Good evening. My name is Valerie Gray and I am the planning supervisor for the Division of Air Quality. Tonight, the Department is presenting its proposed amendments to 7 DE Code 1147 – CO2 Budget Trading Program. These amendments will align Delaware's program to be consistent with the Regional Greenhouse Gas Initiative's updated Model Rule as amended and published December 2017. The following is the Department's statement:

As many of you know, the Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort of nine Northeast and Mid-Atlantic states to regulate and reduce carbon dioxide (CO_2) emissions from the power sector. In accordance with each state's independent legal authority, Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New York, Rhode Island, and Vermont (Participating States) each commit to propose statutory and/or regulatory approval revisions to their CO_2 Budget Trading Programs substantially consistent with the updated Model Rule released on December 19, 2017 (updated 2017 Model Rule).

The program was established in 2005 by the participating states through a Memorandum of Understanding (MOU), which outlined the RGGI program design elements and directed state staff to develop a Model Rule for states to use in their state specific rulemaking processes. The design elements in the MOU were then incorporated into the RGGI Model Rule. The 2005 program design elements included:

- The level of the regional emissions cap,
- The apportionment of each state's portion of the regional cap,
- The schedule for reductions in the cap through the year 2018,
- A three year compliance period,
- Provisions for offsets (reductions in greenhouse gases from sources outside the electric generating sector), and
- Established the first program review to begin in 2012.

Delaware's 7 **DE Admin Code** 1147 establishes a compliance obligation on fossil fuel fired electricity generating units with capacities greater than 25 megawatts to report CO_2 emissions and surrender corresponding CO_2 allowances for such emissions.

The Department's authority to establish this regulation is found in the Delaware Code – Title 7 Chapter 60 and is described in sections 6043 through 6046 whereby

(a) the General Assembly explicitly authorizes and sanctions the prior and ongoing participation of the Secretary of the Department of Natural Resources and Environmental Control, and the Chair of the Public Service Commission, and their duly authorized representatives, as part of their official duties, to implement and participate in the Regional Greenhouse Gas Initiative (RGGI).

AND In (c)

(c) The Secretary of the Department of Natural Resources and Environmental Control is herein authorized to promulgate regulations to implement the RGGI cap and trade program consistent with the RGGI Memorandum of Understanding, as amended.

The 144th Delaware General Assembly adopted the Regional Greenhouse Gas Initiative (“RGGI”) enabling Act, found at 7 *Del.C.* §§6043-6046, through the enactment of Senate Bill No. 263, 76 Del. Laws Ch. 262 (2008), by a Senate vote of 15-5 (one member absent) on June 11, 2008 at 6:39 p.m., and a House vote of 39-1 (one member absent) on June 24, 2008 at 2:58 p.m.

7 *Del. C.* §6043(a)(9) notes that the MOU sets an initial emissions cap for Delaware of 7,559,787 and further requires a minimum of 25 percent of Delaware’s allocation of CO_2 allowances under the cap-and-trade program to be used for public benefit purposes. It then states: “The cap and Delaware’s allocation may be adjusted in the future.”

Pursuant to 7 *Del.C.* §§6043 and 6044, the Secretary of DNREC is authorized to participate in the Regional Greenhouse Gas Initiative and to promulgate regulations to implement the RGGI cap and trade program consistent with the MOU.

As called for in the RGGI 2012 Program Review’s *Summary of Recommendations to Accompany Model Rule Amendments*, the Participating States conducted a second program review of the CO_2 Budget Trading Program – 2016 Program Review. Proposed amendments to the program have been incorporated in an Updated Model Rule which guide each of the Participating States as it follows its own statutory and/or regulatory procedures to propose updates to their individual state CO_2 Budget Trading Program regulations.

The RGGI program review was a rigorous and comprehensive evaluation, supported by an extensive regional stakeholder process that engaged the regulated community, environmental nonprofits, consumer and industry advocates, and other interested stakeholders. The Participating States have been working with program review stakeholders since 2015, convening 9 stakeholder meetings and webinars. Delaware hosted one of the stakeholder meetings in Wilmington on February 2, 2016. The program review has sought to ensure RGGI’s continued success – effectively reducing CO_2 emissions while providing benefits to consumers and the region.

The proposed amendments to 7 **DE Admin Code** 1147 would implement the program changes presented in the RGGI Updated Model Rule and RGGI 2016 Program Review Principles. The changes contained in the RGGI Updated Model Rule were agreed to by RGGI participating states after a comprehensive two-year program review.

The purpose of the RGGI Updated Model Rule is to serve as a template for similar modifications to each of the RGGI participating state's existing *CO_2 Budget Trading Programs*. Those modifications strengthen the RGGI program, make it more effective, and realign the regional cap with current emissions levels, which are significantly lower than the current regional cap.

The changes include:

- Reduction in the regional CO_2 budget (the RGGI cap) for the years 2021 through 2030 and each succeeding year thereafter,

- Adjustments to the RGGI cap in the years 2014-2020 to account for the private bank of allowances,

- Adjustments to the size of the Cost Containment Reserve (CCR) to an annual quantity of 10% of the state's budget beginning in 2021, and modifications to the CCR trigger price to $13.00 beginning in 2021 and rise at 7% per year thereafter,

- Establishment of an Emissions Containment Reserve to respond to supply and demand in the market if emission reduction costs are lower than projected beginning in 2021,

- Updates to the RGGI offsets program, remove two protocols – SF_6 and End-use Energy Efficiency, and

- Numerous administrative updates, including updates for all documents incorporated by reference.

