



Governor's Action Team on Energy and Climate Change
State of Florida

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DRAFT TELECONFERENCE MEETING SUMMARY
Cap and Trade
Technical Working Group Call #3
March 28, 2008

Members and Pending Appointees Attending:

Debbie Harrison World Wildlife Fund	Jim Vick Gulf Power	Randy La Bauve for Armando Olivera Florida Power & Light
Robert Kaufman Georgia-Pacific	Kathy Viehe Gainesville Regional Utilities	Tim Devlin Public Service Commission
Judi Greenwald Pew Center for Global Climate Change	John Hewa Talquin Electric Cooperative	Michael Hewett Publix Supermarkets
Michael Kennedy Progress Energy Florida	Laura Crouch Tampa Electric Company	Julie Harrington Florida State University
John P. Cahill Chadbourne & Park	Terry Murphy Miami-Dade County	Greg Munson WRS Compass

Florida Department of Environmental Protection (DEP): Brenda Buchan

Center for Climate Strategies (CCS): Jeff Wennberg

Members of the Public: Peter Smith, Bob Krasowski (Florida Alliance for Clean Energy), Ben Stewart (Brady Thomas Yon Clark), Judy Harlow (FPSC), Joe Foote (Florida Gulf Coast University student), Joe Miakisz (FP&L), and Mr. Cabris (Southern Alliance for Clean Energy).

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1. Introductions – Jeff Wennberg from CCS introduced himself and called roll for the members of the Cap & Trade Technical Work Group (TWG). The members of the public were asked to introduce themselves and identify their affiliation. All but three of the TWG members and approximately 6 members of the public were on the call.
 2. Purpose and Goals – Under Executive Order 07-127 Governor Crist charged the Action Team to develop a comprehensive Energy and Climate Change Action Plan that will fully achieve or surpass his Executive Order targets for statewide greenhouse gas reductions specified in Executive Order 07-127. The following recommendations were voted on and approved in Phase I:

The Action Team recommends that Florida pursue a market-based policy of “cap and trade” by creating tradable emissions allowances as the preferable means meeting the utility sector emissions cap and the statewide emission reduction targets directed by Governor Crist in Executive Order 07-127.

The Action Team recommends a market design process for Florida’s tradable allowances market as a vital component of the Florida’s Energy and Climate Change Action Plan development process to occur in 2008. This design process should result in final recommendations for several considerations, including but not limited to:

- An allowance allocation process,
- Economic and emergency safety valves,
- The creation and use of emission offset credits,
- A “leakage” strategy regarding the migration of emissions into surrounding states,
- Trial periods, and
- Timeframes for full implementation.

The design process should consider linking a Florida-based allowances trading market with other regional or international markets.

In the meeting today we will begin identifying key characteristics of cap and trade that we may wish to make in recommendations. We need to have a conversation with the group on expectations the group has in what it will accomplish.

3. Review and Approval of Call #2 Summary – The summary was accepted. As a reminder, at any point if an error in the meeting notes is detected please call it to Jeff or Brenda’s attention and it will be corrected.
4. Briefing on Regional Greenhouse Gas Initiative (RGGI) – As presented by Mr. John Cahill and Mr. Peter Smith, RGGI began in 2001. Governor Pataki in New York was considering what would be the next big thing concerning the environment and they decided it was climate change. They didn’t know what they could do so they initiated a climate change task force to examine their options. They worked with the Center for Clean Air Policy from Washington D.C. to develop an inventory and ideas on what they could do to reduce carbon emissions. For New York to have an impact, climate change initiatives needed to be a regional effort. New York restricted its efforts to the power sector and is holding the reduction at 10%. That seems small now but at the time it was ground breaking. The issue of a safety value was one of the largest concerns. New York wanted the market to decide the cost of the allowances and not let the government get involved. The appropriate level of allowances was also a large concern. RGGI’s approach to allowances was narrow and they wanted to create greater liquidity. It was an open process with a lot of transparency. The electric power producers and environmentalists all invested their time and came to an agreement.

