

Via Email

November 10, 2009

Northeast/Mid-Atlantic LCFS Steering Committee
c/o NESCAUM
89 South Street, Suite 602
Boston, MA 02111
lcfs@nescaum.org

RE: Northeast and Mid Atlantic
Low Carbon Fuel Standard

Dear LCFS Steering Committee:

I am writing on behalf of National Grid regarding the low carbon fuel standard (LCFS) currently under discussion among eleven Northeastern and Mid-Atlantic states. National Grid is an international electricity and gas company delivering energy to millions of customers across Great Britain and the northeastern United States, with gas and electric transmission and distribution operations in Massachusetts, New Hampshire, New York and Rhode Island.

We are pleased that the states are evaluating policies to reduce greenhouse gas emissions associated with the transportation sector since this sector can account for up to 40% of the greenhouse gas emissions in individual states. And we also recognize the sense of urgency to do so. Hence, National Grid supports the development of regional LCFS.

As discussed at the October 22nd and 27th stakeholder meetings in Boston and Newark (National Grid attended both meetings and was a speaker on two panels at the Newark meeting), public policy for the reduction of greenhouse gas vehicle emissions encompasses three core elements: (1) reduction of vehicle miles traveled; (2) improved engines and vehicular systems; and (3) improved fuels. The proposed LCFS addresses the third. National Grid believes that natural gas and electric distribution utilities can play a major role in an LCFS by providing readily available, low carbon fuels. Electric and natural gas distribution utilities are faced with the challenge of managing peak loads and are very adept at doing so. One consequence, however, is that the infrastructure may be underutilized during non-peak times, resulting in capacity that can be cost-effectively leveraged for additional uses such as alternative fuel vehicles.

National Grid has substantial experience in and can provide support to the development of some of the most environmentally superior alternatives to gasoline and diesel. Specifically, predecessor companies of National Grid have been leaders in the development of compressed natural gas (CNG) as an environmentally preferable alternative to gasoline and diesel fuels. As a result of our collaborative approach with others in the CNG station development sector, CNG has become a leading alternative to gasoline and diesel. For example, today 18.5% of public transit buses in the US are CNG fueled¹.

National Grid is also supporting major national programs aimed at the development of Plug-in Hybrid (PHEV) and Battery Electric Vehicle (BEV) technologies. National Grid is a partner in three large development programs involving Ford, the Electric Power Research Institute (EPRI) and Chrysler for PHEV vehicles that have tentatively been awarded funding under the American Recovery and Re-investment Act².

We believe National Grid is well positioned to help in the development and implementation of a LCFS and offer the following comments:

Measurement of Carbon Intensity: We agree that the methods for calculating carbon intensity of competing fuels should be based on consistent application of objective criteria. As such, the full-cycle, “well-to-wheels” analysis of the fuel would form the proper basis for comparison. In addition, practical application of this standard requires a focus on well-defined and understood data that will help keep the rules simple and transparent.. Because of the multitude of fuel production pathways and the multitude of vehicle platforms, the carbon intensity factors should, within a reasonable amount of variation, include all direct and in-direct effects and be resolved early so as to provide certainty in the market.

The Need for Durable Standard: While it has become apparent from the recent stakeholder meeting that compliance with the early phases of the proposed standard can be done with relatively small investments, compliance in later years will require long-term private investment. As such, the LCFS needs to be stable, consistently applied and avoid exemptions. If exemptions are available and granted, it will distort the market and chase private capital from the non-exempt fuels. The level of carbon reduction proposed in the standard should be periodically re-evaluated considering the level of private investment and calibrated to ensure that the program is sending a sufficient signal to invest in advanced fuels and vehicles.

¹ 2009 PUBLIC TRANSPORTATION FACT BOOK *60th Edition* April 2009, American Public Transportation Association, Table 12 Page 18 see http://www.apta.com/gap/policyresearch/Documents/APTA_2009_Fact_Book.pdf

² USDOE Press Release dated August 5, 2009 see <http://www.energy.gov/news2009/7749.htm>

Ownership and Nature of Credits: The proposed standard relies to a significant degree on non-mandated entities voluntarily opting into the program so as to generate credits to be sold to the mandated entities. In general, this credit should be available to the entity that makes the largest infrastructure investment. However, this can vary between the alternatives. We therefore recommend a flexible approach to credit ownership despite the complexity this might cause. Since a particular project may support multiple program objectives and may need multiple sources of resources to succeed, we also recommend that the model rule for the LCFS specifically state that the generation of credits under the LCFS shall not exclude the same project from any other state or federal funding source or market-based incentive program.

Memorandum of Understanding (MOU):

The MOU should be completed as soon as possible to ensure traction is maintained for this initiative. As such the MOU should be simple and brief yet include realistic timelines for delivery so that markets and stakeholders can prepare accordingly.

Additional Issues for Consideration

In addition, we would like to share our view about additional key issues that should be evaluated, discussed with stakeholders and addressed as the states move forward on a LCFS:

1. Detailed evaluation of the economic impacts of an LCFS, including the impact on consumers;
2. Commitment to ensure regulatory consistency inside and between states;
3. Establishment of sustainability criteria;
4. Commitment to continued funding for infrastructure and jobs creation;
5. Appropriate rate recovery for infrastructure investments;
6. Potential interaction of a LCFS with other state and regional policies.

Inclusion of Home Heating Oil:

National Grid recommends that consideration of the LCFS for transportation be completed before consideration of heating oil. As a major deliverer of low-carbon heating fuels in the Northeast we support the goal of inclusion of heating fuels in the LCFS. However, the variety of heating fuels, multitude of heating equipment options and ages in the Northeast is unique and different from the rest of the country. Coupling these parameters with the various (and growing) energy efficiency and renewable programs in Northeast further complicates the development of a LCFS for heating oil.

In summary, we are supportive of the process for developing a LCFS for the region based on the elements that have been outlined by the states to date. We also recognize that there is a significant amount of work yet to do in defining the details of a program and analyzing its impacts. National Grid offers to assist in the design and analysis in any way the states see fit. We look forward to working with you on this initiative.

If you have any questions or would like to discuss our comments further, please feel free to contact me by email at sandy.taft@us.ngrid.com or by telephone at 781 907 3640.

Sincerely,



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Director US Climate Change Policy

Cc: Nancy Seidman, Massachusetts Dept. of Environmental Protection
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