Arizona Electric Power Cooperative, Inc.

P.O. Box 670 • Benson, Arizona 85602-0670 • Phone 520-586-3631

February 13, 2004

Mr. Mark Friedrichs
PI-40
Office of Policy and International Affairs
U.S. Department of Energy - Room 1E190
1000 Independence Avenue, S.W.
Washington, D.C. 20585

RE: 10 CFR Part 300 General Guidelines for Voluntary Greenhouse Gas Reporting; Proposed Rule, 68 *Fed. Reg.* 68204 (December 5, 2003)

Dear Mr. Friedrichs:

Arizona Electric Power Cooperative, Inc. (AEPCO) is respectfully submitting comments on the proposed General Guidelines for Voluntary Greenhouse Gas Reporting. AEPCO is a customer-owned electric utility with approximately 300 employees headquartered in Benson, Arizona. We are the owner/operator of Apache Generating Station, a 560 MW (net) electric generating station with two coal/gas-fired steam electric units, one gas/oil-fired combined cycle steam generation unit and four gas/oil-fired turbine units. Apache Station supplies power to six electric distribution cooperatives serving more than 270,000 people in portions of Arizona, New Mexico and California. Since 1995, AEPCO has been a voluntary reporter of greenhouse gas (GHG) emissions reductions under the current section 1605(b).

The following provides detailed comments on the main concerns AEPCO has with the proposed guidelines.

<u>Missing Incentives</u>.

The December 5 proposal is silent on transferable credits and ensuring that entities making reductions are not penalized under future climate policy (i.e., baseline protection). Without either of these, entities are at greater risk of being penalized under future policy as a result of taking action to reduce their GHG emissions intensity. The lack of transferable credits is a disincentive for AEPCO to continue participating in the 1605(b) program.

This shortcoming is exacerbated by the fact that pre-2003 reductions cannot be registered. By disallowing registration of any of these earlier actions, DOE is implicitly devaluing these earlier reductions. Entities that took action prior to 2003 are disadvantaged under the revised system, relative to those that have held off on taking action, because they have already reduced their own baselines. In essence, the new system penalizes companies such as AEPCO that took previous voluntary action. This creates great concern that taking action now will only result in being penalized again in the next iteration, and, in turn, creates further disincentive to taking action now. By not providing a mechanism for registering reductions from activities prior to 2003, the proposed revisions to the guidelines have missed an opportunity to reduce the risk, and thus provide an incentive to take credible action that would contribute to achieving the President's goal of reducing GHG intensity.

Entity-Wide Reporting of All Six GHGs.

In order to register emissions reductions, an entity would have to report the inventory of all six GHG emissions on an entity-wide basis. This inventory must include all direct and indirect (e.g., purchased power) emissions. This proposal would greatly increase the effort required to register emissions reductions since emissions of five of the GHGs have not historically been included in DOE's program. Reporting indirect emissions from sources such as purchased power would be nearly impossible to determine and confirm. This requirement is unnecessarily complicated and serves as a disincentive to register GHG emissions reductions, particularly for small companies such as AEPCO who have limited staff and monetary resources to devote to such an effort.

In addition, the guidelines are not clear on the boundaries of an entity. AEPCO is made of six member distribution cooperatives, some of which have participated in GHG emissions reductions projects that were reported in the 1605(b) program. We are not clear on whether we must include all GHG emissions from all six member cooperatives in order to be eligible for reporting GHG emissions reductions from some of the members.

The Proposed Rules Are Biased Against Project-Based Reductions.

By not allowing registration of credible reductions from projects alone, the proposed revisions to the guidelines have missed yet another opportunity to provide incentives to take action. Under the December 5 proposal, the only way an entity can register is if it undertakes a sufficiently significant number of actions that result in the overall reduction of the emission intensity of the entire entity. This creates a disincentive to undertake projects that are smaller in either size or number than what would be necessary to create an emission intensity path for the entity as a whole that is consistently below the baseline level. However, such projects can still lead to significant reductions that would make real, valuable contributions to the President's goal. Allowing registration of reductions from projects creates an incentive to undertake such projects and make a contribution to the President's goals. Further, DOE's approach to entity-wide reporting is inconsistent with the realities of trading GHG emission reductions, which are focused on project-based reductions, avoidances, and sequestrations, not entity-wide reductions.

AEPCO notes that a recent DOE press release on the results of the 2002 voluntary emissions reductions of GHGs reported "direct project-level emission reductions represented 3.9 percent of total U.S. GHG emissions, up from 3.2 percent in 2001. Reported indirect project-level reductions were 1.1 percent (1.0 percent in 2001), unspecified project-level reductions corresponded to 0.3 percent (0.2 percent in 2001)." These same projects - representing 5.3 percent of total U.S. GHG emissions - may not be eligible for reporting under the proposed guidelines.

AEPCO has historically reported projects that reduced GHGs. For example, in 2002 AEPCO reported the following projects: fly ash sales; distributive control installation; condensate pump upgrade; and lighting replacement for a total of 90,732 tons of GHG emissions reduced. These types of projects (coal ash reuse, plant efficiency improvements, demand side management, etc.) may not be reportable under the new guidelines, yet they offer real reductions in GHG emissions.

Concerns with a Two-Tier System.

The creation of two classes (reporting and registering), with no overall characterization of the attributes of each category other than to say that "special recognition" comes with registration, is confusing and unnecessary. Since this "special recognition" is undefined, it does not provide any clear incentive to action. The guidelines give the impression that reported emissions reductions are second class and of questionable quality, while only registered data and the associated actions are viewed as representing credible, "real" reductions that contribute to the President's goal. AEPCO believes that DOE should provide a means to register emissions reductions and these reductions should be transferable. There is no practical reason for a two-tiered system.

From our perspective as a long-time participant in the 1605(b) program, AEPCO must express its disappointment in the currently proposed revisions. We feel that the projects we have undertaken and reported to DOE represent positive, proactive efforts to recognize global concerns regarding GHG emissions. The current proposal devalues these efforts and introduces barriers to future participation that we believe may bar many smaller companies from continuing their participation in the program. DOE should be striving towards creation of an inclusive, not exclusive, GHG program in its leadership role on the very important issue of climate change.

If you have questions regarding the content of this letter, or require additional information, please feel free to contact me at (520) 586-3631, or Christina Garaas at (520) 586-5422.

Sincerely,

Mark W. Schwirtz

Mark W. Schwirtz
Senior Vice President & Chief Operating Officer

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Via Certified Mail RRR (70031680000429200046)

c/ Senator John Kyl
Senator John McCain
Representative Jim Kolbe
Carol Whitman, NRECA
James Andrew, AEPCO
Kara Downey, AEPCO
Christina Garaas, AEPCO
Robert Hewlett, Sierra
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