative (WCI) for the purpose of reducing regional greenhouse gas emissions, primarily through the adoption of a regional, economy-wide cap-and-trade program. As we understand it, the WCI intends to announce its recommendations for the cap-and-trade program in August of this year, at which time the participating states will presumably begin the process of instituting those recommendations under applicable state law.

Based on our review of the policies that are currently under consideration, we believe that the WCI recommendations, if implemented, will have a significant impact on energy policy in Arizona. Specifically, we are concerned that the program could dramatically increase utility rates. Just last week, the Arizona Corporation Commission (ACC) convened a special open meeting to receive a presentation from an official with the Electric Power Research Institute (EPRI) on the rate implications of reducing carbon emissions, and EPRI estimates a likely rate increase of 45% to 260%, depending on the range of strategies employed to reduce emissions.

We believe that policy decisions of this magnitude should be arrived at after careful consideration and involvement by all stakeholders. In its February 1, 2008 comments to the WCI's Scope Subcommittee, the City of Phoenix wrote: "There has been limited opportunity for effective public involvement because most WCI meetings have not been open to the public. As a result, we have been unable to participate in discussions that could have a significant impact on local governments." In Arizona, meaningful stakeholder involvement requires the full participation of municipalities like the City of Phoenix, affected utilities, the Residential Utility Consumer Office (RUCCO), the ACC, and most importantly, Arizona ratepayers.

It has come to our attention that Steve Owens, Director of the Arizona Department of Environmental Quality (ADEQ), has publicly stated his belief that ADEQ has existing statutory authority to implement the recommendations of the WCI by rulemaking. Setting aside the legal merits of Director Owens' statement, it would be extremely troubling for ADEQ to attempt to unilaterally implement a cap-and-trade program via rulemaking.

Governor Napolitano

Page 2

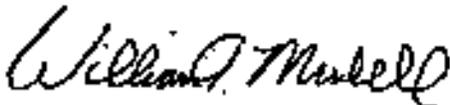
April 8, 2008

We encourage you to commit to a transparent legislative process to implement the WCI recommendations you seek to adopt. Doing so will ensure that all stakeholders, including RUCO, the ACC, and Arizona ratepayers have an effective voice in the development and implementation of climate change policies in Arizona.

Sincerely,



Mike Gleason, Chairman



William A. Mundell, Commissioner



Kristin K. Mayes, Commissioner



Jeff Hatch-Miller, Commissioner



Gary Pierce, Commissioner

Cc: Tim Bee, President of the Senate  
Jim Weiers, Speaker of the House  
Senator Jake Flake, Chairman, Senate Natural Resources and Rural Affairs Committee  
Representative Ray Barnes, Chairman, House Environment Committee  
Steve Owens, Director of ADEQ  
Jessica Youle, Senior Director of Energy Policy, Department of Commerce  
Lori Faeth, Policy Advisor for Natural Resources, Governor's Office