



Fred Zalcman
Executive Director
Pace Energy Project

78 North Broadway
White Plains, NY 10603
914-422-4082/4180 Fax
e-mail: fzalcmn@law.pace.edu

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BY ELECTRONIC AND U.S. MAIL

Mr. Frederick Weston
The Regulator Assistance Project
50 State Street, Suite 3
Montpelier, VT 05602

Dear Mr. Weston:

The Pace Energy Project ("Pace) appreciates this opportunity to submit these comments on the November 2001 Public Review Draft of the Model Regulations for the Output of Specific Air Emissions from Smaller-Scale Electric Generation Resources (hereafter, "Model Regulations").

We thank the Regulatory Assistance Project and all of the members of the DR Emissions Working Group for their efforts in fashioning this thoughtful document. Pace believes that these Model Regulations provide a strong foundation for the development of a consistent set of standards nationwide that will promote the development of more robust markets for clean, efficient smaller scale electric generating technologies. The comments which follow are intended to strengthen this foundation.

DIFFERENTIATION OF STANDARDS BASED ON TECHNOLOGY APPLICATION. Pace supports the concept of differentiating electric generation resources into distinct categories. While we support the concept of recognizing the separate services that may be provided by smaller-scale electric generation resources - emergency, peakload and baseload - we are concerned about the limits used to define these markets.

EMERGENCY GENERATORS: Pace believes that there is a need for a tighter definition of "emergency" generation. The technologies that would fall within this grouping ought to be serving the need for power in a bona fide emergency situation and not for purposes of mitigating anticipated price spikes. We would be more comfortable with language that made clear that this category, which is exempt from emissions standards, be used during a true emergency situation, and not in situations where the grid operator may foresee a pending shortage.

Furthermore, we believe that the proposed cap of 300 hours, whether calculated on an annual or rolling basis, is too high a level. We suspect that an empirical examination of the number of operating hours that could reasonable be classified as "emergency" would yield a much lower

expected value of total emergency situations. Absent this information, we suggest setting a cap of 100 emergency hours calculated on a rolling 12 month basis.

PEAKING GENERATORS: Extending the definition of peaking units to those operating as much as 700 hours annually goes beyond the requirements of the market for peak shaving operations. A review of recent load duration curves for the New England Power Pool and PJM Interconnect indicates that demand is more than two standard deviations above the average less than 3% of the year. This suggests that the real peaking demand occurs during less than 300 hours a year {communication from Natural Resources Defense Council}. If the peak occurs 8 hours per day, this 700 hour figure would imply 88 peak days per year. Finally, we observe that a maximum of 300 hours per year was the definition of peaking operation that was incorporated into the recent Texas Natural Resource Conservation Commission Standards.

TREATMENT OF EXISTING SMALLER SCALE ELECTRIC GENERATING UNITS: Pace believes that it is absolutely imperative that these Model Regulations address the operations of existing generating units. In their comments NRDC provides data that shows the existence of nearly 128 GW's of diesel generation operating today. The Model Regulations as they stand would not address any of these units.

We are still living today with the mistakes of the past whereby large central power plants were grandfathered and exempted from meeting the more stringent Clean Air Act Standards. This has created perverse incentives that favor the operation of the oldest and dirtiest generating units at the expense of the cleanest and newest vintage of technology.

This is the highest priority issue from Pace's vantage point. States ought to be encouraged to apply rules to all existing and proposed generators over time. We believe that, following a reasonable phase-in period the limits in a particular category ought to be consistent across all vintages – new and old. Certainly by 2009, if not sooner, all smaller-scale electric generation units ought to be subject to the same set of standards. Otherwise there remains an ongoing incentive to continue operation of older and far more polluting technology at the expense of newer, cleaner generating units.

CARBON DIOXIDE STANDARDS: Pace believes that Carbon Dioxide standards belong in the Model Regulations. The Model Regulations as they stand require no improvement in the baseline levels over time. We suggest that this matter be revisited and a reasonable / achievable technology path for efficiency improvements over time be recognized.

CREDITS FOR ENERGY EFFICIENCY CAPITAL INVESTMENT AND NON-EMITTING RESOURCES : Pace supports the incorporation of credits for new capital investment in energy efficiency and non-emitting resources at the site.

In Section VI. [C.] Page 11, of the Model Regulations, the working group indicates in parenthetical remarks some concern about measurement and verification of energy savings. Pace concurs that there are issues that arise with the quantification and verification of these offsets. On the other hand, we believe that additional efforts by the working group and interested stakeholders could arrive at a solution that meets these concerns. Energy efficiency and renewable energy have been specifically allocated offsets allowances through a set aside within the NO_x cap and trade program in several states including Massachusetts, New York, New Jersey and Maryland and these programs will undoubtedly offer insight as to how the air quality benefits of these resources can be adapted for purposes of the instant rule.

CREDITS FOR LINE LOSSES : The Model Regulations should make some provision for crediting the transmission and distribution losses that are avoided by locating the generation facility at or near the load. We would recommend that some mechanism be employed to recognize and credit these avoided losses when calculating the output based measure of the DG / CHP emission rate. T&D line losses should be calculated on a load and loss weighted basis, not on an average basis. While losses may be on average 7%, they could be as high as 15% at peak times.

Pace greatly appreciates the opportunity to offer our comments on the Model Regulations. We look forward to the development of the final Model Regulations. Please feel free to contact us at if you have any questions regarding these comments.

Sincerely,

Fred Zalcman
Executive Director
Pace Energy Project
(914) 422-4082
Fzalcman@law.pace.edu

Thomas Bourgeois
Senior Economist
Pace Energy Project
(914) 422-4013
Tbourgeois@law.pace.edu