DELAWARE ELECTRIC CO-OP
"We Keep the Lights On"

Old Dominion Electric Cooperative
ODEC

VIA ELECTRONIC MAIL

September 28, 2018

Ms. Valerie Gray
DNREC – Division of Air Quality
100 W. Water Street, Suite 6A
Dover, DE 19904
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RE: Comments on Proposed Amendments to Regulation 1147
RGGI CO_2 Budget Trading Program

Dear Ms. Gray:

Delaware Electric Cooperative ("DEC") and Old Dominion Electric Cooperative ("ODEC") offer the following comments for consideration regarding the Proposed Amendments to Delaware's CO2 Budget Trading Program (7 DE Admin. Code 1147) published in the *Delaware Register of Regulations* on August 1, 2018 (Register Notice SAN# 2018-03).

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INTRODUCTION

DEC is a member-owned electric distribution cooperative headquartered in Greenwood, Delaware, serving more than 98,000 member accounts in Kent and Sussex counties, the large majority of which are residential accounts. DEC is an industry leader in providing cost-effective energy efficiency programs and renewable resources for the benefit of its member-owners. DEC is the only Delaware electric utility to meet the 15% energy savings goals of the state's Energy Efficiency Resource Standards ("EERS"),[1] and DEC's portfolio of renewable energy resources, which includes in-state landfill gas and a 4MW DEC-owned solar farm, is on pace to exceed the 25% by 2025 requirement of the state's Renewable Energy Portfolio Standard ("RPS").[2]

[1] 26 *Del. C.* §1501, et. seq.
[2] 26 *Del. C.* §351, et. seq.

DEC achieved compliance with the state's statutory environmental goals without negative cost impacts to its members. DEC's average electric rates are the lowest in the state and have been for more than a decade. Through innovation programs like *Beat the Peak* - developed by DEC and now implemented by nearly 100 electric cooperatives nationwide - DEC's members directly engage in energy efficiency efforts. As a result of individual member engagement, *Beat the Peak* has cumulatively saved DEC's members more than $27 million over than past 10 years.

ODEC is a not-for-profit generation and transmission cooperative and the primary power supplier to DEC and ten other member distribution cooperatives ("Member Systems") serving load in Delaware, Virginia, and Maryland. In aggregate, ODEC's Member Systems serve approximately 1.1 million retail consumers.

ODEC owns a variety of generating resources in Virginia and Maryland including part ownership of a base-load nuclear plant (North Anna Power Station), co-ownership of a base-load pulverized coal plant (Clover Power Station), sole ownership of two (2) peaking natural gas/fuel oil combustion turbine plants (Louisa & Marsh Run Generation Facilities), and a natural gas-fired combined cycle plant in Maryland, which is a member of RGGI. ODEC has long-term purchase contracts from renewable energy resources including solar, wind and landfill gas-fueled electric generation plant. Although ODEC does not own any generation in Delaware which is directly affected by the Program, ODEC does buy wholesale power to serve DEC and its other members.

The proposed changes to the RGGI program and the effects on the PJM market and bordering states are of great concern for DEC and ODEC. As member-owned utilities, DEC and ODEC believe that safe, affordable, and reliable power is of the utmost importance to the State of Delaware and the nation as a whole.

COMMENTS

First, we would like to express our support of the comments submitted by Mr. David Stevenson. His comments highlight several important considerations including:

- Given the significant progress Delaware has already achieved, further CO2 reductions by generators are not required to meet stated Delaware emission goals.
- The extension of RGGI will likely drive the export of CO2 emissions to other non-RGGI states.
- Due to the decreased utilization of Delaware generation resources, subsequent imports of power from out-of-state will increase electricity costs.
- Key assumptions in the customer bill analysis referenced in the Regulatory Impact Analysis (RIA) are flawed.

To amplify his comments, we offer the following additional considerations:

- Power plant emissions are not the leading source of CO2 emissions in Delaware. Vehicle and other transportation sector emissions became the largest source of in-state CO2 emissions in 2009, the first RGGI compliance year. As of 2015, the last year of data published by the Energy Information Administration, CO2 emissions from both the transportation sector and the industrial sector exceeded emissions from the electric power sector.
- Electric power sector CO2 emissions have been reduced by almost 50% since 2008, primarily as a result of fuel switching by generators from coal to natural gas in response to market factors. In the past ten years, emissions from coal-fired generation have fallen from 5.5 million metric tons to just 700,000 metric tons. Coal now accounts for less than 5% of Delaware's net generation. Total transportation and industrial sector emissions, by contrast, are essentially the same today as they were 30 years ago.[3]
- Since RGGI was implemented, Delaware electricity generators have paid more than $100 million to procure CO2 allowances, 65% of which has been directed to the Sustainable Energy Utility ("SEU"). DEC has no programs with and receives no support for efficiency or renewable energy initiatives from the SEU. Consequently, DEC's members do not directly benefit from the more than $65 million that has already been allocated to the SEU.