Among the states participating they ended up with a wide consensus with respect to the technical aspects. There were states who participated but did not join and others who added on later. Now they have 10 states as a part of RGGI. The allowances were set at 188 million tons, which is the same as going back to 1990 levels. Overall it will result in a cleaner generation mix. RGGI's cap and trade program will start Jan. 1, 2009. The first four years will stabilize the level of carbon and the process and then they will have reductions until 2019. Questions were asked about what is the impact on generation supply and rates and what will it look like. RGGI discovered that energy prices were more influenced by natural gas prices than by allowance prices. For consumers the average bill in 2015 will be \$3 higher as a result of RGGI. Nearly one hundred percent (100%) of the allowances will be auctioned through a sealed bid. The first auction will be on Sept 10th, and it will be a single round sealed bid. RGGI looked at a lot of options but for simplicity they liked the sealed bid process. RGGI members wanted the auction process transparent and simple. A second auction will occur Dec 17th. The basic size of a bid is 1,000 allowances. They had a discussion on what happens if no one bids. To address that concern a floor, or reserve price of \$1.86 was set. If the auction price gets too high they believe there has to be an off ramp. RGGI allows 3.3% of a regulated source's compliance obligations to be satisfied by offsets if needed. If allowance prices go over \$10 then they will reexamine the whole process. RGGI established a limited set of offsets to begin with. If the utilities need more allowances they will look for additional offsets in 2012. RGGI initial efforts may serve as a model for other states. The RGGI states were aware of the possibility of a national program, and by continuing to develop their own cap and trade program they wanted to make sure the northeast was covered/protected. RGGI's website is www.rggi.org Everything the members developed in preparing the program is available on the website including all the model runs. The following questions were asked:

- What is an IPM? It is a planning model that allows them to see what their actions will do to influence neighboring states. If Florida would join RGGI it would only include the power sector. How do RGGI's reductions line up with Florida's reductions? RGGI is flexible for states to have greater goals. He didn't know how Florida's goal lines up with RGGI's goal.
- Did RGGI study emissions to get the 10% or was it set at the outset? It was set by what was doable.
- It was pointed out that it is often confusing in multi-state efforts where each state has their own goal and they seek to achieve something different. Then there are also regional goals with timed percent reductions. The goals apply to the whole economy, say 10% reduction, but the key is to start with less than the whole economy to get the budgets right. They need to start with a subset to get it right. Cap and trade is not likely to be the full economy, it is a subset (i.e., the power sector). It must fit within the larger picture. We need to decide what our Cap and Trade goal ought to

- be. Will it be drawn from the Governor's goal or will it be a subset and fit within? We also need to look at other policies and measures to get us closer to the goal. A Cap and Trade Program in Florida will not get us to the goal set by the Governor by itself. The Cap and Trade program will be one of many efforts that need to be undertaken to reach Florida's goal.
- How are the allowances calculated? The allowances granted per state were based on historical data; they used a three year rolling average. They looked at the averages and came up with an allowance cap of 188,076,976. There are different ways to do it, but RGGI decided to set the cap based on emissions.
 - Others concurred that cap and trade is just one tool to address emissions for the electric generation sector, but there are other sectors that will not be participating in the cap and trade program, such as the transportation sector, that releases the same level of emissions.
 - FPL likes a lot of components of the RGGI design. It lets the companies trade in a bigger market, also allows them to join a program already established. Joining RGGI would jump start Florida's program. Adding other states would improve the RGGI model. RGGI contemplated adding other states and it was viewed positively. They had hoped California would join.
 - What are the states doing with the money from the auction? What happens if the national program begins? The money will go to each state and each state will make its own decision on how it wants to spend it. One state will use the funds to help efficiency programs statewide, another is using its revenues for rate reductions.
 - Others also commented on liking the RGGI model too. It was stated that joining a cap and trade program that has already gone through the pain and agony of development is a good plan.
 - Was there flexibility on banking or offsets? The RGGI model rule defines offsets. It does provide some flexibility. Everyone feels a little pain. On banking and borrowing, banking allows utilities to purchase allowances now but they can use the allowances anytime in the future. Borrowing is the opposite, sort of like an IOU to the future. RGGI allows unlimited banking and no borrowing.
 - All members of RGGI must agree to the model rule. If Florida decides to join we must look at the model rule and decide if we can live with it.
 - There was a question about the value of unlimited banking? The Kyoto Agreement set a retirement date on unlimited banking. In Europe, they had a dry run period within their Cap and Trade program with generous allowances and when it ended it was decided that those allowances should be retired before entering Phase II. That action resulted in a collapse of the allowance prices. When RGGI looked at that experience they were concerned and did not want to repeat that in the Northeast.

