

August 6, 2009

The Honorable Barbara Boxer  
Chairman, Committee on Environment and Public Works  
U.S. Senate  
Washington, D.C.

The Honorable James Inhofe  
Ranking Member, Committee on Environment and Public Works  
U.S. Senate  
Washington, D.C.

**RE: Effects on cost containment of performance standards on sources of methane emissions**

Dear Chairman Boxer and Ranking Member Inhofe:

We, the undersigned organizations, have different business interests and perspectives regarding climate change legislation, but share a common interest in an issue we believe is critical to the cost-efficient implementation of any economy-wide greenhouse gas (GHG) measure: a comprehensive offset program that achieves GHG reductions while providing robust cost-containment for covered sectors to benefit consumers.

In order for offsets to provide adequate cost-containment, it is critical that there be a sufficient supply of eligible offset projects when the climate program begins, and that legislation not unduly limit the availability of credible projects. While H.R. 2454, the *American Clean Energy and Security Act of 2009 (ACESA)*, as passed by the House of Representatives, allows for the use of over 1 billion offsets annually, we are concerned that some of the most viable, high quality offset opportunities—capturing fugitive methane emissions at some natural gas systems, landfills, and coal mines—are unduly restricted in the legislation. These sectors can provide a critical source of **domestic offset supply** to significantly **lower the costs of a cap-and-trade program**, and achieve early offset reductions that will help to **preserve U.S. businesses and jobs**.

Despite the clear cost-containment benefits to consumers that offset projects in these sectors could provide, Section 811 of the *ACESA* would apply across-the-board command-and-control regulation to fugitive methane emissions from these sectors, making them ineligible to generate offset credits. Specifically, Section 811 directs the EPA to promulgate regulatory performance standards under the Clean Air Act for new and existing sources that emit more than 10,000 metric tons of CO<sub>2</sub>e per year in the natural gas, landfill and coal mine sectors.

Section 811 compromises the ability for a cap-and-trade program to achieve cost-effective GHG emissions reductions across the economy for the following reasons:

- It eliminates nearly half of the potential supply of domestic offsets. According to the EPA, allowing sources within these sectors to generate offsets would increase domestic offset supply by at least 45% and decrease allowance prices by at least 9%.\*

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\* Executive Summary, EPA Analysis of the Waxman-Markey Discussion Draft: the American Clean Energy and Security Act of 2009 (April 20, 2009)

- Furthermore, offset projects in these sectors have been expected to provide a critical source of offset supply during the early years of the climate program when other reduction options will be limited.
- Regulating smaller emissions sources is inefficient. The EPA has stated that requiring emissions reporting from sources generating less than 25,000 metric tons of CO<sub>2</sub>e per year “would do little to further the objectives” of a GHG emissions reporting program and result in a “more burdensome reporting requirement.”<sup>†</sup> In fact, the EPA approximates that reducing the reporting threshold to 10,000 metric tons effectively doubles the number of facilities affected, while improving the national scope of emissions coverage by only 1%.<sup>‡</sup>
- Regulating these smaller sources of emissions would present additional administrative, resource, and logistical challenges for the EPA, particularly given other priorities required of the EPA to administer a GHG cap-and-trade program for the largest emissions sources in the economy.
- Regulating these facilities through performance standards imposes additional costs on their owners, whereas allowing them to participate in the offset market provides them with financial incentives to generate offset reductions.

We represent a diverse group of companies, including those that would bear the costs of command-and-control measures established by Section 811, those that are dependent upon having access to an adequate supply of offsets to help meet compliance obligations under a cap-and-trade program, and those that stand ready to implement projects to reduce fugitive methane emissions under a properly designed offset program. **We encourage the Senate to preserve the critical role that domestic offsets play to provide cost-containment in a cap-and-trade program by eliminating Section 811 from a Senate bill. Further, if an eligible list of offset project types is included in Senate legislation, projects that result in reductions of fugitive methane emissions should be designated as eligible to generate offsets.**

We appreciate your critical work to ensure that any U.S. climate change program is market-based in its approach, and includes robust cost-containment provisions.

Sincerely,

Alpha Natural Resources  
 American Exploration & Production Council (AXPC)  
 American Meat Institute  
 Anadarko Petroleum Corporation  
 Arch Coal  
 Carbon Offset Providers Coalition (COPC)  
 Chesapeake Energy Corporation  
 Coalition for Emission Reduction Projects (CERP)  
 Participating members:

<i>American Electric Power</i>	<i>Blue Source</i>
<i>C-Quest Capital</i>	<i>C-Trade</i>
<i>Camco Global</i>	<i>Deere &amp; Company</i>
<i>Deutsche Bank</i>	<i>Dominion</i>
<i>DTE Energy Company</i>	<i>Duke Energy</i>
<i>EcoSecurities</i>	<i>Element Markets</i>

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<sup>†</sup> “Mandatory Reporting of Greenhouse Gases; Proposed Rule,” 74 Fed. Reg. 16448, 16468 (April 10, 2009).

<sup>‡</sup> *Ibid.*

*El Paso Corporation*  
*Equator LLC*  
*Natsource LLC*  
*Verdeo Group*

*Environmental Credit Corporation*  
*Leaf Clean Energy Company*  
*Noble Carbon Credits*

CONSOL Energy Inc.  
Devon Energy  
Independent Petroleum Association of America (IPAA)  
Interstate Natural Gas Association of America (INGAA)  
Pioneer Natural Resources Company  
Rio Tinto  
Solvay Chemicals, Inc.  
The Dow Chemical Company

Cc: Members of the United States Senate  
Carol Browner, White House Coordinator for Energy and Climate Policy  
Nancy Sutley, Chair, Council on Environmental Quality

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