

DE Generators Allowance Allocation Proposal

City of Dover, Conectiv Energy, DEMEC, Inc., NRG Energy Inc.,
Premcor Refining Group, Inc.

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SCR28 Workgroup Committee

Delaware's Potentially Regulated Generation Sources

- City of Dover
 - McKee Run Station
 - Van Sant Facility
- Conectiv Energy
 - Edge Moor Power Plant
 - Hay Road Power Complex
- Delaware Municipal Electric Corporation (DEMEC)
 - Sam Beasley Station
- NRG Energy, Inc.
 - Indian River Generating Station
 - NRG Energy Center, Dover (CT's)
- Premcor Refining Group – Delaware City Refinery
 - Refinery's In-house Power Sources

RGGI Principles

- 2003- The Northeast States work together to “[develop]] a multi-state cap and trade program . . . to reduce carbon dioxide emissions from power plants in the participating states, while maintaining energy affordability and reliability . . .” The fourth guiding principle provided that “[t]he initial phase of the cap and trade program will entail **the allocation** and trading of carbon dioxide allowances to and by sources **in the power sector only**”. — *From the RGGI Action Plan*

Allocation was always part of RGGI through planning, design, analysis, model rule development.

DE Generators Allowance Allocation Proposal

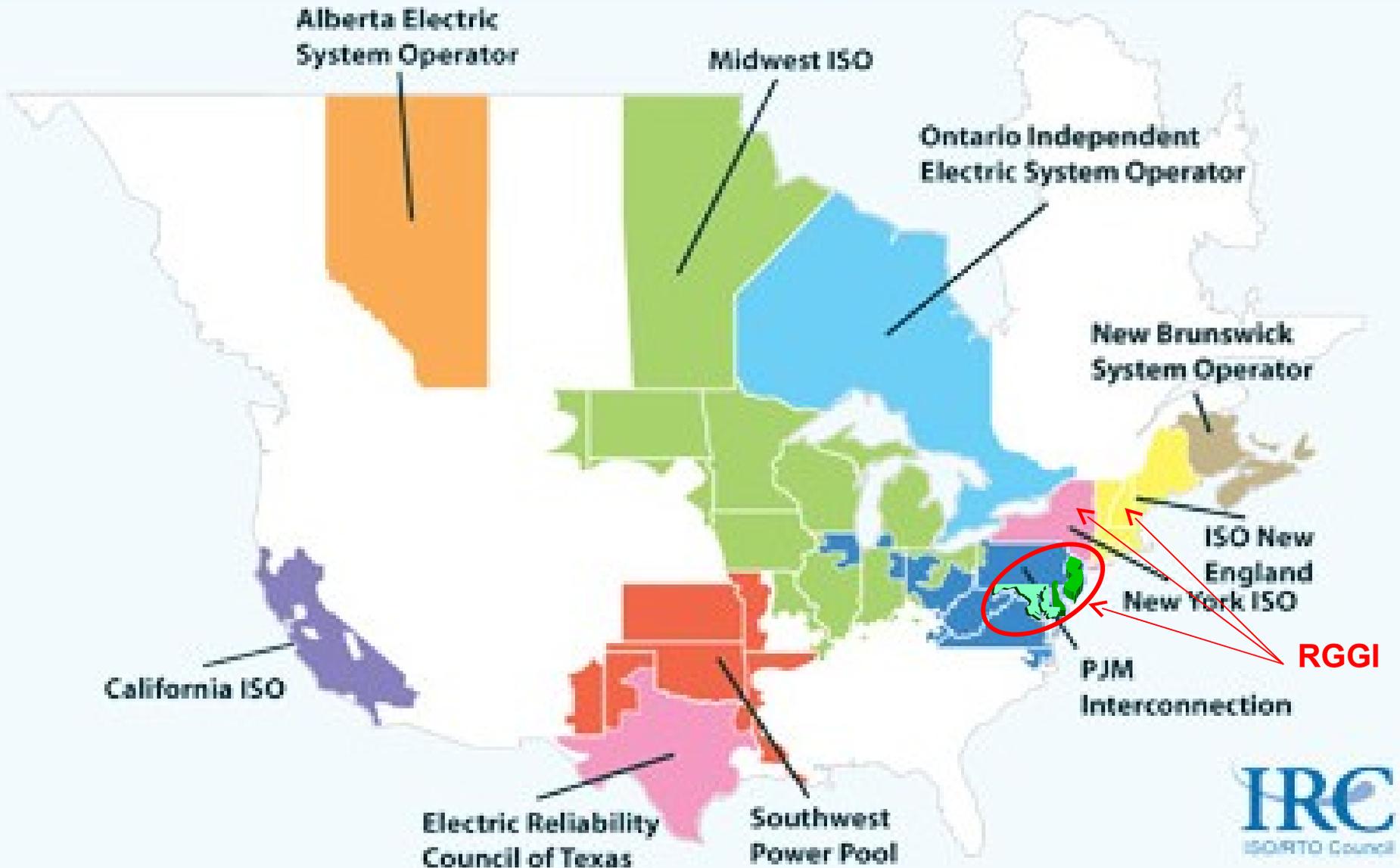
- The power generators in Delaware believe that there should be a transition period in RGGI to minimize cost and retail rate impacts.
 - 50% auction / 50% allocation
 - Increase auction portion by 10% each year to 100%

