



Date: May 22, 2006

To: Regional Greenhouse Gas Initiative (RGGI)
RGGI Staff Working Group

Re: AGA Comments on RGGI Draft Model Rule

The American Gas Association (AGA) appreciates the opportunity to comment on the RGGI draft model rule. We file these comments primarily to support the detailed technical comments submitted today by the Interstate Natural Gas Association of America (INGAA) on offsets from natural gas projects.

The American Gas Association, founded in 1918, represents 197 local energy utility companies that deliver natural gas to more than 56 million homes, businesses and industries throughout the United States. AGA's members account for roughly 83 percent of all natural gas delivered by the nation's local natural gas distribution companies. AGA is an advocate for local natural gas utility companies and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Natural gas meets nearly one-fourth of the United States' energy needs.

AGA agrees with the key points in INGAA's technical comments, although we would urge you to further expand the pool of available offsets by including offsetting emission reductions from natural gas utility operations. Obviously, the greater the supply of offsets available, the lower the cost of compliance. This is also very important to AGA member gas and electric companies that have electric generation facilities in the RGGI region. In summary, AGA's position is as follows:

1. The natural gas transmission *and distribution* offset program should be designed as a straight forward and efficient process that does not restrict participation and avoids overly complex procedural requirements such as financial additionality.
2. The model rule should consider the use of performance measures to determine additionality which would avoid cumbersome and time-consuming case-by-case project reviews.
3. The offset program should only consider regulatory additionality. However, regulatory additionality should not have retroactive applicability after an investment has been made.
4. Offsets within the natural gas transmission *and distribution* industry should not be limited to methane reductions.



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5. Offsets should *not* be limited to those originating solely within the boundaries of RGGI. Limiting offsets in this manner (a) would increase the cost of compliance for electric utilities in RGGI, (b) would add to complexity for companies operating both within and outside the region, (c) would not help achieve your ultimate goal to reduce greenhouse gas emissions and global warming, and (d) could adversely affect natural gas prices and the economy. By allowing emissions from outside the region, you will create a more robust market in greenhouse gas offsets, which in turn will generate an incentive for companies to make cost effective emission reductions. In addition, we would note that limiting offsets would increase pressure on electric utilities within RGGI to use more natural gas for power generation. AGA believes this would exacerbate the already tight supply-demand imbalance that has caused high and volatile natural gas prices. Over the past five years, American consumers of natural gas have borne the brunt of ever increasing prices, the natural outcome of an increasingly tight balance between supply and demand. During that time the price for natural gas has increased over 400 percent, causing severe financial hardship for manufacturers, farmers, homeowners and other consumers throughout the land, including those in your region. We need to find ways to increase fuel diversity for power generation so that there is more natural gas available at a reasonable cost for consumers and businesses. Limiting offsets would have the opposite effect. For the foregoing reasons, AGA urges RGGI to allow utilities in the region to purchase offsets from within and outside the region.
6. AGA understands that RGGI would like to have reliable, credible methods for measuring offsetting emission reductions. Like INGAA, AGA also welcomes the opportunity to work with RGGI and other stakeholders to create a credible, efficient, simple protocol for natural gas transmission and distribution emission offsets. We urge RGGI to incorporate INGAA's 2005 guidelines for estimating emissions from natural gas transmission and storage. AGA is developing a similar set of guidelines for estimating emissions from natural gas distribution operations, which we would hope RGGI would incorporate in its protocol.

If you should have any questions, please feel free to contact me at 202-824-7340 or placey@aga.org.

A handwritten signature in black ink that reads "Pamela A. Lacey".

Pamela A. Lacey
Senior Managing Counsel