

Pamela F. Faggert  
Vice President and Chief Environmental Officer  
5000 Dominion Boulevard, Glen Allen, VA 23060  
Phone: 804-273-3467



By Electronic Delivery  
RGGICOMM@gw.dec.state.ny.us

May 19, 2006

Mr. Franz Litz, Esq.  
Senior Attorney  
New York State Department of Environmental Conservation  
625 Broadway, 14th floor  
Albany, NY 12233-1500

Re: Comments of Dominion on the Proposed Regional Greenhouse Gas  
Initiative Model Rule

Dear Mr. Litz:

Dominion appreciates the opportunity to submit comments to you and the Regional Greenhouse Gas Initiative (RGGI) Staff Working Group (SWG) regarding the draft 'Model Rule' for RGGI. The key provisions of the Model Rule propose program requirements that individual states would then consider in drafting state specific requirements. The SWG also requested input on several specific areas on the offset portion of the Model Rule in the form of a memorandum. Dominion is pleased to provide feedback on those specific questions as well.

As stated in previous comments to the SWG, there are elements of both the Memorandum of Understanding (MOU) and the Model Rule with which Dominion respectfully disagrees. It is particularly important, when developing a program where no back-end controls exist, to have a simple alternative for true price certainty; not complicated attempts at price mitigation mechanisms. Additionally, there are so many hurdles presented for implementation of the offset aspect of this program, that it is questionable whether it will be possible for regulated entities to utilize offsets for any portion of emissions reduction requirements. Either offset projects will not qualify due to rigid criteria and/or project proponents will be unable to obtain financing due to unacceptable financial risks, particularly in the yearly years of the program when it has not been demonstrated what projects the states will approve.

The stringency of the proposed program could certainly help accelerate fleet turnover within the RGGI Region, but at a cost much higher than originally predicted by the SWG. Fleet turnover of the electric industry needs to be done gradually over time so that fuel diversity and system reliability are not compromised. The SWG should

consider reasonable environmental policies that will help keep electricity prices down while at the same time addressing the desired environmental goals.

Dominion offers the following comments and suggestions relative to some of the proposed policies in order to improve these aspects prior to issuance of the Model Rule. Many of our comments echo portions of the oral or written comments provided by several industrial stakeholders, as well as some representatives of the environmental community. Our comments are broken down into two major sections. The first is comments on the Model Rule itself and the second is responses to the specific questions asked by the SWG in their memorandum of March 23, 2006.

## **Part 1 – RGGI DRAFT MODEL RULE COMMENTS**

### **1. Cost Certainty**

As stated above, the MOU and Model Rule both need a true cost certainty mechanism, such as the CO2 alternative compliance payment (ACP) mechanism in Massachusetts' 310 CMR 7.29. As seen in the states that have adopted Renewable Portfolio Standards (RPS), a large majority have an ACP mechanism for retail entities to employ as a mechanism to ensure compliance. The National Commission on Energy Policy has "addressed concerns over potential impacts on energy costs, economic growth, and competitiveness<sup>1</sup>" by endorsing the use of a true safety valve by explicitly capping program costs, which effectively guarantees that the costs of emission reductions will not increase above a pre-specified price. As stated by the Commission, "...policies with a safety valve limit costs and allow emissions to adjust in the face of adverse events."<sup>2</sup> "By choosing cost certainty over environmental certainty, the Commission's proposal explicitly caps costs while at the same time producing significant annual emission reductions."<sup>3</sup> We believe this philosophy is no less valid in the context of RGGI. As many stakeholders in the RGGI process have advocated, the SWG should provide for cost certainty in the MOU and the Model Rule with an ACP.

### **2. Stage One and Two Price Trigger Thresholds**

The stage one and stage two threshold prices and their associated policy triggers are an attempt by the SWG to mitigate pricing impacts from the program implementation. We do not believe that they create cost certainty. Because the various methods of geographic and other related relief are 'reset' at the end of a compliance period, the relief associated with the threshold prices is not practically viable due to the reasonably long term nature of offset projects.

