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MEMORANDUM

TO: Members of the Senate Concurrent Resolution #28 Workgroup

FROM: John A. Hughes, Secretary

DATE: March 6, 2008

SUBJECT: Senate Concurrent Resolution 28

I want to thank you all for your efforts in support of our Senate Concurrent Resolution #28 workgroup and to share with the group my views on some of the issues before you.

First, let me reiterate my support for the Sustainable Energy Utility (SEU). As I testified when the bill passed last year, I wholeheartedly support the concept of the utility and its focus on energy efficiency and renewable energy. The legislature spoke very clearly when it created the SEU. When it comes to providing energy efficiency services and incentives for renewable energy systems and services, the SEU is the state-designated service provider. To the extent that RGGI revenues are to be directed to energy efficiency and renewables, then clearly the SEU should be the recipient of those revenues.

There are varying opinions on where any RGGI revenues might best be used. The information furnished by ICF Consulting in support of the development of the RGGI program as well as studies conducted over the past several years by states such as New Hampshire and Maryland provide compelling guidance in this area. Investing in energy efficiency and customer sited renewables has several benefits. They reduce actual power consumption off the grid and result in real emission reductions of priority pollutants and carbon. Energy Efficiency has the added benefit of potentially lowering the cost of the RGGI program and electricity costs to consumers and to save them real money during these difficult economic times. Furthermore, it is well accepted that the reduction in demand associated with investments in energy efficiency will have a co-benefit of reducing the potential for "leakage" of emissions from outside the RGGI region.

Delaware has not in the past been as aggressive with investments in energy efficiency as many other states. Just three years ago, we were tied for last place in the nation for investments in energy efficiency according to the well respected American Council for an Energy Efficient Economy (ACEEE). Therefore, ample opportunity should exist to make significant improvement in Delaware's efficiency profile. For these many and varied reasons I would encourage you to direct a significant portion of the RGGI revenues to promoting energy efficiency.

I'm aware that there is also a great deal of discussion surrounding the issue of "allocation" versus "auctioning" of allowances. As the last state in the RGGI region to be deciding this important question, we are informed by the actions of other states. Auctioning 100% of the allowances provided to Delaware under our multi-state agreement would seem to be the logical and consistent approach; however Delaware is different in some critical aspects compared to other participating states. Our size suggests a certain vulnerability to impacts that other states may weather with less effect; our most heavy reliance (compared to all other RGGI states) on coal for in-state generation of electric power sets us apart from the other northeastern states; and our positioning within the PJM region (that leaves us most susceptible to competitive disadvantages and leakage concerns in the region) all contribute to a call for caution in deciding the auctioning question. Consequently, I believe the generator's proposal for an eventual 100 % auction, beginning at 50% and ramping up over five years is an excellent start to negotiating this important question. I would prefer, and would be willing to accept, a 60% auction ramping up over 4 years as a compromise, again recognizing Delaware's unique situation.

DNREC has been working on RGGI for several years, and we were prepared to come to the Legislature last year with a bill that would have decided these important questions. For several reasons we elected to defer a legislative attempt last year and instead agreed to pursue a workgroup approach as is evidenced by your efforts. While the work group has brought together a wide array of interests and helped inform the decision-making process in a very positive way, we have, however, paid a price for that delay, as we find ourselves now in a difficult position with respect to our participation in RGGI. Governor Minner was one of the first Governors to publicly express her support for a regional approach to addressing the carbon issue, and I am pleased to say that Delaware's participation in RGGI and the effort itself has advanced the political support across the country for a national cap and trade program for carbon. We must succeed in our efforts to address the questions before the workgroup soon if we are to fully participate in RGGI when the program launches in January 2009. To miss the launch of the program is unacceptable to our Governor, me and the people of Delaware. I ask you to complete your work and to resolve your outstanding issues by the end of March so we can present a unified position to the Legislature and ensure timely passage of a bill and conclusion of the regulatory effort necessary for our full participation by the end of the year.

Let me close with a comment about the context of RGGI in light of the larger climate change problem. RGGI was designed as a modest start on a path to reducing carbon emissions. It is wholly insufficient in addressing carbon emissions nationally, regionally or even within Delaware. Do not look to RGGI - and the revenues it may generate – as a significant contributor to the many actions that will need to be taken to accomplish the reductions recommended by the worlds' scientists. The revenues are unpredictable at best, given the nature of the program and the prospects for federal action, so we should look to a short term horizon and invest what monies we receive where we know they will do most good for Delaware ratepayers and our environment in reducing electrical demand and investing in renewables.

I appreciate the support of all the committee members who have invested a great deal of time and passion in this most important initiative. I hope my views help to advance your discussions.

Cc Governor Ruth Ann Minner