

## **SCR 28 Generators Amended Proposal March 10, 2008**

### **Background**

The DE electric generators recognize the need to stabilize and reduce greenhouse gas (GHG) emissions to address climate change. The production of electricity from fossil fuels is a critical element of the national and DE energy policy debate. The Regional Greenhouse Gas Initiative (RGGI), in which DE is a participant, provides a regional framework for stabilization and reduction of CO<sub>2</sub> emissions from electric generating units. DE has a unique position among other RGGI states. Delaware is a state that:

- imports a significant amount of electricity,
- is a small CO<sub>2</sub> emitter in the non-RGGI dominated PJM power pool
- will experience continued transmission congestion challenges in the foreseeable future
- promulgated a stringent Multi-Pollutant rule which will directly reduce SO<sub>2</sub>, NO<sub>x</sub> and mercury emissions and will indirectly reduce CO<sub>2</sub> emissions by approximately one million tons per year through anticipated facility closures, a reduction that exceeds RGGI Model Rule reduction targets for Delaware,
- is vulnerable to CO<sub>2</sub> leakage (uneven playing field costs incurred for Delaware source participation in RGGI without ensuing reductions due to replacement power being imported from non-RGGI states).

### **Proposal**

Given the above facts, a transition to a 100% CO<sub>2</sub> RGGI allowance auction in DE is recommended. This transition to 100% auction over a five year time frame will mitigate the risks of customer price instability over a two-term (three years per term) compliance period and will also mitigate the leakage issue in Delaware.

The DE electric generators also propose to provide additional Delaware-based GHG reductions during the five year transition period. This would be accomplished through the sponsorship of supplementary GHG reduction projects that may be achieved at generator and generator-affiliated facilities, as well as potential reductions that may be achieved through energy efficiency improvements.

Under RGGI, a portion of state allowances will be sold in a regional auction conducted quarterly. The states will receive revenue based on the uniform clearing price of the allowances and the number of allowances submitted for sale.

This Proposal recommends the following plan for submitting allowances for auction and distribution of revenue.

Recommended Allowance Distribution to Auction:

| Allowance Vintage | Set Aside to DNREC for Program Administration | Allocation to Generators (% of total allocation) | Allowances to be Auctioned by DNREC (% of total allocation, minus Program Admin Costs) |
|-------------------|---|--|--|
| 2009              | As per DE Rule                                | 45   | 55   |
| 2010              | "   | 35   | 65   |
| 2011              | "   | 25   | 75   |
| 2012              | "   | 15   | 85   |
| 2013              | "   | 5  | 95   |
| 2014 and Beyond   | "   | 0  | 100  |

Auction proceeds should be used to pay for DNREC's reasonable administrative costs incurred to run the RGGI program as well as for public benefit purposes to promote and implement programs for energy efficiency, renewable or non-carbon emitting technologies, and innovative carbon emissions abatement technologies.

In the first five years of the program, it is critical to direct the proceed funds to establish energy efficiency projects as well as to seek Delaware-based CO<sub>2</sub> reduction projects. To this end it is recommended that, during the five year transition period, proceeds from the sale of 5% of the total state allowance budget be directed to supporting Delaware-based GHG Reduction Projects and the remainder dedicated to the Sustainable Energy Utility (SEU) or a similar energy efficiency management program.

Recommended Distribution of Proceeds as Allowances:

| Allow. Vintage  | GHG Reduction Project | DE Allowances to Auction |
|-----------------|-----------------------|--------------------------|
| 2009            | 5%                    | 50%                      |
| 2010            | 5%                    | 60%                      |
| 2011            | 5%                    | 70%                      |
| 2012            | 5%                    | 80%                      |
| 2013            | 5%                    | 90%                      |
| 2014 and Beyond | 0%                    | 100% or TBD <sup>1</sup> |

1. It is recommended that the legislature or some other official state entity review the distribution of the auction proceeds after 4 years of funding to determine the success of the program and to make recommendations for distribution of the proceeds in the 5<sup>th</sup> year and beyond.

While it is unlikely that the existing power plant sources could reduce CO<sub>2</sub> emissions through energy efficiency changes, fuel switches, etc., (as many of these have already been done to the best practicable extent), these sources could support the search for GHG Reduction Projects that may reduce CO<sub>2</sub> emissions in Delaware.

The DE Generators therefore propose to seek GHG Reduction Projects through a public proposal process. Interested parties may seek partial or total funding, subject to review, and selection of qualified projects would be made by an advisory board of no more than nine representatives which would include; three (3) representatives from the state of Delaware (DNREC / General Assembly), three (3) DE Generators, and three (3) Delaware-based environmental advocacy organizations. General Assembly representation would include two legislative members participating in SCR 28; one from the Senate majority and one from the Senate minority.

One member of the participating government entities would chair this board, which would rotate every twenty months. Qualifying projects could for example, include, but not be limited to, Delaware based reductions associated with:

- GHG reductions at generator and/or generator-affiliated facilities
- Carbon sequestration through forestation or agricultural management
- Supplemental use of photo-voltaic solar systems to augment power demands by non-residential DE facilities
- The use of methane digesters for agricultural waste
- Electric Plug in Vehicles or other vehicle fleet improvements
- Other projects that achieve GHG reduction in DE and /or benefit adaptation.

Entities whose primary business is the generation, transmission or distribution of electricity will not be eligible to submit proposals. DE generators will support the annual audit of selected projects.

### **Benefits**

The Generators believe that there would be benefit to funding such projects for the five year transition period in an effort to assure real reductions of CO<sub>2</sub> emissions in Delaware, and to promote, advertise, and educate the public and other entities of the benefits of such discrete reduction projects in Delaware.

Based on the original RGGI modeling that anticipated a CO<sub>2</sub> allowance price range of \$2 to \$10, recent RGGI CO<sub>2</sub> allowance trades that were conducted at prices between \$5 and \$10, and the RGGI proposed reserve price of \$1.86 a conservative value of \$5 per CO<sub>2</sub> allowance is used to estimate that the funds dedicated to the GHG Reduction projects would be on the order of \$8-9 million over the proposed five year cumulative period.