



**UNITED STATES COMBINED  
HEAT & POWER ASSOCIATION**

May 22, 2006

Staff Working Group  
Regional Greenhouse Gas Initiative

Dear Staff Working Group:

The United States Combined Heat and Power Association ("USCHPA") respectfully submits the following comments regarding the CO<sub>2</sub> Emissions Offset Projects standards contained within Subpart XX-10 ("Offset Provisions") of the Regional Green House Gas Initiative's ("RGGI") Model Rule. The USCHPA is a private, non-profit association, formed in 1999 to promote the merits of CHP and achieve legal recognition and public policy support. The USCHPA has previously submitted comments regarding how support for local clean generation within the Model Rule can advance RGGI's goal of lowering the greenhouse gas levels and support the RGGI region's economy.

USCHPA commends RGGI for the accomplishments it has made to date with regard to developing the Model Rule and incorporating CHP considerations in certain aspects of the Model Rule. There are, however, aspects of the Model Rule that can be improved. One area of the Model Rule that USCHPA believes can be improved are the Offset Provisions, which potentially provide for offset allowances to small CHP generators not covered under the general allocation scheme.

The Offset Provisions within the Model Rule reward projects that reduce or prevent greenhouse gas emissions. Offset projects ("Offset Projects") recognized under the Offset Provisions include landfill methane capture and destruction and projects that reduce or avoid CO<sub>2</sub> emissions from fuel combustion due to end-use energy efficiency ("End-Use Efficiency Projects"). USCHPA supports the inclusion of Offset Projects within the Model Rule. As discussed below, certain criteria within the Offset Provisions of the Model Rule, however, appear to unnecessarily restrict the availability of offset allowances for Offset Projects and may create a disincentive for such projects.

The Offset Provisions prevent Offset Projects from receiving offset allowances where those projects "receive funding or other incentives from any systems benefit fund, or funds provided through the consumer benefit or strategic energy purpose allocation required pursuant to subdivision XX-5.3(b). See XX-10.3(d)(2)(i). The term "systems benefit fund" is undefined and if broadly applied may exclude numerous CHP projects that already (or may in the future) receive other sources of funding. Excluding certain funding for Offset Projects also creates uncertainty for project developers and the potential for significant financial loss. Because the RGGI framework is in its infancy and states have substantial discretion in allocating funding for various interests, project developers may be forced to predict and choose whether RGGI or other state funding alternatives offer them greater value. Consequently, project developers may forgo engaging in Offset Projects under RGGI and/or states may be disinclined to develop additional funding programs for clean generation. A better approach would be to evaluate

Offset Projects based on the RGGI Memorandum of Understanding criteria and individual project merit rather than restricting potential funding options. This approach would reduce uncertainty for potential project developers and continue to provide states with flexibility in their allocation decisions.

The Offset Provisions relating to End-Use Efficiency Projects prohibit CHP projects that generate electricity from receiving offset allowances. See XX-10.3(d)(1)(viii). End-Use Efficiency Projects<sup>1</sup> should not be precluded from producing electricity (or increasing usage of natural gas) as certain CHP systems are designed to lower greenhouse gas emissions while generating electricity (and thermal energy) in an energy-efficient manner. Instead, the Model Rule should reward energy-efficient electrical output and thermal efficiency. This approach would achieve the overall RGGI program goal of lowering greenhouse gas emissions while creating sustainable and energy-efficient energy capacity and help prevent energy capacity leakage from the RGGI region.

The requirement that End-Use Efficiency Projects only comprise five percent of the market creates a disincentive for CHP growth within the RGGI region. See XX-10.3(d)(3). As discussed within this letter, clean generation which lowers greenhouse gas emissions while maintaining energy capacity within the RGGI region should be encouraged and USCHPA intends to see the market share of CHP projects significantly grow over time.

Finally, the Staff Working Group should consider closely coordinating the Model Rule and Offset Provisions with other programs designed to reduce greenhouse gas emissions. For example, the Model Rule precludes an Offset Project from obtaining offset allowances if the project developer participates in other “mandatory or voluntary greenhouse gas program[s] or market[s].” See XX-10.3(d)(2)(iii). This provision may unnecessarily devalue the RGGI offset allowance or emission reduction credits issued under other programs. Coordination between the RGGI program and future greenhouse gas emissions frameworks will also ensure that the integrity of the offset allowances issued under the RGGI program and that the RGGI market is not compromised.

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<sup>1</sup> USCHPA assumes that “commercial building” relating to End-Use Efficiency Projects is broadly interpreted to include industrial buildings. If that assumption is inaccurate, please clarify the meaning of “commercial building.”

USCHPA's view is that CHP projects play an increasingly prominent role in reducing greenhouse gas emissions. USCHPA appreciates the opportunity to provide comments and requests that RGGI modify the Model Rule to reflect the issues raised within this letter. Please contact me with any questions at (312) 807-4437 or [tketzback@bellboyd.com](mailto:tketzback@bellboyd.com). Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Thor W. Ketzback", with a long horizontal flourish extending to the right.

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