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Dominion

October 20, 2006

Mr. Chris Recchia
Executive Director
Ozone Transport Commission
Hall of States Building
444 N. Capitol St., Suite 638
Washington, D.C. 20001

Regarding: Comments on the Ozone Transport Commission's "Draft Summary of Regulatory Options to Implement Additional Reductions Beyond CAIR Budgets"

Dear Mr. Recchia:

At the September 19, 2006 meeting of the OTC's Stationary & Area Source Committee (SAASC), the OTC shared with stakeholders for the first time a draft summary paper of options to implement beyond CAIR reductions for electric generating units (EGU) within the Ozone Transport Region (OTR). Dominion offers the following comments regarding the need for reductions beyond CAIR and the mechanisms OTC has proposed to potentially implement such reductions.

OTC Has Not Provided Technical Basis for Reducing the Annual SO2 and NOx Budgets Established Under CAIR for the States in the Ozone Transport Region

In the over 18-months during which the OTC has been considering and evaluating options for reductions beyond CAIR, it has not provided the basis for the need to reduce SO2 emissions from electric generating units in the region. There are not, to our knowledge, modeling results to show that additional region-wide SO2 reductions are needed to address PM2.5 nonattainment in the OTR. Likewise, a demonstration has not been done to suggest that reductions in the state annual NOx budgets are needed to address PM2.5 in the region. All of the OTC modeling results shared with stakeholders to date have focused exclusively on the impacts of various NOx reduction strategies on 8-hour ozone. At the September SAASC meeting, the Air Director, Maryland Dept. of the Environment, indicated that the OTC's modeling efforts with respect to PM2.5 were "significantly behind" ozone modeling efforts, which the OTC still refers to as preliminary. EPA modeling of CAIR reductions indicates that the entire Northeast Ozone Transport Region (OTR) will achieve attainment of the PM2.5 NAAQS by 2010 with the exception of a very small, localized area (single model grid square) in southwestern Pennsylvania, which is indicative of a local-scale issue. The OTC has yet to provide any modeling information with regard to its PM2.5 modeling platform, assumptions, and inventories. Given that EPA's modeling clearly demonstrates that the

CAIR reductions adequately address PM2.5 concerns in the OTR, it is premature for OTC to be developing strategies aimed at additional SO2 and annual NOx reductions beyond those required under CAIR. Accordingly, the OTC should defer further development of SO2 and annual NOx reduction strategies until a technical basis for such reductions is established and advanced for public review and comment.

EPA's Recent Promulgation of Revised PM2.5 NAAQS Does Not Provide a Basis for OTC to Advance Beyond CAIR Reductions

It would also be premature for OTC to base reduction strategies aimed at the EPA's recently promulgated revised PM2.5 standards. First, EPA modeling assuming full implementation of CAIR/CAMR/CAVR, Title IV of the Clean Air Act, the NOx SIP Call and other state-specific programs shows that even with the tighter daily standard, only three counties in the OTR will exceed the new standard in 2015 (two counties in southeastern Pennsylvannia along with the one county in southwestern Pennsylvania that currently exceeds the annual standard). The two counties projected to exceed the tighter daily standard are shown to achieve the standard by 2020. Likewise, the EPA modeling shows only a handful of counties projected to exceed the new standards in the Midwest and Southeast, further demonstrating that residual nonattainment is more local-scale in nature and that regionwide reductions in SO2 and annual NOx beyond CAIR will not be needed to address residual nonattainment in the CAIR region. Second, EPA has not finalized the implementation rules for the PM2.5 standards promulgated in 1997, or developed proposed rules to transition from the 1997 standard to the new standard promulgated in late September 2006. Third, state SIPs to address the new standards will not be due until 2013. It is premature for states and the OTC to advance reduction strategies focused solely on the electric generating sector as a basis for addressing the new standard.

OTC and EPA Modeling Does Not Support the Need for a Regionwide CAIR-Plus Program to Address Residual Ozone Nonattainment Confined to a Portion of the I-95 Urban Corridor

With respect to 8-hour ozone, both EPA and OTC modeling indicate residual nonattainment in 2009 and 2015 within the corridor. However, most of this residual nonattainment is concentrated along the urban I-95 corridor, primarily from the Baltimore area northeastward to southwestern Connecticut. As a U.S. EPA representative pointed out at the September SAASC meeting, the OTC's efforts to address what appears to be a local-scale (or perhaps sub-regional) issue with a regionwide strategy is very questionable. Within the key remaining nonattainment areas along the corridor, such as NYC, EPA source apportionment modeling shows that EGU's are responsible for less than 10% of the ozone above the standard (7% from local sources and 3% from outside sources). Additional controls on EGU's subject to CAIR cannot resolve the residual nonattainment in these areas along the I-95 corridor. The cost of the incremental controls on an already heavily regulated industry sector should be evaluated for cost effectiveness and environmental need relative to other emissions reductions options.

The ozone season NOx emission budgets established under CAIR in the OTC states have been significantly reduced relative to current SIP call levels (some by nearly 50%) compared to other regions, as noted in the table provided below. Therefore, it would not make sense to impose additional beyond-CAIR controls and cost burdens upon OTC region EGUs that would increase the compliance cost to these sources and economically disadvantage theses sources relative to those in surrounding regions.

