KEYSPAN

175 East Old Country Road
Hicksville, New York 11801-4280

May 18, 2006

To: RGGI Staff Working Group

Re: Comments: RGGI Draft Model Rule

KeySpan would like to reiterate its endorsement of the program as a reasonable approach and trusts that the suggestions offered within this letter will help to add the detail that will be required as the process moves forward. KeySpan recognizes that the Staff Working Group has to balance the concerns of a diverse group of stakeholders; we hope that our comments are accepted in that spirit of cooperation.

Consumer Benefit or Strategic Energy Purpose Allocation

KeySpan is concerned that the allowances held back from direct allocation to the generators as the Consumer Benefit or Strategic Energy Purpose Allocation will create market uncertainty that increases compliance risk for the generators. This will then increase marginal energy prices, which are ultimately paid for by the consumers. Because of this risk, KeySpan recommends that the Consumer Benefit allocation be no greater than the 25% agreed to in the MOU. In an effort to minimize the impacts of the decreased allocation to the generators, KeySpan would like to offer an alternative distribution methodology for the Consumer Benefit or Strategic Energy Purpose Allocation. In order to ensure that each source will have access to the allowances it may need, the KeySpan is proposing that allowances that are not given to sources through direct allocation should be offered for sale to the source with a right of first refusal. To further explain, an allocation methodology will be determined by the state (input based, output based, updating, one time allocation, etc). The state will then determine what 100% of the allocation to each budget unit will be. The unit will then receive 75% as a direct allocation and will have the right of first refusal to purchase all or part of the remaining 25%. The cost of these allowances would either be based on the market settling period price or initially, the IPM modeled price until sufficient market pricing is available. Any allowances that a unit chooses not to purchase can then be auctioned by the state to interested parties. If the generators have the ability to acquire their full share of allowances, a significant portion of risk is reduced and the potential exists for a more robust trading program to develop.

Offsets

KeySpan is encouraged by the proposed eligibility of natural gas end use combustion due to end use energy efficiency projects for the creation of offsets and is pleased to see that fuel switching has been included. However, KeySpan believes that fuel switching of commercial, residential and fleet entities from coal, oil or gasoline to more carbon efficient natural gas fuel has more potential for CO_2 reductions than typical energy efficiency projects. Accordingly, the model rule should encourage the use of lower carbon fuels. For that reason, we recommend that fuel switching should be treated as a separate offset category. Natural gas is 28% more carbon efficient than fuel oil, and 44% lower emitting than coal. The economic incentive created by a RGGI induced carbon price signal will help stimulate the fuel conversion process. Furthermore, the Northeast has a significant market potential for offset creation, since only 55% of the fossil heating load is currently supplied by natural gas verses 76% in the US.

Furthermore, Section XX-10.5 (d) 3 performance standards should not be applicable to fuel switching offset projects. The 5% market penetration restriction would preclude fuel switching and the combustion equipment sizing and building energy performance are unnecessary. The performance standard for this separate category would be to simply require that the thermal efficiency following the conversion to a lower carbon intense fuel must be equivalent or better than the thermal efficiency prior to the conversion. This will ensure that the full benefit of the less carbon intensive fuel is realized.

Monitoring and verification of the reduction would be straight forward. The project would submit proof of the annual quantity of the lower carbon fuel use (mmbtus) and the offsets would equal the carbon fuel factor differential times the annual fuel use.

Monitoring and Reporting

Section 8.1-In addition to references to 40CFR part 75.13 and 75.72, a reference to 40CFR Part 75.71 must be included. This will allow for the use of the alternate monitoring methodology for peaking units that are not low mass emitters.

Section 8.5 RECORDKEEPING AND REPORTING. Item (d)(3); This section says to submit each quarterly report to the REGULATORY AGENCY or its agent and the reports shall be submitted in the manner specified in subpart H of 40 CFR part 75 and 40 CFR 75.64. The concern with this is that the EPA does not have a mechanism for reporting CO_2 emissions from non-Acid Rain units. All reporting instructions for the current record types state that CO_2 emissions are reported for Acid Rain units only. Even with the revisions to the EDR reporting structure that the EPA is currently testing and finalizing, it is uncertain (and probably unlikely) that CO_2 data will be able to be submitted for these units. It is suggested that the RGGI Staff Working Group work with the affected sources and EPA to determine how the data for the non Acid Rain units will be submitted and verified. It is necessary that this be done expeditiously so that there will be sufficient time to implement reporting software modifications.

Section 8.8-KeySpan recommends that the RGGI program be consistent with the current EPA reporting requirements of reporting gross MW output; this would minimize any required reporting modifications. Furthermore, if a state chooses to use an output based allocation methodology, KeySpan believes that it is appropriate to use gross output, since that accounts for the auxiliary loads associated with pollution control equipment.

Again, we commend the efforts of the Staff Working Group to fashion a well reasoned and balanced RGGI Program Proposal. Please feel free to contact me should you wish to discuss the concepts we've offered in further detail. We look forward to continuing to work with you to address the climate change challenge and hope that our combined efforts will result in RGGI leading the way to a national program

Sincerely,

Robert D. Teetz

Robert D. Teetz
Director of Environmental Licensing and Compliance

cc: F. Litz (NYSDEC)
C. Fox (Governor's Office)

Bcc: M. Lennon
C. Waxman