---

<sup>1</sup> The National Commission on Energy Policy, "Ending The Energy Stalemate: A Bipartisan Strategy to Meet America's Energy Challenges," December 2004, page 41.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

To the extent that the threshold prices remain, the model rule should contain more specific language on how the threshold calculations are accomplished, how often they will be re-calculated and the exact sources of price information. Both *allowance* and *offset* prices should be considered in the calculation. The 2% adder in the stage two threshold formula is arbitrary and should be eliminated. Also, the 14-month market settling period is much too long and should be eliminated. The sequential 12-month period in addition to the '14-month market settling period' appears to mean that this trigger cannot be hit until 26 months have transpired. Twenty-six months is too late to mitigate CO2 cost adder impacts on fuel diversity and consumer prices. The threshold prices should simply be based on a 12-month rolling weighted average of allowance and offset transactions.

Transactions (a) between affiliates, subsidiaries, or otherwise related companies or (b) that are part of fossil fuel and/or electricity contracts, should be excluded from the threshold price calculation methodology, as they may not represent market prices.

### **3. Eliminate the Geographic Discount**

So long as the SWG addresses cost certainty, the 2:1 geographic discount should be eliminated. Regardless of any triggers, offsets should count anywhere in the United States (all at a 1:1 ratio). There is environmental justification for this and as a public policy matter, it is not clear why the RGGI states would want to encourage twice the additional financial investment in non-RGGI states that are already financially benefiting (i.e. they are not subject to additional RGGI costs and benefit from leakage.)

To the extent the ratio remains, if an offset trigger event eliminates the 2:1 geographic discount and expands the geographic area of eligible offsets – there should be no geographic reset in the following compliance period. Otherwise, the financing of such projects may be impossible due to the potential for reset, especially if the compliance period is not extended. The corresponding offset value would be discounted to reflect potential change in eligibility. Therefore, the project may not be financially viable.

### **4. Parasitic Load**

Emissions resulting from the "parasitic load" of environmental control equipment installed and commercially operational after 2005 (mercury, NOx, SO2, cooling towers, CO2 etc.) should be exempt from regulation. State and federal requirements will involve capital expenditures on new emission control equipment that will increase "parasitic load" used at the facility, which is not energy supplied to the regional electric grid. Unless these considerations are factored into the design of the RGGI program, a well-controlled unit may receive

significantly fewer allowances than a less controlled unit. The power needed to run air emission control equipment should be added to the unit's net energy output in allocation determinations. As an alternative, CO2 emissions attributable to the parasitic load of environmental control equipment could be subtracted from a facility's total emissions. Additionally, these types of policy mechanisms could encourage development and deployment of CO2 control technologies.

## **5. Allowance Allocations and Early Reduction Allowances**

(1) **Consumer Benefit Allocations (CBA) and Auctions** – The RGGI MOU indicates that “each Signatory State agrees that 25% of the allowances will be allocated for a consumer benefit or strategic energy purpose”. Other stakeholders and even some states are calling for more than 25% - even upwards of 100%. Dominion strongly believes that 25 % is already too high. In order to avoid distortions of reliability and fuel diversity in the regional electricity markets, **every RGGI Signatory State must dedicate no more than 25% of its state allowance budget to CBA.** Therefore, the existing language for Sections XX-5.3(a) and (b) should be deleted and these sections should read as follows:

(a) *General allocations.* No more than 25% of the allocations will go to a consumer benefit or strategic energy purpose.

(b) *Consumer benefit or strategic energy purposes:* These allocations must be limited to (1) promoting energy efficiency, (2) directly mitigating electricity ratepayer impacts, (3) promoting renewable and non-carbon emitting energy technologies, (4) stimulating or rewarding investment in the development of innovative carbon emissions abatement technologies with significant carbon reduction potential, and/or (5) fund administration of this Program.

