AGA
American Gas Association

December 17, 2010

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

RE: *Public Input for the Study Regarding the Oversight of Existing and Prospective Carbon Markets*, 75 Fed. Reg. 72,816 (Nov. 26, 2010).

Dear Mr. Stawick:

The American Gas Association ("AGA") is pleased to submit for your consideration the following comments in response to the notice and request for comment issued by the Commodity Futures Trading Commission ("CFTC" or "Commission") on November 19, on *Public Input for the Study Regarding the Oversight of Existing and Prospective Carbon Markets*.

The AGA, founded in 1918, represents 195 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which 91 percent — more than 64 million customers — receive their gas from AGA members. AGA is an advocate for local natural gas utility companies and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs. For more information, please visit www.aga.org.

Natural gas utilities are not currently required to hold allowances for carbon emissions with respect to gas utility operations under a national program regulating such emissions and do not currently participate in carbon markets. However, several recent legislative proposals would have required gas utilities to hold allowances for the carbon emissions of their residential and small commercial customers. To the extent gas utilities are or would be required in the future to hold or purchase carbon allowances for themselves and/or their customers, AGA and its members have a substantial interest in the efficient operation and effective oversight and regulation of markets for the physical trading of carbon allowances as well as markets for the trading of financial derivatives associated with carbon allowances.

Natural gas is the cleanest burning of the fossil fuels – substantially cleaner than oil or coal with respect to emissions of carbon dioxide, the principle greenhouse gas.

Moreover, the natural gas production and delivery system in the United States is highly efficient. Approximately 92 percent of the energy produced reaches the consumer as usable energy. AGA, therefore, believes that increased direct use of natural gas (*e.g.*, for space and water heating in homes and businesses) can substantially reduce national greenhouse gas emissions.

AGA has expressed concern that rather than recognizing the positive contribution that the direct use of natural gas can make as part of a national greenhouse gas emissions solution, recent legislative proposals to reduce or control carbon dioxide emissions could act to reduce residential, commercial and industrial consumption of natural gas. Requiring natural gas utilities to hold or purchase allowances to cover the carbon dioxide emissions associated with their retail customers could dramatically increase the cost of providing natural gas service leading to decreases in the direct use of natural gas.

AGA has also noted that the residential and commercial customers of natural gas utilities are not a significant source of growth of U.S. greenhouse gas emissions. In fact, residential and commercial customers have been steadily decreasing their carbon dioxide emissions on a per customer basis for several decades. Since the 1970s, while the number of residential natural gas customers has increased by more than 70 percent, the greenhouse gas emissions from residential natural gas use has remained essentially flat.

Accordingly, AGA has advocated that in any industry-wide program to regulate carbon emissions, gas utilities should be allocated sufficient allowances to cover the emissions of their residential and commercial customers in recognition of the environmental benefits of the direct use of natural gas and the improvements in efficiency and emissions reductions those sectors have already made.

To the extent gas utilities would be required to participate in any prospective carbon market, AGA believes that any such market should operate efficiently to provide appropriate incentives to reduce carbon emissions. The overall objectives of the market should be clearly established, and the market rules should operate to provide adequate incentives to make investments to reduce carbon emissions.

AGA also believes that market participants should not be subjected to multiple and potentially conflicting rules for the same activities. To the extent that legislation or regulation establishing carbon market(s) finds value in having one agency (such as the Federal Energy Regulatory Commission) regulate the carbon allowance trading market while another agency (such as the Commodity Futures Trading Commission) regulates the financial derivatives associated with carbon allowances, AGA contends that the jurisdictional responsibilities of each agency must be clearly set forth, particularly in the area of enforcement. Each agency should have sufficient authority to deter and punish market manipulation; however, care should be taken to ensure that both agencies are not using their enforcement resources with respect to the same activity. Market participants need certainty as to which agency's rules apply to each sphere of activity in order to effectively participate in such markets.

Respectfully submitted,

/s/ Andrew K. Soto

Andrew K. Soto
Senior Managing Counsel
American Gas Association
400 N. Capitol Street, NW
Washington, DC 20001
202.824.7215
asoto@aga.org