Why combined allocation and auction is good for Delaware

■ **Location, Location, Location –**

- DE is in the PJM power pool of which only 3 out of 13 states and the District of Columbia are in RGGI
- As in-state generation prices increase, more power will come from other states like PA, VA, WV and OH without allowance requirements
- The result – DE customers pay for, but do not get any net reduction in greenhouse gases
- Allocations help level the playing field between RGGI and non-RGGI suppliers

Power Pools in the North America



What Other RGGI States within PJM are Doing

■ New Jersey

- NJ is a net importer of power
- Legislation to adopt greenhouse gas emission portfolio or another program to mitigate leakage and the BPU/DEP will develop an action plan for immediate ratepayer relief if the clearing price exceeds \$7 for two consecutive auctions

■ Maryland

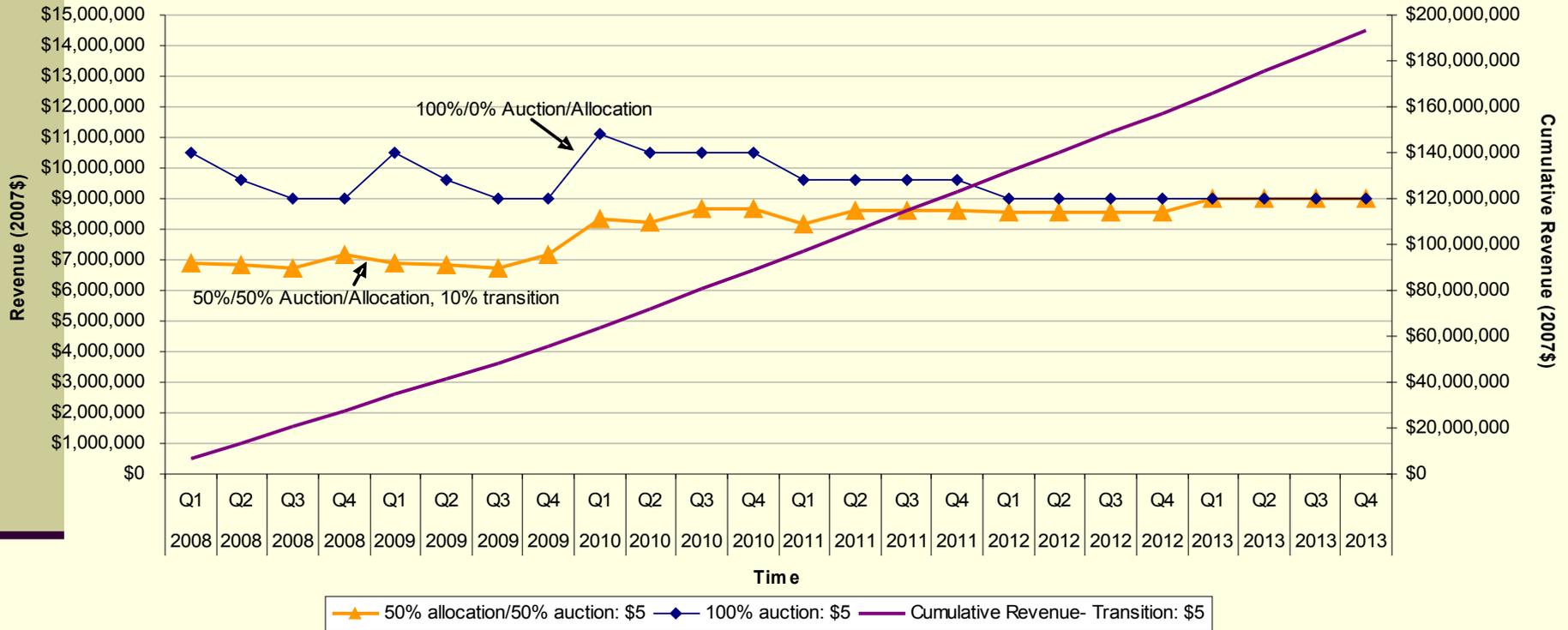
- MD is a net exporter of power
- If allowance auction price reaches \$7/ton, MD will withdraw up to 50% of allowances and reserve them for purchase by MD sources.