Specific language is also required with regards to how the states will “release” the consumer benefit allocations to the emission trading market. The language should clarify how long the state is allowed to hold onto the allowances, and what specific distribution mechanisms and frequency will be considered.

Since many budget sources will have a dearth of allowances to match their actual operating emissions (given the likely distribution methodologies to be employed by each state and the percentage limits on offset use), the sources within that state should have the “right of first refusal” for acquiring the CBA allowances. Specific language is needed so that out of state sources, speculators and other third parties are not allowed to participate in the CBA market until the needs of the operating unit owners

are satisfied. Also, if allocated directly to distribution companies or industrial sources for auctioning/selling, those entities should be required to utilize the proceeds in specific areas to meet the goals of the CBA, and be required to execute an agreement for sale of the allowances within 30 days of their allocation. As such, another section should be inserted below section XX-5.3(b) as follows:

(c) *Consumer benefit or strategic energy auctions or direct allocations:* At a minimum, allowance allocation auctions will be held at least quarterly and initial auction buyer participants limited to RGGI affected entities within <STATE NAME>. If all of the allowances are not sold in the first auction round, another auction round will take place on the next business day allowing any buyer participants. If all or a portion of the allowances are allocated directly to distribution companies or industrial sources for auctioning/selling, this allocation must be done on at least a quarterly basis. Distribution companies or industrial sources must be compelled to utilize the proceeds in specific areas listed in Section XX-5.3(b)(1) through (5), and must execute an agreement for sale of all the allowances promptly within 30 days of their allocation.

- (2) **ERA's** - Total Facility shutdowns should be eligible for early reduction allowances (ERA's). We understand the regulators do not want to provide a public policy incentive for facilities to shut down. However, RGGI is aimed at achieving greenhouse gas reductions (by, among other mechanisms, turning over the electric sector's existing fossil fleet). Crediting unit shutdowns would help the market more quickly turn over that fleet in the most efficient manner possible. The public policy concern of shut downs can be addressed by Independent System Operators (ISO's).

Unit shutdowns are only given credit under the ERA provisions, which limits their value to the period prior to January 1, 2009. Unit shutdowns should get credit for a **longer period of time**, such as ten years, for their CO2 emission reductions, since those reductions are permanent. Also, those units shutdown after January 1, 2009 warrant a mechanism for credit, as well.

- (3) In order to qualify for ERA's, a facility has to improve its CO2 *emission rate* as well as its *total tons*. The rate requirement should be eliminated. If the rate is maintained, it should be as an alternative to the cap, not in addition. Since this is a cap and trade program based on absolute tons, there is no justification for the use of an *emission rate*. The driver for facility total reductions (market forces, voluntary unit curtailments etc.) is

irrelevant from the environment's perspective. Therefore, any reductions in total (absolute) tons prior to January 1, 2009 should count as an ERA.

## 6. Definitional Changes Are Needed

- (1) **Excess Emissions:** This definition is ambiguous and assumes that each unit under the program will be assigned a "CO2 budget" for their CO2 emissions. The way this program is designed to work is that units will be allocated allowances and will be able to use offsets for a certain percentage of their total emissions. The combination of allowances and offsets will be used to cover their compliance obligations and be available as compliance deductions from a source's compliance account at the end of a control period. As an alternative to the existing definition at XX-1.2 (ad), "excess emissions" (EM) should be defined as the difference between the total emissions (TE) and the sum of allowances (A) and offset (O) deductions used to cover those total emissions less any CO2 emissions attributable to burning biomass (B). In other words:

$$EM = [TE - (A+O)] - B]$$

To remain in compliance, a unit must have EM in the above formula equal to zero or less. Any emissions greater than zero, would be considered to be 'excess emissions' which are subject to the provisions of XX-1.5(d) Excess Emission Requirements.

