



From: Randolph S. Price *Randolph Price* **Memorandum**
To: Regional Greenhouse Gas Initiative Staff Working Group
Date: May 22, 2006
Subject: Consolidated Edison, Inc. Comments on RGGI Draft Model Rule (Revised)

Consolidated Edison, Inc. (Con Edison) is pleased to submit its comments on the March 23, 2006 draft model rule issued for comment by the Regional Greenhouse Gas Initiative (RGGI) Staff Working Group. Con Edison has been involved in RGGI since the beginning of this process and will continue to support the goals of RGGI through its implementation. Con Edison believes that the following important issues need to be addressed in the model rule in order to allow Signatory States to incorporate an effective and cost-efficient framework into their individual rules and regulations:

- Proper credit for environmentally efficient units
- Steam system monitoring requirements
- New unit set-asides
- Long term contracts
- SF6 offsets
- Early reduction allowances

Proper Credit for Environmentally Efficient Units

The model rule should recognize the benefits of environmentally efficient combined cycle turbines and gas-fired cogeneration units that are carbon efficient. Steam-electric cogeneration units are inherently more efficient than electric only units; efficient cogeneration delivers heat and electricity with lower net CO₂ emissions than result from separate boilers and power plants.

We recommend that the model rule include language in Section XX-5.3 that the Signatory States recognize the efficiency benefit of cogeneration units when developing their allocation methodologies.

Steam System Monitoring Requirements

Steam/electric units that submit electronic data reports (EDRs) to the EPA and state regulatory agencies, which include gross hourly steam output, not gross hourly MW, should not be required to be monitored as a “net steam system” as stated in paragraph XX-8.8 (b). Instead, the current language should be modified to include the monitoring and reporting of gross hourly steam output in the EDR.

Our suggested language (bolded) for this Subdivision is:

“A CO₂ budget unit in a state that **allows** gross output to be used that also reports gross hourly MW **or gross hourly steam output** to EPA, shall submit to the REGULATORY AGENCY the same electronic data report (EDR) gross output (in MW **or steam output**), as submitted to EPA, for the hour times operating time in the hour, added for all hours in the year. A CO₂ budget unit that does not report gross hourly MW **or gross hourly steam output** to EPA shall submit to the REGULATORY AGENCY information in accordance with paragraph XX-8.8(e)(1).”

If the gross steam output language is not added, the draft requirements would require a company like ours to create a diagram, and monitor, a “net steam system” with approximately 1,800 customers and many non-RGGI affected steam units. This requirement is not practical and would add a great burden to our compliance requirements without a corresponding benefit.

New Unit Set-asides

The proposed model rule currently does not contain a directive for states to definitively create new unit set-asides in their state budgets. The language at the end of Section XX-6.4 (a) states that:

“[Should states wish to establish set-aside allocations (for new sources, for example), they would be referred to (at least generically) in this subdivision.]”

The language in this subdivision should state that states must establish new unit set-asides, presumably from the 25% public benefit allocation, in order to provide a level of certainty for investors of new power plants or owners of existing facilities looking to expand. One way for RGGI’s reduction goals to be achieved is through the replacement of older generation units with new more efficient generation and a new source set aside would facilitate this beneficial change.

Long Term Contracts

The proposed definition of *owner* found at Subpart XX-1.2 (ar), expands the traditional meaning of that term to include certain purchasers:

“any purchaser of power from a CO₂ budget unit under a life-of-the-unit, firm power contractual arrangement. However, unless expressly provided for in a leasehold agreement, owner shall not include a passive lessor, or a person who has an equitable interest through such lessor, whose rental payments are not based, either directly or indirectly, upon the revenues or income from the CO₂ budget unit.” This language is contrary to most, if not all, environmental regulations that have consistently imposed compliance obligations on the “owner and/or operator” and not on purchasers. Owners and/or operators are in a better position to meet compliance obligations.

Moreover, the RGGI model rule should not be used to modify long standing contractual allocation of compliance responsibilities between owners and/or operators and purchasers.

SF6 Offsets

The current draft model rule provisions, specifically the additionality requirements, are penalizing companies that have voluntarily spent large amounts of money to minimize releases of GHG gases, such as SF6. Companies such as ours have participated in the EPA SF6 Partnership for six years and have reduced emissions significantly, and should not be penalized for being early movers. The additionality requirements could force pro-active companies to make financial decisions to discontinue voluntary initiatives to off-set the new costs associated with RGGI compliance. Therefore, the “proposed expanded activity” requirements found at Subpart XX-10.5(b)(1)(i) should be removed.

Early Reduction Allowances

The early reduction allowance provisions of the draft model rule found at Subpart XX-5.3(c) are overly restrictive and should be expanded. First, the model rule should recognize reductions in CO₂ emissions that occurred prior to the effective date of the program but subsequent to the commencement of the RGGI process in April 2003. Second, total facility shutdowns should be eligible to generate early reduction allowances. The requirement that the emission rate of the unit must improve should be eliminated and only require that the unit or facility shutdown result in absolute CO₂ emissions reductions.

Please contact me if you would like to discuss any of these issues further.