

**A PRESENTATION TO
THE SENATE ENERGY & TRANSIT COMMITTEE
Senator Harris B. McDowell, Chairman**

**COMMENTS OF
Patrick E. McCullar, President & CEO
Delaware Municipal Electric Corporation**

**Regarding RGGI Implementation in Delaware
May 14, 2008**

Good Afternoon. My name is Patrick E. McCullar. I am the President of the Delaware Municipal Electric Corporation (DEMEC). DEMEC is a not-for-profit Joint Action Agency that provides wholesale electric power supply to the municipal electric utilities located in the State of Delaware.

DEMEC represents all nine of the Delaware cities and towns that own municipal electric utilities, their 100,000 electric customers, and their 1,100 municipal employees. The DEMEC members are the Cities of Dover, Lewes, Milford, Newark, New Castle, and Seaford, and the Towns of Clayton, Middletown, and Smyrna. DEMEC is also a generation owner supplying power to the DPL region of PJM.

Delaware's community-owned electric utilities have been serving their citizens and businesses for over 100 years. They are unique and integral parts of their communities. Many of the issues created by deregulation and the new electricity market structure have resulted in higher electric costs to Delaware consumers. We must recognize and preserve for our municipalities and our State the economic and financial benefits already provided by the hundreds of millions invested by these communities in their electric utilities, as well as the fundamental right of the communities to local control over their own assets and destinies.

Delaware's municipal electric utilities play a vital role in Delaware's economy today, and they will continue to do so as the electric industry structure evolves because they respect their obligation to serve their community citizens and businesses. Municipal utilities have a unique consumer focus, proven track record of performance, and inherent efficiencies as not-for-profit operating entities subject to local oversight and local control. The State Legislature has for decades

recognized the essential value of municipal electric utilities and has continued to allow the municipalities the flexibility to design and implement future services and programs that provide maximum long-term benefits to their communities and the State.

All the DEMEC member utilities have made long-term investments in electric generation assets. These generators are important assets to their communities and the electric supply system statewide as support and backup units in the event of an outage. The municipal utilities will have to continue to invest in new long-term assets to meet the growing demand for electricity in Delaware. The State must be careful not to enact legislation that reduces the value of these community assets or the local control the communities have over these assets, or their ability to invest in future assets that will be needed to meet future needs of the State of Delaware.

HOW ARE RGGI ALLOWANCE PRICES REFLECTED IN RETAIL POWER COSTS?

Today, Delaware's transmission infrastructure is significantly congested. Until new transmission infrastructure goes into service (estimated at 2015?), in-state generation is needed to maintain reliable electric service. 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 Delaware consumers have their energy costs determined by the Standard Offer Service Auctions, RGGI costs will immediately and directly impact energy prices to Delmarva Power retail consumers. There will be an additional price impact to all Delaware electric consumers as energy suppliers in the market "price in" the risk of RGGI costs to their offered prices.

Retail prices will immediately increase in Delaware as the cost of production is increased by RGGI allowance requirements. Allowance costs will be treated exactly like fuel costs; they will immediately be reflected in the cost of production. Since the Delmarva Peninsula is transmission-constrained, marginal generation in Delaware will set electricity prices. This may actually be a small benefit to DPL Zone consumers, since natural gas is the marginal fuel, and the RGGI cost adder for gas is smaller than coal. However, since the Southern DPL region shows

binding constraints in the 2010 PJM transmission studies, all local generation generation will run a higher percentage of the hours than historically, increasing RGGI costs in Southern Delaware.

A high degree of certainty is needed by generator owners and market sellers. Unnecessary uncertainty places financial constraints on local generation owners and dependence on out of RGGI generation resources, raising the market price of energy in the Delaware region. Solid auction rules and known allowance positions reduce volatility and are good for the market and consumers. End users benefit by a phase-in of price increases, rather than being hit with a sudden big increase.

A short example of how RGGI allowance costs will impact prices: If natural gas, the marginal fuel, creates .50 ton/mWh of CO₂, and the allowances cost is \$5/Ton (to make the math easy), allowances will add \$2.50/mWh to cost of production. If market price of energy is \$60/mWh without allowances, the allowance cost pushes it to \$62.50, a 4.2% increase. ICF went over this in their RGGI Analysis. I think this is especially true on days when the peninsula transmission congestion is high.

Generators and market sellers will immediately price this into energy cost to supply retail load. We should avoid large price increases and volatility whenever we can. This is a situation where we can, by phasing in allowance cost impact to Delaware generators and Delaware electric consumers.

I also continue to recommend the legislature work with the utilities to encourage investment in new clean generation resources and robust transmission infrastructure for Delaware to protect the reliability of electric service to our citizens, encourage the local economy and maintain regional competitiveness.

Thank you for this opportunity to share our views on these important issues.

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