- (2) **Biomass:** The definition of eligible biomass is much too stringent and serves to preclude some sources of biomass that could be co-fired in existing units while also helping to ease landfill use. In the context of a greenhouse gas reduction policy the stringency of this definition runs counter to the program goals and precludes the environmental co-benefit of reducing materials that would otherwise end up in a landfill. We further suggest that *all waste streams*, recycled as energy should be encouraged under the Model Rule as long as they meet either their permitted emission standards, or those emissions standards set by a state regulatory agency in the case of facilities or units with no permits. Examples of waste streams that we urge the SWG to considered include, but are not limited to, manufactured biomass fuel, such as enviro-fuel cubes, natural oil bi-products (NOBs) and "gasification" of municipal solid waste (MSW) to produce 'synthetic gas.' It is in the best interest of the SWG that alternatives to creating energy from all waste streams, which would otherwise end up in landfills creating greenhouse gas emissions, are explicitly supported in the Model Rule. Units subject to RGGI that choose to co-fire or burn biomass anytime before or after the program is implemented in 2009, should be eligible and not be subject to any

percentage or date hurdles, as well. Therefore, the definition of XX-1.2 (f) should read:

*Biomass.* Eligible biomass includes fuel *from all waste streams*, which would otherwise be disposed of in landfills, creating greenhouse gas emissions; or construction and demolition debris fuel stocks, including: brush, stumps, lumber ends and trimmings, wood pallets, bark wood chips, shavings, sawdust and slash; or fuel from energy crops, syn-gas, biogas or liquid biofuels.

7. **Applicability:** The limited exemption of XX-1.4(b) for units with electrical output to the electrical grid restricted by permit conditions should be a *mandatory* exemption, not an *optional* exemption under applicability.
8. **Duplicity Clarification for The Electric Sector:** Section XX-1.5 (g)(1) of the Standard Requirements allows for RGGI to be in addition to other state CO<sub>2</sub> regulations. However, in doing so, it allows for RGGI to be *duplicative of existing* state CO<sub>2</sub> reduction programs, already in effect for certain existing fossil fuel facilities from the electric sector. We suggest that clarification language be added to provide states the ability to exempt electric generating unit sources that are covered by a state GHG regulation to ensure a facility only has to comply with **one set of requirements** and not multiple CO<sub>2</sub> reduction programs at the state and regional level. In particular, since Massachusetts already has 310 CMR 7.29, should Massachusetts ever decide to join RGGI, those facilities subject to 310 CMR 7.29 should continue to be subject to the requirements of 310 CMR 7.29, while remaining exempt from the RGGI cap requirements. Other EGU's in Massachusetts, not subject to 310 CMR 7.29, would be subject to RGGI requirements.
9. **General Provisions Regarding Offsets Need to Be Less Stringent or Clarified**
  - (1) Offset projects should count regardless of the underlying financial motives for going forward with a project. Therefore, additionality of all offset projects should only be judged based on "regulatory surplus." Otherwise, subjective, controversial and complicated criteria may be used to determine "additionality." Dominion suggests the following terms be added to the Model Rule:

Real: A discrete reduction of actual greenhouse gas emissions resulting from specific and identifiable actions;

Quantifiable: Calculated using real data and a transparent and replicable methodology;

**Verifiable:** A third party must authenticate the action and calculations of the Seller and attest to the validity and quantity of reductions;

**Surplus:** CO2 equivalent emission reductions, avoided emissions, and/or sequestered emissions beyond those already required by law, regulation, permit, plan approval, government mandated agreement, administrative or judicial order, or other enforcement action;