I will now explain each of the major amendments.

The Participating States agreed to establish a regional cap through 2030, modify the size and trigger prices for the CCR, establish an Emissions Containment Reserve (ECR), and eliminate two of the existing offset categories, as outlined below and in the Updated Model Rule:

1. Revised Regional Cap: The Participating States will specify a regional cap through 2030 which continues the downward trajectory of the existing cap. The lower regional CO_2 emissions cap will align the cap more closely with current emissions trends.
   - A regional cap of 75,147,784 tons of CO_2 in 2021, which will decline by 2.275 million tons of CO_2 per year thereafter, resulting in a total 30% reduction in the regional cap from 2020 to 2030.
   - The Participating States will address the bank of allowances held by market participants with a third adjustment for banked allowances. The third adjustment will be made over a 5-year period (2021-2025) based upon the size of the bank at the end of 2020.

2. CCR: The Participating States will modify the size and the price triggers for the Cost Containment Reserve (CCR). The CCR is a reserved quantity of allowances, in addition to the cap, that would only be available if defined allowance price triggers are exceeded.
   - Beginning in 2021, allowances provided within the CCR will be equal to 10% of the regional cap.
   - The CCR trigger price will be $13.00 in 2021, and rise at 7% per year, ensuring that the CCR will only trigger if emission reduction costs are higher than projected.

3. ECR: The Participating States will establish an emissions containment reserve (ECR), which is a quantity of allowances that will be withheld from circulation to secure additional emission reductions if prices fall below established trigger prices.
   - The states implementing the ECR may withhold up to 10% of the allowances in their base budgets per year. At this time, Maine and New Hampshire do not intend to implement an ECR. Allowances withheld in this way will not be reoffered for sale.
   - The ECR trigger price will be $6.00 in 2021, and rise at 7% per year, ensuring that the ECR will only trigger if emission reduction costs are lower than projected.

4. Offsets: The Participating States will eliminate two offset categories, reduction in emissions of sulfur hexafluoride (SF6) in the electric power sector and end-use energy efficiency in the building sector, and update and retain three categories

that some States may continue to implement. Any awarded offset allowances will remain fully fungible across the states.

5. Minimum Reserve Price: The Model Rule retains language to increase the minimum reserve price by 2.5 percent each year.

RGGI's phased approach to reducing emissions, with initially modest emissions reductions, is intended to provide market signals and regulatory certainty so that electricity generators begin planning for, and investing in, lower-carbon alternatives throughout the region. It is also designed to avoid creating dramatic wholesale electricity price impacts and related retail electricity rate impacts.

Additional amendments are to correct typos and provide clarity to the regulatory language.

It should be noted the Department is also submitting tonight an ERRATA document that describes additional edits to correct errors in the original August 1, 2018 Delaware Register Publication.

Copies of the ERRATA and the regulation with the edits are available at the back of the room.

One correction we would like to bring to your attention is the Delaware state budget in 2026. There is a typo and the correct amount (Section 5.1.9) should read

5.1.9 **For 2026, the State of Delaware CO_2 Budget Trading Program base budget is 2,280,690 tons.**

2,870,690 tons and NOT 2,280,690

The Department along with the other RGGI participating states also conducted modeling to determine the impacts of the proposed program amendments. Macroeconomic modeling and a customer bill's analysis were conducted in 2017.

The nine participating states contracted through RGGI Inc., to hire the ICF consulting firm to use its Integrated Planning Model (IPM) to project electricity sector and economic impacts of numerous proposed potential policy change scenarios. Impacts of these potential policy change scenarios were compared against the current RGGI program. Sensitivity analyses were conducted to examine impacts resulting from changes in key input variables such as relative fuel prices, and electricity load projections.

The IPM model outputs were then used as inputs to economic analyses including REMI macroeconomic modeling and customer bill impact analyses. The REMI modeling showed regional economic impacts (cumulative change in Gross State Product, cumulative change in employment, and cumulative change in real personal income) resulting from the changes to the regional cap beginning in 2021 to be slightly positive.

The proposed regulations are expected to result in positive impact on all ratepayers – bills are expected to be lower. Bill impact analysis conducted estimated that the average commercial customer monthly electric bill of $589 would decrease by $10.67 (1.8%) and industrial customer's bill decreasing by 2.9%.

With respect to outreach to stakeholders and the public, established a website for this rulemaking on the DNREC Division of Air Quality website.

The Department scheduled two stakeholder workgroup meetings – one was cancelled due to snow and the other held on April 17, 2018.

A public workshop was held on May 21, 2018.

Which brings us tonight's proceedings and public hearing to receive public comment on these proposed amendments to Regulation 1147.

A final regulation is expected to be published by the end of the year – December 1, 2018 with the regulation taking effect on December 11th.

The Department would like to enter into the public record the following technical support document and associated exhibits. Copies of the document and a list of the exhibits is available on the back table.

In addition to the Department's documents, we would like to enter into the record the public comments received as of today via email.

For more information on the RGGI program please feel free to contact me, Valerie Gray at 302.739.9402 or via email at valerie.gray@state.de.us

This concludes the Department's presentation.