

**SCR 28 Workgroup Meeting
February 6, 2008, 10:30 AM
Rm 112, Tatnall Building
150 William Penn Street
Dover, DE 19901**

<http://www.awm.delaware.gov/Info/Regs/Pages/SCR.aspx>

Workgroup members present:

David Small, Philip Cherry, Verne Shortell, David Bacher, Rep. Gerald Hocker, Bruce Burcat, David Bloom, Dr. John Byrne, Tony DiPrima, Patrick McCullar, Cathe Kalisz, Stuart Widom, Gary Helm, Senator Harris McDowell, Michael Fiorentino, Chad Tolman, Nick DiPasquale, Ali Mirzakhilili

Other Interested Individuals Present:

Val Csizmadia, Roger Jones, Matt Hodges, Jeff Montgomery, Lisa Pertzoff, Yusha Hu, Sarah Cooksey, Rep. John Kowalko, Valery Gray, Sally Buttner, Pat Todd, Carol Ann Edwards

David Small welcomed the group and round table introductions were made.

Ali Mirzakhilili, Administrator for the Air Quality Branch, brought the groups attention to Valerie Gray who recently has filled the position within Air Quality that will be responsible for RGGI Regulation Development and Start Action notices.

David Small reviewed that at the last meeting we heard an informal proposal from the Generators who have since prepared a more formal presentation for the group today. David then deferred to the Generators.

Tony DePrima kicked off the generator presentation, Vern Shortell filled in the body of the presentation and Pat McCullar finalized. *The Generator's proposal may be found on the SCR28 Web site at the above noted URL.*

Issues addressed with the generator's proposal:

Tony made the point that the generators proposal meets the RGGI goals, supports the sustainable energy utility, and brings us to a 100% auction level safely. The proposal respects Delaware's difference and is fair as to price issue, addresses leakage and where we may be going with the Federal regulations.

Verne elaborated that allocation was envisioned in the original RGGI workplan and that cap and trade programs need a secondary market to function, otherwise there won't be a trade, and it looks like a tax.

Pat emphasized that Delaware is different; we are an importer, so leakage from non RGGI participating states needs to be considered to avoid paying for benefits we don't receive. Delaware is different; we have the SEU. This buys time while the program gets running.

Indian River Power Plant Units 1 & 2 will be off line by 2011 and 2010, respectively.

Discussion:

It was noted that bidder behavior in power markets is hard to predict and that an exact prediction of how prices may rise as a result of RGGI is not possible. While some costs may be reflected in prices, others may not, depending on financial and electricity dynamics between generators in and outside the RGGI region.

Senator McDowell asked what actions might be possible from the generators to reduce their emissions in consideration for allocating a percentage of allowances. Generators responded that much had already been done and that coming up with additional projects might be prohibitively expensive compared to the gains achievable.

Nick DiPasquale noted that we need instate generation. House Bill 6 of the 143rd General Assembly called for in state generation. By taking care of the congestion issue, it would take care of leakage; Transition to 100% could be agreeable if there were agreement to wind or another type of power generation.

With the advent of the two Indian River units deactivation, the impact of those extra carbon allowances was questioned. What the over all impact on the allowances would be and how those allowances would be handled under RGGI remains to be seen. Allowances may be removed from the system or retired. Allocation of allowances to nonproducing units was not favored.

John B. suggested that RGGI would not lead to significant CO2 reductions, and later (after a brief lunch break) clarified the statement to reflect his reasoning – that being that emissions are currently less than the cap.

The generators pointed out that Delmarva units set the marginal price in PJM only about 20% of the time and so the added costs of RGGI may not be as readily discernable - and yet units outside RGGI may raise their bids in anticipation of RGGI costs. It's a market – and market forces will drive the cost results.

Other Proposals:

Dr. Tolman and Nick DiPasquale provided a handout. *(A copy of the handout may be found on the SCR 28 web page.)*

Nick stated as previously presented, a 100% auction is proposed and how it would be allocated with the majority going to a separate fund overseen by a citizen's advisory council. Previous concern was that the SEU could not absorb all the money and the GA would find other uses. A review of the handout and request for recommendations was made.

Senator McDowell clarified the purpose of the SEU (Sustainable Energy Utility) and expressed concern with the proposal.

Nick clarified that the citizen advisory board envisioned would need to be embodied in legislation, as a legislative proposal.

Dr. Byrne noted that the SEU already has an oversight board and that the SEU oversight board is slated to be re-cast this year, as called for on SB 18. He and others expressed concern with the legislature creating another advisory board.

Nick stated his proposal had two objectives: 1) to complement the SEU; 2) to provide a more diverse oversight group. He wants to see a broader diversity on SEU Board.

Sen. McDowell invited the group to suggest potential members.

David asked for clarification of the items on the table. David asked if Dr. Tolman's proposal on page 9 was the same as the proposal Nick made. Dr. Tolman stressed the need for a portion of funds to go to the poor and to educate the public.

Phil Cherry stated there is wisdom to be found in other states laws and provided a summary for members to take and consider. The handout (available on the web site) provides a big picture take on where other states have put the money; a much more general view than what has been discussed here.

The question of what happens to RGGI with a Federal Program should be considered. The primary concerns are preemption of the state process and whether we can have the ability to adopt things more stringent than a federal program. It was generally agreed that a federal program is several years away from implementation and we needed to proceed with RGGI, while working with our congressional delegation to be sure a federal program doesn't harm us as first movers.

David noted we need to spend time on where we go from here but paused to provide members of the public an opportunity to speak.

Rep. Kowalko stated he was a supporter of the SEU, however felt allocation money should be separated from the SEU and that we needed to proceed with caution.

Lisa Pertzoff of the League of Women Voters endorsed Nick's idea and would like to see it pursued. It puts a check and balance in place. Lisa asked about the cost of solar power. She additionally provided a handout of Dr. Tolman's credentials.

Pat Todd of the League of Women Voters questioned what other states are doing for oversight committees. Phil pointed to the handout just discussed but Pat asked for something more specific to oversight boards/processes.

Roger Jones of the Nature Conservancy, suggested 10% be used for coastal programs.

Prior to Pat McCullar's departure, he stated when the SEU was first introduced it should stand alone. Now with the proposal to put RGGI money into it he would have to re-examine the facts.

Vern wanted to make sure folks knew that the generators hadn't really considered where the money would go – but that they would consider the question further.

Ali asked about how the 50% allocation would be divvied up and whether those details were a topic for this group. Several members felt that such questions were better answered in the context of the regulatory rulemaking process underway in his shop.

With time running short, the option of a report to the General Assembly detailing the proposals of the workgroup was suggested. The report would present a wide range of opinions and provide information that would be in the best interest for the state.

David suggested that perhaps we would not get consensus and that our discussions should cease in the context of this workgroup.

Several members felt efforts should be redoubled to bridge the gap between respective positions and that we shouldn't give up. They expressed the wish for more dialogue and a desire to compromise, not wanting to be unable to resolve the issue.

David expressed willingness to pursue one more shot and encouraged smaller discussion between various groups as a means of coming closer to consensus.

The next meeting will be scheduled with 3 weeks via e-mail with subgroup discussions in between time. It was noted that a presentation should be made to the General Assembly prior to Easter break.

Meeting adjourned.