**Unencumbered:** The Seller must have clear ownership of the emission reductions.

- (2) If a project receives a consistency determination under section XX-10.4, and subsequently the project is required by local, state or federal law, regulation, or administrative or judicial order, then the project should continue to be eligible for the award of CO2 emissions offset allowances after the effective date of the local, state or federal law, regulation, or administrative or judicial order. Otherwise, it seems unlikely that projects will get financed with the regulatory change provisions (uncertainty) proposed. We suggest that the SWG seeks input from the financial community about this aspect of offset project financing.
- (3) Projects that are funded *above and beyond* system benefit charge funding or consumer benefit or strategic energy funding should be eligible for the incremental offsets generated from those funds. Most projects will benefit from having multiple funding sources by looking more attractive to the financial investment community. This also allows for a greater pool of potential offsets from which an affected entity can draw from. This particular pool of offsets may also have lower transaction costs since the infrastructure for soliciting bids and monitoring these projects may already exist.
- (4) RECs and CO2 offsets should be allowed to be treated as separate, but simultaneously generated commodities<sup>4</sup>. As such, a policy which indicates that CO2 offsets and RECs are separate and collateral regulatory commodities, will provide economic incentives for further renewables development. If projects are not allowed to simultaneously generate RPS RECs and CO2 equivalent offsets, severe market distortion may take place. RPS REC projects could take over a sizable portion of the available CO2 offset projects in the market or vice versa, exacerbating the lack of availability of either. Therefore, it is especially important for RGGI to

---

<sup>4</sup> The Massachusetts Technology Collaborative (MTC) in its Green Power Partnership program has already determined in its pre-bid question and answer documents that RECs are a separate attribute from emission reduction credits. "MTC believes that the current definition of "generation attribute" does not encompass emission reduction credits or other accounting instruments that are not directly associated with actual emissions of the subject generating unit." Hence, net reductions in CO2 equivalent emissions should be counted as CO2 ERCs.



allow certain renewables projects that simultaneously avoid or provide a net destruction of CO2 equivalents *and also* contribute to the displacement of fossil generation on the dispatch curve, to concurrently generate CO2 offsets and RPS RECs. The SWG should delete all sections of the Model Rule that require the project sponsor to transfer legal rights to any and all attribute credits generated from the operation of a project that may be used for compliance with a renewable portfolio standard or other regulatory requirement, to the 'REGULATORY AGENCY' or its agent.

- (5) Projects under other voluntary greenhouse gas programs should count if otherwise eligible.
- (6) A ten-year crediting allocation period with a possible extension for one ten-year period may be too short to justify project financing.
- (7) In order to have an adequate number of offsets in the market, the Staff Working Group will need to reconsider the timing of offset projects which is limited to only those that have initially commenced on or after December 20, 2005. At a minimum, *offsets generated* after December 20, 2005 from legitimate projects regardless of when the project initially commenced should be allowed to count.
- (8) The provisions of "ineligibility due to noncompliance" in which the "regulatory agency may revoke any and **all offset allowances in a project sponsor's account**" is unnecessarily stringent and adds to the financing uncertainty of offset projects. Only those offsets that are *proportional* (on a one-to-one basis) to a 'proven' noncompliance should be deducted from a project sponsor's account. Additionally, there should be an appeal provision for the noncompliance deduction.
- (9) An appeal process for the project "consistency determination" needs to be added to the Model Rule.
- (10) In order to keep costs low for regulated entities, Dominion believes certain common and realistic offset category types such as coalbed methane recapture and management of coal combustion products be expedited for approval by the Regional Organization. Also, it will be critical for the SWG to get the Regional Organization up and running as soon as possible and as many offset categories approved as possible prior to January 2009.

#### **10. Project Specific Requirements Need To Be Less Stringent**

- (1) **Afforestation** - The 20% discount to address uncertainty of "permanence" will prevent projects from being funded that would otherwise happen absent this discount. There are other mechanisms to address this issue, including insurance policies, or substitution of "offset credits" from other

projects. Also, the legally binding **permanent conservation easement** is overly stringent, considering the offset credits will only be issued for a small time period (10-20 years). The conservation easement should be limited only to the period of offset credit generation.