Errata – Budget

There appears to have been a typographical error in the originally published base budget referenced for 2026 under Section 5.1.9. The value stated in the originally published proposed amendment is 2,280,690. Consistent with the annual reduction and the CCR and ECR values delineated in Tables 3 and 4, the value for the 2026 base budget should be **2,870,690**. This appears to have been corrected in the errata sheet as of August 29, 2018.

Impact on Wholesale and Retail Costs

The primary goal of the modifications to the RGGI rules is to continue the reduction of CO_2 emissions by establishing under the State's Trading Program and adjusted base budget for 2018 of 3.8 million tons and corresponding reductions to a 2030 base budget of 2.5 million tons (a 37% reduction). This is in line with the reductions of the other RGGI states. Reducing this base budget will afford fewer RGGI allowances to generators in Delaware, pushing up their cost of compliance. The increased compliance cost burden will be reflected in generators' bids which will have the effect of 1) increasing the incremental cost and thus bid prices of in-state generation, which will then ultimately 2) result in decreased utilization/generation from those in-state generators. Given the manner in which the PJM RTO dispatches generation resources across multiple states, the end result will be an increase in generation and increase in the import of power from out-of-state from states that are not participating in RGGI (leakage).

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[3] Data published by the EIA shows that transportation sector emissions were 4.3 million metric tons in 1986 and 4.4 million metric tons in 2015, while industrial sector emissions were 3.9 million metric tons in 1984 and 3.8 million metric tons in 2015.

As not-for-profit electric cooperatives, DEC and ODEC are concerned that the additional burden of a more stringent RGGI requirement will increase both the wholesale cost and ultimately the retail cost of electricity for the members of DEC. Any cost increases experienced by DEC and ODEC are passed along to the cooperative customers. For 2017, DEC's average annual delinquency rate was 17%, meaning on average nearly 17,000 members could not pay their electric bill on time. Higher retail electric prices driven by the proposed modifications to RGGI will make it even more difficult for DEC members living on fixed incomes or struggling financially.

We believe the cost impacts of the proposed amendment to RGGI will be significant. Allowances sold for $4.50 in the most recent quarterly auction held earlier this month. Under the proposed amendments, an additional 30% decrease in the number of available allowances coupled with the cost containment concept will attempt to cause allowance prices to rise to between $11.02 and $23.89 per ton by 2030. Increasing compliance costs by such a magnitude is not only a problem for DEC members, but for all retail customers in the state. Additionally, such cost increases will make Delaware less competitive with other non-RGGI states when considering economic development opportunities, and harms reliable sources of in-state generation, potentially to point of causing the retirement of generation assets before the end of their useful life.

Emissions Containment Reserve (ECR)

In addition to the reduction in Delaware's CO2 budget, the proposed amendments introduce a new Emissions Containment Reserve ("ECR") mechanism. This mechanism serves to artificially increase the cost of RGGI allowances by allowing participating states to withhold ECR allowances if the RGGI auction prices fall below certain levels. Low RGGI auction prices are a sign that the RGGI states are able to meet the stated CO2 reduction targets in a more cost effective way—typically a sign that generators are over complying. Forcing an artificially high RGGI allowance price in such a situation unfairly increases the cost of compliance when generators are already complying. DEC and ODEC recommend that Delaware follow Maine and New Hampshire and not adopt, or at least defer adoption of, the ECR provision as part of any amendments to the RGGI program.

PJM Market and Effects of Leakage

ODEC continues to have concerns regarding any adjustments to the RGGI program and the potential for increases in leakage. An example of this is already occurring where the RGGI regulation in Delaware and Maryland has contributed to the planned construction of new transmission lines to facilitate the import of power from adjoining non-RGGI states.

PJM, as a regional transmission organization, allows for cost-effective exchange of electricity throughout its territory, which includes Delaware. Inconsistent state CO2 policies among states within a regional power market such as PJM also create distortions in generation dispatch that

can increase, rather than decrease, regional emissions. Currently, only two of the thirteen PJM states participate in RGGI.