- Is there an advantage to Florida being an observer to the RGGI process? If Florida has a continuing interest in RGGI then Florida joining would be a beneficial and painless activity. We need to consider.
- However, first Florida needs to look at the other initiatives in the US and Europe before it makes any decision on RGGI. The West has not designed its Model Rule yet. They are not as far along as RGGI. The European Cap and Trade Program is underway, RGGI starts next year, the WCI are just getting started with their model rule, and the Midwest is just organizing.
- There would be a lot of interest in the existing RGGI states to have Florida as a member. Why did Maryland come in? They are the latest state to join the RGGI process.
- A question was asked if all the RGGI states have a deregulated utility market. How would it work with a fully regulated market like Florida's? Vermont has a regulated market so they will be just like Florida.
- RGGI is the only one in the United States that is far enough along for us to join. There is a lot to be learned from Europe's experience. If Florida's goal is to have a strong influence in the design of the Model Rule then Florida should look out West, however if that is not important, RGGI does offer flexibility and Florida can get involved quickly.
- Florida has talked about looking at a Florida only cap and trade, what is the advantage or disadvantage about going it alone versus joining a regional effort? When New York was originally considering a cap and trade program they were afraid if they developed the program as a stand alone state it would give them an economic disadvantage by driving power plants or manufacturers over the border. The larger the market area of a cap and trade program, large as defined by either sectors or geography, the greater the opportunity for everyone in the program to access lower cost opportunities to achieve the goal. That is because it gives the regulated entities access to a greater selection of lower cost options. Basically it provides them with more choices. For some it will be more advantageous to buy allowances, and for others it will be better to reduce emissions and sell their allowances. It lowers the cost for everyone.
- Do individual states have the right to withdraw from RGGI in the future, say in five years? All it takes is thirty days written notice and a state may exit, they don't have to wait five years; they may exit at any time.
- How will the revenues be allocated? First states will identify what they have to sell, there are lots of limits and conditions to protect small players, and there is a notice requirement on amount. The auction process sets one price and all allowances will be sold at that price. A non-profit, RGGI Inc., administers the auction process, awards the allowances and then they are matched up between the state (seller) and the successful bidder. The proceeds go directly to the state when they are sold.

- Are there provisions to set aside allowances for new units in an auction?
No one knew if allowances were set aside for new units.
- 5. Review of Action Team Meeting #2 Discussion - Jeff just provided a status report from the Cap and Trade group. There were questions and comments on what the process was likely to be. The discussion was short.
- 6. Review of FL C&T Catalog of States' Actions – The catalog has five policies listed. The first is cap and trade and it is given that that policy will be developed. The others are optional. The TWG may decide to pursue or not, and focus their attention on just cap and trade. That final recommendation will have to go to the next Action Team for a vote in May. The decision does not have to be made today, however it will have to be made before the May meeting. In the future we will include in the power point presentation.
C&T-1 cap and trade
C&T-2 carbon tax
C&T-3 market advisory group like California
C&T-4 measures to enable Florida's offset to qualify for carbon credits
C&T-5 measures that would help Florida compete in support of future national actions

It was suggested that the TWG should eliminate the carbon tax option because we don't have the time. There were several participants that believe we need to keep carbon taxes in consideration because that option may need to be used to reach another part of the economy (i.e., transportation) that may not be covered by cap and trade. Several members thought carbon tax should be left on the list so we can hear from someone on the topic. It was suggested we leave off C&T-3 and let the Governor or the Florida Department of Environmental Protection consider the option. We are hoping to work in a discussion on carbon tax on the next call.

