

February 10, 2012

Mr. Peter Rennée
Business Manager
Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor, New York, NY 10007

Re: Learning Session on Flexible Mechanisms

Dear Peter,

As the Regional Greenhouse Gas Initiative (RGGI) undergoes its first comprehensive review to further improve the impact of the program, ClimeCo America Corporation (ClimeCo) applauds RGGI's decision to limit the oversupply of allowances available to electric power companies, thus expanding the impact of the program by creating a strong incentive for renewable energy and low carbon dioxide technology investments across the United States. ClimeCo hopes that the program will be strengthened as RGGI states require a robust price signal to create alternative compliance solutions. Strong price signals will create market certainty resulting in renewable energy and low carbon technology investments, further lowering the cost impact on utility customers while achieving credible carbon reductions.

As RGGI looks to better align the supply of allowances with demand, it is also critical to increase the supply of carbon offsets as a fundamental compliance mechanism. ClimeCo has organized our comments into two primary sections:

- RGGI Carbon Offset Market Certainty
- Robust Supply of Carbon Offsets

RGGI Carbon Offset Market Certainty

As RGGI evaluates changes in the allowance scheme during Phase II, ClimeCo strongly recommends the following changes to support carbon offset certainty, thus allowing the offset volume to be available when needed to mitigate compliance costs to the utilities:

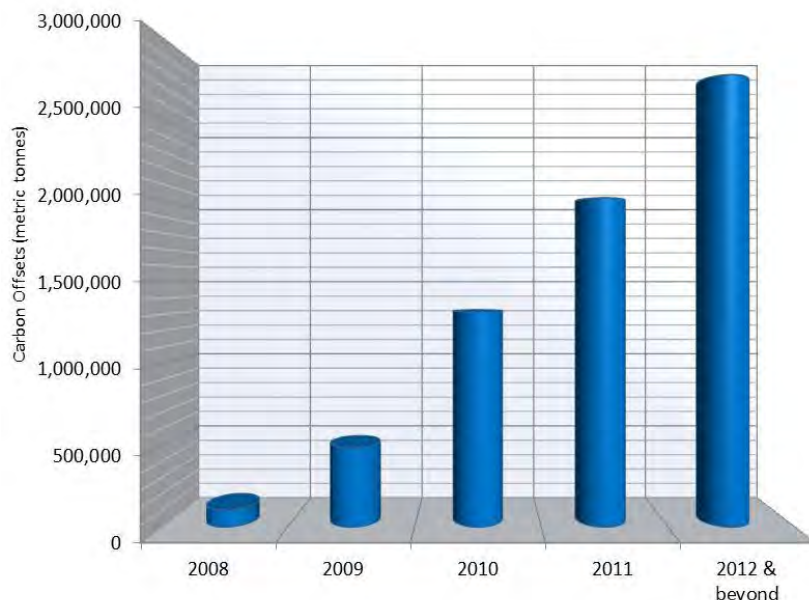
- RGGI should consider increasing the allowable amount of offset usage. Using eight percent would be consistent with the California Air Resource Board (CARB) AB-32 program, where a capped entity can use offsets regardless of the allowance price.
- If RGGI maintains an allowance price threshold approach prior to allowing the use of additional offsets, ClimeCo recommends the following:
 - Increase the allowable percentage of offsets (from US projects) to a base of eight percent to make the offsets a meaningful compliance alternative.
 - Decrease allowance price threshold to \$7 per allowance for the use of international offsets.
 - Omit the requirement that allowance prices must remain above the price threshold for twelve consecutive months. Rather, once one quarterly auction allowance price exceeds the price threshold, allow offsets into the market for that compliance year.

Robust Supply of Carbon Offsets

As the implementation of RGGI Phase II approaches, it is important that RGGI fully examine the benefits of high-quality carbon reduction projects, such as those from nitric acid projects in the United States. Nitric acid plants can be large GHG emitters through release of nitrous oxide (depending on the type of pollution abatement system historically implemented) in the production process. Fortunately, the development of the *CAR Nitric Acid Production Project Protocol* has allowed five projects to develop voluntarily that will generate over 2.7 million tonnes of carbon offsets every year under the CAR program.

In addition, there are a number of other facilities planning additional projects using the CAR Nitric Acid Production protocol. The figure below demonstrates the current and projected GHG reduction capacity from the nitric acid sector from five *existing* CAR registered projects.

Figure 1: Carbon Offset Volumes from 5 existing N₂O abatement projects



USEPA in their recent release of the New Source Performance Standard (NSPS) Subpart Ga for nitric acid plants stated that: “These nitric acid production units also emit another nitrogen compound known as nitrous oxide (N₂O), which is considered a greenhouse gas (GHG). We are not proposing an N₂O emission standard in this action. Although we have limited data from facilities in the U.S, we believe that owners/operators of nitric acid production units should consider technologies and technology combinations that would be appropriate for controlling both NO_x and N₂O.”

Through the endorsement of this project type, RGGI can create an incentive for the continued voluntary abatement of N₂O from this sector, thus creating a robust offset supply. ClimeCo estimates that the CAR Nitric Acid Protocol can generate 15-20 million offsets per year for use in RGGI, but only if a clear market signal is provided. These projects take over one year to implement and begin to generate offsets.

High-Quality Offsets Which Are Verifiable and Enforceable

Offsets produced under CAR’s Nitric Acid Protocol distinguish themselves through five aspects:

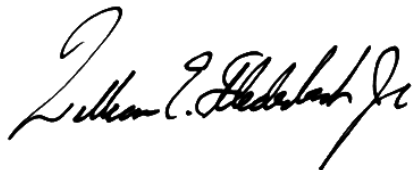
- (a) The Protocol outlines a number of *permanent* emission reduction strategies that destroy N₂O emissions through catalytic means, rather than being sequestered.

- (b) The reductions are *real* and are *quantifiable* through the use of electronic monitoring systems which accurately calculate the N₂O emissions on a continual basis both before and after a project's implementation.
- (c) The N₂O reductions are *verifiable* and *enforceable*, through annual verifications by accredited third-party firms and as the projects are subject to monitoring requirements more stringent than those required by current USEPA Requirements (under 40 CFR § 60).
- (d) Tonnes generated from nitric acid projects are *additional* from a regulatory standpoint, as they exceed all existing state and national N₂O regulations and standards.
- (e) Because there are no financial incentives to reduce N₂O without the sale of carbon offsets, the tonnes generated under the Protocol would not have been created under business-as-usual circumstances and are therefore considered to be *financially additional*.

ClimeCo appreciates the opportunity to provide our comments to RGGI and we look forward to being involved during the development of Phase II over the months ahead.

Sincerely;

ClimeCo America Corporation

A handwritten signature in black ink, appearing to read "William E. Flederbach, Jr.", with a stylized, cursive script.

William E. Flederbach, Jr.
Executive Vice President