

Gray Valerie A. (DNREC)

From: Bacher, David [David.Bacher@nrgenergy.com]
Sent: Friday, May 30, 2008 2:02 PM
To: Gray, Valerie A. (DNREC)
Subject: RE: Delaware's Climate Action Plan
Follow Up Flag: Follow up
Flag Status: Purple

Valarie,

I'm glad we had a chance to talk yesterday regarding the allocation recommendation. My observation from the recent meeting is that the issue was not resolved, that the following options in discussion remained

- Base the allocation on the 2000 to 2002 historic baseline
- Use an average of the data from 2000 to 2006 (because 2007 was not available at the time this was developed)
- Use the most current averaging period, suggesting 2005 to 2007.

As discussed, I strongly believe the current averaging period is the most accurate and most feasible method for the following reasons.

- Delaware Jurisdiction / Authority – RGGI has determined a baseline for allocation to each participating state. RGGI has not determined or recommended this methodology for distribution within any specific state. The rule as intended, specifically leaves that up to the individual state because they recognized state specific consideration should and could be addressed when implementing a regional program. We agree. Therefore, this does give Delaware authority to develop any means of distribution desired.
- RGGI Baseline Purpose – The RGGI baseline was not intended to source allocation distribution, rather a development of the regional budget and allocation to participating states. RGGI developed the baseline from information at the time the rule was developed. Again, the purpose of the baseline was not unit specific allocation, rather only for state specific allocation.
- Various Options
 - Baseline Approach – If an allocation were developed from the original baseline which follows the Acid Rain model, provisions (set aside) must be made to accommodate for new sources, addressing non representative data years, and most important, the allocation would have to be indefinite as are SO2 Unit specific allocations. The design and purpose of that model is; if you have a facility and opt to reduce emissions or retire a unit which reduces emission, you are rewarded by keeping the allowances and selling them to help offset the opportunity lost from either paying for controls or from not generating. If we use the baseline year approach, a set aside for new sources would be required and any allocations to a unit must be “forever” within the duration of the program.
 - Averaging Years – This is a more complicated approach however it does take into consideration the state of generation sources when the baseline was developed as well as application to current generation status.
 - Current Years Approach – Using the current years approach applies a more representative comparison to what the next five years of generation would be, rather than the baseline which is already obsolete. This approach is fair and assures the allocations go where they belong.

If the committee does adopt the baseline approach and further penalized generators for retirement, a plant such as Indian River, the largest participant and the only source providing real reduction will be double penalized. First, the baseline years are non representative for Indian River because they experienced major long term forced outages in 2001 and 2002 on the two larger units which resulted in very low heat input values. In the RGG Model Rule and regional baseline development this was not an issue because the population of facilities is so large, even with other plants in the same situation, the overall results are balanced out. However when we take that allocation and apply this to the population subset of Delaware, the effect of the non representative years are very much distorted in final allocation. The result is Indian River would be under compensated for its real generation while other sources will realize a windfall from allocations that should go to Indian River.

In any scenario, we believe the allocations, regardless of method should go to the source, and remain at full allocation value until the program expires. Again, if a source opts to reduce or discontinue generation, that is a real benefit to the environment and the cost of that option should be rewarded with the allocation. Realistically, the duration of our Delaware program will be short and the allocation scheme in development sunsets in 2014. For units such as Indian River Unit 1 and Unit 2, they will provide a real 12% reduction in CO2 emissions before 2012. This exceeds the RGGI target so a 10% reduction which is not required until 2018 and which does not required any reductions until 2015.

6/18/2008

In summary, in a cap and trade program, the objective is to set a cap and allow the sources to opt whether to reduce emissions or to purchase needed allowances. Even the NOx budget programs retain a duration where the allocation is stable, then refreshed after a duration of time. Acid Rain offers no reduction in allocations as a reward for sources who opt to reduce or retire generation. For Delaware RGGI, the program model should be the same and the allocations should be retained by the source regardless of operating status. Further, the reduction of allocations to sources that retire or restrict operation is not justified because; it is not in alignment with other model programs such as Acid Rain, NOx Budget, or CAIR, not justified because Indian River alone will bring in real reductions that exceed RGGI Model Rule Targets, and not needed because of the short duration of our allocation program which expires in 2014.

One final recommendation, while RGGI will require eventual reductions in emission and allocations, Delaware can generate a surplus in allowances. We believe it is in the best interest of the State and the Rate Payers to retain the allowances and sell them, rather than retire them. Retirement would bring little environmental improvement and no funds to Delaware. However, the funds raised from the sale of these allowances should provide a direct benefit to funding efficiency and conservation. That is real and that is needed.

Thank you,

David Bacher

From: Gray Valerie A. (DNREC) [mailto:Valerie.Gray@state.de.us]

Sent: Thursday, April 17, 2008 9:14 AM

To: Padmore Arthur (DOS); Grow, Bill; Burcat Bruce H (DOS); Cathe Kalisz; chadtolman@verizon.net; David Applebaum; Bacher, David; Bloom David (DOS); Michael d Fiorentino; Nick DiPasquale; Patrick McCullar; Sarah Murdock; Stu Widom; Tony Deprima

Cc: Mirzakhaili Ali (DNREC); Cherry Philip J. (DNREC); Foster Paul (DNREC); Rangan Ravi (DNREC); Clausen Robert L. (DNREC); Amirikian Ronald A. (DNREC); Lilly Tom (DNREC)

Subject: Delaware's Climate Action Plan

To RGGI Rule Development Workgroup

In response to your request for a copy of the Delaware Climate Action Plan – please find the attached link to University of Delaware's CEEP website where the report can be found.

<http://ceep.udel.edu/publications/globalenvironments/reports/deccap/fullreport.pdf>

Valerie Gray

DNREC - Air Quality Management

Planning Supervisor

156 S. State St.

Dover, DE 19901

302.739.9402 - office

302.739.3106 - fax

valerie.gray@state.de.us

Blue Skies Delaware; Clean Air for Life

6/18/2008