- (2) **Reduction or avoidance of CO<sub>2</sub> emissions from natural gas, oil or propane end-use combustion due to end-use energy efficiency.** – This category should include improvements in carbon efficiency as well as energy efficiency of the combustion system. Additionally, these end use efficiency projects should be extended to **all sectors of the economy** and not limited to merely the residential and/or commercial sectors. The broader the set of emission reduction opportunities available to RGGI market participants, the lower the cost of achieving RGGI's goals and the lower the cost to consumers. Expanding these projects to all sectors of the economy incentivizes efficiencies within these sectors.
- (3) **Natural Gas T&D** – See below, Part 2 – RESPONSES TO SWG MARCH 23, 2006 MEMORANDUM, question 2. A.
- (4) **SF<sub>6</sub>** - Dominion, unlike many electric utilities, *reclaims* SF<sub>6</sub> gas for future use. This process increases the number of cylinders on the system that are not full in comparison to other utilities. At issue is the requirements on page 105 (line 16), page 106 (lines 1-24), and page 108 (lines 17-26). The requirement to weigh each individual cylinder is very burdensome, along with the requirement to keep a log with every cylinder. All SF<sub>6</sub> equipment is monitored 24 hours a day, 7 days a week with alarm systems which activate when operating pressure falls below specifications. "Work orders" are issued and crews respond to the alarms. Weighing of every cylinder requires scales at every substation or in every truck of all potential personnel that could be called to answer the alarm. Severe weather conditions can also make weighing of cylinders difficult. Knowing in advance the exact equipment that will alarm is not possible, therefore logs for cylinders with matching equipment numbers is not reasonable. Bottles (those used in reclaiming or filling of new equipment), are currently lifted by the substation personnel and recorded as "partial" or "full". Weighing of cylinders is done and part of certain procedures at Dominion, but not in every case.

The SWG should consider the practical aspects associated with SF<sub>6</sub> management. For example, there may be alternatives to the "weighing each bottle" methodology proposed. Through the 'work order' process of SAP<sup>5</sup>, a fairly accurate inventory of SF<sub>6</sub> can be tracked and leakage

---

<sup>5</sup> SAP is a common enterprise wide business software package for managing work activities, including maintenance and emergency response. Work orders document all aspects of a particular work activity. In

estimates developed. Therefore, we recommend that the SWG consider a workshop on SF6 to get input from a variety of Transmission and Distribution stakeholders to reflect and take into account current industry practices along with alternative methodologies for determining baseline and on-going inventory calculations, as this protocol is developed further.

## 11. Monitoring and Reporting

Specific changes suggested to Subpart XX-8.1(a), Page 60 include:

(1) Install all monitoring systems required under this subpart for monitoring CO2 mass emissions. This includes all systems required to monitor CO2 concentration, or O2 concentration, stack gas flow rate, ~~O2 concentration~~, heat input, and fuel flow rate,.....

The reporting requirements of Page 72, Subpart XX-8.5(d)(2) regarding CO2 Budget units that co-fire biomass will discourage firing of biomass because it will be too costly to obtain and provide all the information required. Language needs to be added to this section which allows for units which have demonstrated fairly uniform characteristics of their biomass sources to seek relief from some of the chemical analysis and moisture content requirements.

## Part 2 – RESPONSES TO SWG MARCH 23, 2006 MEMORANDUM

### 1. Offsets Additionality Issues.

- A. ***System Benefit Charge Funds.*** Should projects that receive system benefits charge funding or incentives also be eligible for RGGI offset allowances?

**Response:** Projects that are funded *above and beyond* system benefit charge funding or consumer benefit or strategic energy funding should be eligible for the *incremental* offsets generated from those additional CO2 offset funds, without any further additionality testing, size thresholds or market penetration thresholds. Most projects will benefit from having multiple funding sources by looking more attractive to the financial investment community. With larger project scopes due to CO2 offset funding, many projects will also benefit from economies of scale.

- B. ***Renewable Portfolio Standard Credit.*** Should projects that receive RPS credit also be eligible for RGGI offset allowances?

---

the case of SF6, SAP is able to consolidate information on current enterprise wide SF6 inventories and calculate changes in the inventory over time.