Why combined allocation and auction is good for Delaware

- **The Sustainable Energy Utility (SEU)** - DE has a program with funding in the works to implement energy efficiency – the SEU. RGGI allowance revenues can supplement these funds and then, ultimately, replace them. Revenue will be generated from quarterly Auctions. (See graph) At \$5 per ton and a 50% allocation, the first four auctions will bring in close to **\$28 million** in the first year. Proceeds from the first auctions will arrive in 2008.

Projected Revenue from the Sale of RGGI Allowances

Projected revenue analysis is based on distribution of allowances for sale in the RGGI Auction report (page 8, Oct. 2007).



Allowance sales at a 50% allocation, and annual 10% transition results in approx. \$28 million to DE in the first year

Why combined allocation and auction is good for Delaware

- 50% auction w/ transition
 - Generators are still very short allowances
 - No windfall for in-state generators
 - Helps level the playing field for a state that already imports a significant amount of their power.
 - Allowance allocations help reduce price volatility.

Why combined allocation and auction is good for Delaware



- **Delaware Energy Price Impact** - Today, Delaware's transmission infrastructure is significantly congested. Until new infrastructure goes into service (2015?), in state generation is needed to supply reliable electricity.
- Since Delaware is an unregulated state, energy prices are determined by the cost to run in-state generation in a "free market". Since a significant number of customers have their energy prices determined by SOS Auctions, RGGI costs will immediately and directly impact energy prices to Delmarva retail consumers. There will be an additional price impact to all Delaware energy users as energy suppliers in the market "price in" the risk of RGGI costs to their offered prices.
- Unnecessary uncertainty places financial constraints on local generation and dependence on out of RGGI generation resources, raising the market price of energy in the Delaware region.

Why combined allocation and auction is good for Delaware

■ **CO2 Reductions –**

- Delaware will exceed RGGI CO2 reduction goals through the deactivation of Indian River Units 1 & 2 in 2011 and 2010, respectively. (approx 1 million tpy CO2 or ~15% of the DE total)
- The RGGI CO2 reduction goal 10% by 2018

Delaware is different, make the right decision for the right reason.

DE Generators Allowance Allocation Proposal Transition Approach

- A combined auction/allocation program provides the following benefits:
 - reduces early program risk and uncertainty.
 - reduces exposure to allowance market volatility, interim energy price spikes, and leakage.
 - allows market efficiency, the SEU, and renewable energy replacement options time to “fill the gap” without unnecessary negative impacts to the local economy and Delaware consumers.
 - phased implementation allows Delaware to adapt to federal program implementation faster and easier. Federal legislation will occur - not a question of if, but when.