For example, the cost of CO2 allowances from the RGGI program in one state can discourage a low-emitting in-state natural gas plant from operating, only to make way for imported coal power from a neighboring state simply because the out-of-state plants do not incur CO2 cost. While these shifts in dispatch may reduce in-state emissions, they could easily *increase* the net regional emissions including the non-CO2 regulated states.

While we recognize that the RGGI program review does include some level of evaluation of imported power, we encourage Delaware to perform a more detailed analysis of this cross-state leakage. If the results do indicate an overall net increase in CO2 emissions across the region due to reduced generation from more efficient generation in Delaware being offset by less efficient generation from out of state, there is no net emissions benefit to implementing the proposed more stringent RGGI requirements.

Use of RGGI Funds

DEC notes that part of the economic justification for the proposed amendments as stated in the required Regulatory Impact Analysis is that RGGI funds are used to implement additional energy efficiency programs. The premise is that investing RGGI allowance proceeds in efficiency programs will reduce overall energy usage and demand, thereby offsetting the increased wholesale power costs associated with RGGI compliance. The economic model used to estimate the customer bill impacts of the proposed RGGI amendments assumes, based on state reported projections, that Delaware will invest 70% of the additional RGGI proceeds in efficiency programs. Projecting efficiency investments at this level, the model makes price adjustments that reflects reductions in load due to the efficiency investments and calculates and average monthly bill impact. Delaware's historical use of RGGI allowance proceeds, however, proves that this key assumption is inaccurate.

Delaware has not invested 70% of its RGGI proceeds for energy efficiency. While the majority of the RGGI money Delaware has spent over past 10 years was directed to efficiency-related programs, Delaware has not invested anywhere near 70% of its total RGGI proceeds for efficiency programs. By statute, 65% of the RGGI proceeds are directed to the SEU.[4] The balance is allocated to DNREC and used for weatherization and greenhouse gas reduction projects, bill assistance for low income residents and the cost of administering the RGGI program.

Available reports prepared by the SEU and the General Assembly's Joint Sunset Committee show that overall investment of RGGI proceeds is far less than the 70% assumed in the customer bill impact model. For instance, the 2013 Final Report prepared by the Joint Sunset

[4] 26 *Del. C.* §6046(c).

Committee following its review of the SEU shows that in 2012 the SEU invested no money at all for efficiency programs. Of the SEU's total 2012 disbursements, almost 80% ($1,533,474) was used to purchase solar renewable energy credits. Information in the same report shows that in 2010 the SEU received more than $4.7 million in RGGI funds but spent less than $2 million (@41%) on projects. More recent annual reports prepared by the SEU indicate RGGI revenue in FY15 of more than $13 million and program expenses approximately $5.6 million (@42%). Similarly, the SEU's FY16 annual report reflects RGGI revenue of approximately $12.6 million and program expenses of approximately $3.2 million (@28%).

Our reference to the SEU's rate of program investment is not intended as a criticism but instead to show the flaw in the rate impact analysis offered in support the proposed amendments. The flaw is further evidenced in reports prepared by RGGI, Inc., showing the percentage of Delaware's cumulative investments in energy efficiency programs is less than 70%, although the percentage has been increasing since 2014.[5] Consequently, the critical assumption used to calculate the cost impacts of the proposed regulatory amendments is simply wrong. Not only is Delaware not spending 70% of the RGGI money it receives on efficiency programs, less 70% of the money Delaware has spent went to efficiency programs. The true rate impact to DEC's members and all ratepayers statewide has, therefore, not been properly assessed.

CONCLUSION

Electricity generated in Delaware is cleaner and more efficient than it has ever been as a result of market driven influences. The proposed amendments to Delaware's CO2 budget trading program will significantly increase wholesale power costs and, in turn, DEC's retail rates. DEC and ODEC are committed to providing DEC's more than 98,000 members with safe, affordable and reliable electricity. DEC's experience meeting the EERS and RPS demonstrates that the State of Delaware's energy and climate goals can be achieved through market-driven initiatives and ratepayer engagement in manner that does not increase costs. DEC and ODEC, therefore, respectfully recommend that Delaware not implement the proposed changes to its RGGI program until a more thorough assessment of cost impacts and the impacts of cross-state leakage have been fully analyzed. DEC and ODEC further recommend that Delaware not implement the new ECR provision given its potential to increase compliance costs while providing little benefit.

Thank you for your consideration of these comments.

{SIGNATURE PAGE FOLLOWS}

[5] The reports prepared by RGGI, Inc., may be accessed through the following link: https://www.rggi.org/investments/proceeds-investments.

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