**Response:** As stated above, RECs and CO2 offsets should be allowed to be treated as separate, but simultaneously generated commodities. Project sponsors should not have to transfer the legal rights to any attribute credits generated from the project to a regulatory agency or an organization designated by a regulatory agency. Forcing projects to “pick a market” or incentive program, such as the RGGI carbon market or the RPS market, and not allowing them to utilize revenue from both, creates an ideal situation for market distortion. The market will gravitate to the highest value commodity, leaving a vacuum in the other.

**2. Development of Standardized Offset Criteria for the Natural Gas Transmission and Distribution Category**

- A. Can a standardized set of requirements be developed for this offset category?** Are there preferred approaches to monitoring and verification of baseline emissions and emissions reductions that would provide a high level of quantification precision commensurate with the other proposed RGGI offsets categories while also limiting project transaction costs to reasonable levels?

**Response:** Dominion appreciates the inclusion by the SWG of offsets from methane reductions from the gas transmission and distribution sector in its Model Rule. Dominion owns and operates a large natural gas transmission business with approximately 7,900 miles of natural gas pipeline in six states and more than 965 billion cubic feet of storage capacity. Dominion also owns and operates three gas distribution businesses, Cleveland-based Dominion East Ohio, which serves more than 1.2 million residential, commercial, and industrial customers, Dominion Hope which serves customers in West Virginia, and Dominion Peoples which serves more than 350,000 homes and businesses throughout 16 southwestern Pennsylvania counties.

Dominion believes it is necessary to develop a standardized set of requirements for this offset category to ensure consistency.

Several standardized protocols currently exist which contain the emission factors and calculations necessary for quantifying CO2 equivalent greenhouse gas emissions from the natural gas transmission and distribution sector. Those include:

- Gas Research Institute (GRI) and US Environmental Protection Agency (EPA). *Methane Emissions from the Natural Gas Industry*, Volumes 1 through 13, GRI-94/0257 and EPA-600/R-96-080, June 1996. [www.gastechnology.org](http://www.gastechnology.org);

- American Petroleum Institute (API), *Compendium of Greenhouse Gas Methodologies for the Oil and Gas Industry*, February 2004. [www.api.org](http://www.api.org); and
- Interstate Natural Gas Association of America, (INGAA), *Greenhouse Gas Emission Guidelines for Natural Gas Transmission and Storage: Volume 1 – Emission Estimation Methodologies and Procedures*, Revision 2, September 28, 2005. <http://ingaa.org/environment/Climate.htm>

The API Compendium and INGAA Guidelines draw their emissions calculation approaches for methane emissions predominantly from the GRI/EPA document. The emissions calculation approach is to multiply an activity factor (such as number of components or length of pipe) by an emission factor.

Use by RGGI of standardized protocols is essential as the use of existing, established protocols would facilitate cost-effective calculation of greenhouse gas emissions from the natural gas distribution and transmission sector. It is our understanding that California's Climate Change Action Registry is planning to incorporate the INGAA Guidelines into their process for emissions reporting for the natural gas transmission industry in California. Also, API, INGAA and the American Gas Association (AGA) have begun discussions with the U.S. Environmental Protection Agency on evaluating and updating some of the emission factors in these protocols. The intent of API and INGAA is to continually update their protocols as new and updated emission factors become available.

These protocols can be used for calculating emission reductions as well as calculating emissions. For instance, if a piece of unprotected steel pipe (emissions factor of 276 lbs CH<sub>4</sub>/mile-year)<sup>6</sup> is replaced with a piece of protected steel pipe (emissions factor of 15.1 lbs/CH<sub>4</sub>/mile)<sup>7</sup>, the resulting savings can easily be calculated if the miles of pipe replaced are known.