	NOx SIP Call Budget Tons	CAIR* 2009 –2014 Budget Tons	Reduction
OTR States**	124,200	94,700	24%
Massachusetts	12,861	7,551	41%
Non-OTR States ***	358,000	355,000	1%

* CAIR Ozone Season NOx Budget
** Excludes Virginia
*** Includes non-OTR states subject to both CAIR and NOx SIP Call

OTC Modeling Has Not Evaluated the Impacts of a Scenario That Would Impose CAIR-Plus Exclusively in the Ozone Transport Region

While the OTC has modeled scenarios imposing beyond CAIR reductions throughout the entire CAIR region, it has not evaluated the impact of CAIR-plus strategies applied solely to EGU's within the OTC region or only in areas predicted to require additional controls. To date, ozone reductions predicted to occur in the OTR are predicated on the imposition of beyond CAIR reductions throughout the entire CAIR region. With the OTC's intent to impose these more stringent reductions exclusively in the OTR, it is imperative that the costs, benefits and economic impacts be reassessed at the regional level (within the OTR), including potential impacts on fuel diversity, electric system reliability and cost of electricity and how such costs translate to the overall regional economy. In addition, the OTC has yet to evaluate through modeling the potential air quality and economic implications of the high electricity demand day (HEDD) options and concepts that are presently under consideration to address NOx emissions from uncontrolled peaking units in the region on high ozone days. These impacts should be assessed before imposing additional reductions from EGU's already subject to significant reductions under CAIR. In fact, the feasibility of some of the options for non-CAIR peaking units that would involve the purchase and surrender of CAIR allowances may be compromised if CAIR allowances in the OTC region are reduced.

The OTC Needs to Consider How a CAIR Plus Program Would Interface With Individual State Multi-Pollutant Regulations

Many of the states in the OTR have already implemented regulations requiring SO2, NOx and mercury reductions that are more stringent than current federal requirements and more stringent than will be required for CAIR and CAMR. In Massachusetts, for example, sources subject to additional reduction requirements under the state's multi-pollutant regulation over the next several years have already developed and submitted detailed compliance plans to the state. We are concerned as to how an additional layer of regulations would interface with these plans since sources either already have or may be required to commit to significant capital pollution control expenditures to comply with current state regulations well in advance of any additional state regulations implementing a regional model rule. The OTC needs to carefully consider existing state programs in the region and how a regional program will interface with such programs already well underway at the state level in the development of a regional model rule.

General Comments on the Draft CAIR-Plus Implementation Options

Dominion offers the following preliminary comments on the draft design approaches advanced by OTC in its "Draft Model Rule Package". The submission of these comments is not meant to be an endorsement of any of the options outlined in the draft paper.

- We are concerned how a region-specific OTC program for SO2 will interface with the EPA trading program established under CAIR and under Title IV of the Clean Air Act. Based on EPA's CAIR rule, it is questionable whether sources in the OTC would be able to participate in the CAIR trading programs, should the OTC embark on its own regional program. It is clear that EPA would not administer a regional program apart from CAIR, raising concerns as to how a regional OTC program would be funded and operated, as well as what the impact of a more geographically constrained trading regime would have on the effectiveness of a trading market and subsequent compliance costs to affected sources in the OTC region. These issues and costs must be evaluated by OTC before proceeding with either the State Retirement Option or the Backstop Program (that would be entirely separate from CAIR).
- To the extent OTC pursues beyond-CAIR reductions for NOx, the approaches to achieve the reductions should preserve the ability of EGU's in the region to fully participate in the federal trading programs. Market-based compliance programs of this nature have proven to be highly successful in reducing emissions faster, effectively and at least cost, as evidenced by EPA's Acid Rain and NOx SIP Call programs. Consequently, we urge the OTC not to proceed with any approach that would compromise any state's ability to participate in the federal CAIR trading program. Adoption of a program built off of the federal model rule will at least assure some consistency of OTC state implementation with other states in the CAIR region and would allow more compliance flexibility to assist sources subject to more stringent requirements that may be imposed in the OTC region to reduce compliance costs while achieving the environmental and economic goals of the states and the OTC region.
- We do not support the concept of states holding back (not allocating) allowances from the compliance supplement pool (CSP). The CSP provisions of the CAIR rule are established to incentivize early reductions in annual NOx emissions. These early reduction incentives not only provide companies added compliance flexibility to phase in compliance strategies that afford the best use of resources and ease the burden once the requirements take effect. More important, early compliance benefits

the affected sources and the environment as well by providing real emission reductions sooner – "a win-win situation". It seems counter-intuitive for OTC to consider eliminating such an incentive by withholding allowances from the CSP.

- We also do not support the concept of OTC setting an initial, presumably arbitrary NOx target that would "over reserve" allowances initially and then reallocate the "reserved" allowances once the actual reduction targets are established. OTC EGU's subject to CAIR are already facing significant reductions from the current SIP Call levels by 2009, which will be challenging to meet. Mechanisms and approaches that arbitrarily create uncertainty in the near term will complicate efforts and planning to achieve the required reductions cost-effectively.
- For the many reasons cited in the previous section of these comments, we believe the reduction levels put forth as "placeholders" in the OTC draft document are arbitrary at this point and should be removed from the document. OTC has provided no basis that a 25% reduction in CAIR allowances for NOx (in 2009) and for SO2 (in 2010), and a subsequent 40% reduction in 2015 are necessary, much less feasible.
- Finally, the CAIR and Beyond CAIR Regulatory Timeline provided on page 3 of the draft document should be changed to reflect that the "model rule draft" was provided for stakeholder comment in September 2006 as opposed to July 2006 as currently listed.

Thank you for this opportunity to comment. If you have any questions, please call me at 804-273-3022.

Sincerely,

Pamela F. Faggert

for Leonard R. Dupuis
Manager, Environmental Policy

cc: Mr. David Paylor (Director – Virginia Department of Environmental Quality)
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