How do we deal with energy sources based outside of Florida but who do business in Florida? Our program design will need to address that issue. There are ways to address the issue depending on the point of regulation. In RGGI, it is smokestack based and they are dependent on compliance. The western states are looking at more than just carbon emissions generated and released in state, they are looking at consumer consumption of generated power even if generated out of state. This is a concern on the Action Team. It would be punitive if in-state electric generators had to comply with carbon emission rules but those out of state would get a free ride. This is important since a lot of power brought into Florida is coal based. CCS will provide the group with Minnesota's recommendation on leakage; it is currently out for comment.

The state of Florida is divided between two Regional Coordinating Councils, the Southeastern Reliability Coordinating Council and the Florida Reliability Coordinating Council. Peninsula Florida, which covers from Tallahassee east and south to Miami, can only import or export approximately 8% of the power it needs from out of state. Whereas, Northwest Florida located in the Panhandle can only import or export approximately 25% of its power.

For now we are leaving all the options on the table. We may end up only developing a Cap and Trade program, but other options may allow the Action Team to get at different sectors.

7. Discussion – Expectations for C&T Recommendations - Our other discussions addressed this issue somewhat. We will continue this conversation in future meetings.
8. Discussion - C&T Geographic Coverage – We do not have to decide now, but we need to be thinking about where it would be most helpful for us to focus our attention? The model CCS is developing will project the movement of allowances, who buys, who sells, at what costs and savings, if Florida is a buyer or seller, and ballpark estimates of prices. If time and resources are available we can go back and add Georgia and Alabama. The TWG's guidance on C&T Geographic coverage was:
 - Florida only? Yes.
 - Florida plus Southeastern neighbors? No, not realistic. If we want to cover imports than we'd have to look at the southeast. We have limited transmission coming into state. If we cover our utility purchases it will cover the imports.
 - Florida plus RGGI? Yes.
 - Florida plus Western Climate Initiative (WCI)? Yes. Include because they are looking at sectors other than just electricity. We can get a speaker to talk with us at a future meeting. Why did Pennsylvania decide not to join RGGI?
 - Other? What about a national program?
9. Discussion – FL Carbon Market Program (time permitting) – This was not discussed.
10. Review of Next Steps – Continue to narrow geographic scope, will continue discussion on expectations for cap and trade recommendations. On the next call we will hear about carbon tax options and the European experience.
11. Agenda, Date and Time for Next Meetings - The next full meeting of the Action Team will be on May 29, 2008. The next scheduled meeting of the TWG will be

on Friday April 25, 2008 from 2:00pm – 4:00pm Eastern. A list of all the new meeting times for the rest of the year was provided. If anyone has a problem with the dates and times please let us know quickly. If members have suggestions for future presentations to the TWG, please contact either Jeff Wennberg at CCS (wennberg.ccs@gmail.com) or Brenda Buchan at DEP (Brenda.Buchan@dep.state.fl.us) and let them know.

12. Public Comments – Bob Krasowski had a question about RGGI going to auction and wanted to know if that was part of Florida’s Action Team task. Hearing about a RGGI state using funds to offset price increases concerns him. He heard the Chairman and Vice-Chairman say at the last full meeting that taxes were off the table. Finally, Mr. Krasowski stated that the state has declared itself pro-nuclear and pro-cap and trade.
13. Announcements – There were no announcements. The call ended at 4:10pm.