Dominion recommends that the INGAA Guidelines be used for calculating emissions and emission reductions from the natural gas

---

<sup>6</sup> Table 4-4: Tier 3 Emission Factors for Fugitive Emissions from Transmission. Interstate Natural Gas Association of America, (INGAA), *Greenhouse Gas Emission Guidelines for Natural Gas Transmission and Storage: Volume 1 – Emission Estimation Methodologies and Procedures*, Revision 2, September 28, 2005. <http://ingaa.org/environment/Climate.htm>

<sup>7</sup> Table 4-4: Tier 3 Emission Factors for Fugitive Emissions from Transmission. Interstate Natural Gas Association of America, (INGAA), *Greenhouse Gas Emission Guidelines for Natural Gas Transmission and Storage: Volume 1 – Emission Estimation Methodologies and Procedures*, Revision 2, September 28, 2005. <http://ingaa.org/environment/Climate.htm>

**transmission sector.** For the natural gas **distribution sector**, Dominion recommends use of a combination of the INGAA Guidelines and API Compendium, since not all of the necessary emission factors for distribution systems can be found in the INGAA Guidelines. Use of these protocols is the best available method for participants to use in developing offsets to be used by RGGI.

To finalize the requirements for standardized offset criteria for the natural gas transmission and distribution category, Dominion recommends that RGGI develop and release to the public draft requirements and make those requirements available for public comment prior to inclusion in the final model rule.

- B. **Rate Recovery of Natural Gas Losses.** Another significant factor to consider in evaluating this offset type is the fact that most natural gas distribution utilities currently recover the estimated financial value of their annual gas losses through rates. Annual loss targets are typically set and embedded in rate structures and utilities are generally allowed to keep any monies from improvements over and above the targets (and likewise have to incur any costs when they miss the targets). This system, therefore, provides an incentive for utilities to use best practices and minimize their natural gas system losses. How this regulatory incentive interacts with a potential RGGI offset incentive would have to be adequately addressed, in the view of the SWG, before gas T&D system losses can be considered as a viable offsets category. How could the interaction between regulatory rate incentives and RGGI offsets incentives be adequately addressed?

**Response:** Inclusion of methane reductions from natural gas transmission and distribution sectors as an offset in RGGI will provide another incentive for gas companies to reduce GHG reductions. The mere existence of multiple incentives should not preclude acceptance by RGGI of these types of offsets. The end goal for RGGI should be to reduce greenhouse gas emissions. Moreover, there are likely to be significant transaction costs associated with quantifying, registering, and verifying GHG emission reduction offset projects in RGGI. Companies will not endure these transaction costs unless they are appropriately being compensated for the value of these reductions.

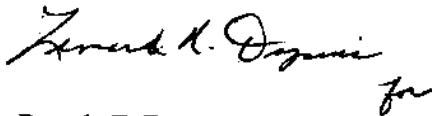
3. **Natural Gas, Oil, Propane End-Use Energy Efficiency Offset Standard Provisions**

- A. **Eligibility for Existing vs. New Buildings.** Should new buildings be eligible under this offset category?

**Response:** The draft model rule should allow for projects at existing buildings, as well as new buildings. New buildings that implement energy efficiency standards above and beyond what is required by code should get credit for that *incremental energy savings* without any further additionality testing, size thresholds or market penetration thresholds.

Since RGGI's inception, Dominion has continued to participate in good faith in RGGI's development to help RGGI decision-makers develop a workable framework, to the extent one is implemented in the Northeast. As activities progressed, we have submitted many verbal and written comments to develop a regional greenhouse gas cap and trade program that is reasonable, keeps prices down, ensures reliability of the electric system and ensures fuel diversity. We hope that the SWG will consider these and our previous comments in formulating the Final Model Rule and any revisions to the RGGI MOU. We appreciate the ability to participate as a RGGI stakeholder to date and look forward to participating in the Imports and Leakage workshop as well as the Auction workshop. Please feel free to call Paula Hamel (401) 457- 9734 or Lenny Dupuis (804) 273-3022 if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Pamela F. Faggert", followed by a small flourish.

Pamela F. Faggert

cc:

J. Sanderlin - Dominion  
L. Dupuis - Dominion  
P. Hamel - Dominion  
D. Weekley - Dominion