DRAFT TELECONFERENCE MEETING SUMMARY
Cap-and-Trade
Technical Work Group Call #4
April 25, 2008

Action Team Members and TWG Appointees Attending:

Debbie Harrison World Wildlife Fund	**Greg Munson** WRScompass	**Randy La Bauve** for Armando Olivera Florida Power & Light
Robert Kaufman Georgia-Pacific	**Kathy Viehe** Gainesville Regional Utilities	**Tim Devlin** Public Service Commission
Jim Vick Gulf Power	**John Hewa** Talquin Electric Cooperative	**Michael Hewett** Publix Supermarkets
Michael Kennedy Progress Energy Florida	**Laura Crouch** Tampa Electric Company	**Julie Harrington** Florida State University
Kathleen Shanahan WRScompass	**Terry Murphy** Miami-Dade County	**Terry Murphy** Miami-Dade County Commission
Jerry Karnas Environmental Defense		

Florida Department of Environmental Protection (DEP): Brenda Buchan, Kelley Smith, Larry George, Linda Frohock
Center for Climate Strategies (CCS): Jeff Wennberg
Members of the Public: Ben Stewart (Brady Thomas Yon Clark), Joe Miakisz (FP&L), Paula Cobb, George Cavros (National Defense Council), Robert Armstead (The Climate Group), Housely Carr (McGraw Hill), Blaine Stevens, Suzannah Tronner (Miami-Dade) and Paul Lowry.

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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 9 members of the public identified themselves 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 hear from experts on Cap and Trade from Great Britain and on the use of carbon taxes from British Columbia, Canada.

3. Review and Approval of the Call #3 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 European Union Cap and Trade Program – Initially Jeff began the discussion reviewing slide 7. Slide 7 is a table providing the amount of greenhouse gas emissions emitted from the largest sectors of Florida's economy (Residential, Commercial, Industrial, Transportation and Electric). The largest sources of greenhouse gas emissions are the electricity (48%) and transportation (44%) sectors. Based on the experience in Europe and the United States, Cap and Trade is generally used for large stationary sources such as the electric industry and the industrial sector. In Florida, that still leaves 52 to 47% of the emissions to be addressed by another means.

A point was made that some local and regional governments have already taken steps, such as Miami-Dade and they are looking to see how they will fit into the cap and trade process.

Jill Duggan of the United Kingdom provided a discussion on the European Union's (EU) cap and trade program. The EU started out in 2005 with 25 countries participating in the cap and trade program and the program has now grown to 30 countries. Allowances are freely traded throughout the member states. Trading emissions has a central role in reducing the EU's emissions. The EU is committed to the Cap and Trade process because it provides certainty in greenhouse gas emission reductions and because it provides the lowest cost emissions reductions. The cap and trade program addresses half of the EU emissions. In order to address the remaining emissions, the EU uses other complementary mitigation measures such as carbon

taxes, climate change levy, local authority initiatives such as automobile congestion charges, and new home zero carbon requirements.

The EU was the first to initiate a cap and trade program and because they were creating the process they did not get everything right the first time. The EU has had to continuously review and improve the process. The UK is initiating a climate change bill to allow them to make changes and improvements in the climate process on an as needed basis. They are creating an office to administer the climate change process that is removed from the politics as much as possible.

The EU cap and trade program was comprised of two phases. The first phase was voluntary and designed to help the members learn about the trading program. The initial allocations were based on historical emissions and they varied from country to country. They experienced volatile prices in Phase 1. In the first reconciliation they were able to determine the short falls. A lack of data and lack of transparency led to over allocation in the first phase. One of the first early lessons they learned was that all the industrial processes/installations needed to be covered in the same way. They also learned that they had to set tough targets and create some scarcity to achieve a market. Initially they had over-allocated.

For Phase 2 they standardized emissions across industries and harmonized the rules. The reconciliation gave them verified data from Phase I. The countries around them have found that uniformity is critical. In Phase II the political commitment to carbon trading has helped increase the participation. So far in Phase II the price for carbon has been tracking Phase I prices however it has stabilized as their decisions on reduction plans emerged. The price of the carbon allowances has become more stable as the knowledge of the Commission's carbon reductions becomes widespread. The price of carbon per ton has stabilized at 20 Euros.

Trading greenhouse gas emissions is working. In 2006 they found 15% of their participants took the future cost of carbon into account for investments. By 2007 that number has risen to 65%. The EU cap and trade program helped generate $17.5 million investment in CDM carbon abatement projects in the developing world in 2007. Has it done anything, yes, by trading you can take advantage of the market and gain benefit with lower costs. Will business move to China? They have had no evidence of that. The carbon price is only one small element of a businesses decision. The cost of carbon is relatively small. It increased electricity prices by very little. The most successful businesses are those who participated in Phase I and learned how to trade and take advantage of the process. The highest price was 24 Euros and the average is around 19 Euros.

Lessons learned from the EU experience include that a successful cap and trade program needs a central cap with a linear decrease so that all the installations know where emissions are going. They are moving to full auctioning by 2020 and away from free allocations. They also have tight limits on the use of project credits.

Questions: *In learning the lessons how do we know how to set the cap low enough?* Two things, Florida needs to link to someone else. It needs to be an aggregation of a cap, thus it is easier to trade between states and not have too much of an impact on anyone state. If the system is big

enough and you have the flexibility then you can base your cap on the funds so it doe not rise too high.

What cost containment mechanisms does the EU use? The use of credits can be a price containment mechanism. You relax your cap by allowing credits. But with credits you can not guarantee you will reach your cap, but it will allow you to control your prices and soften price flexibility.

Do you allow banking or borrowing? The EU does allow limited banking. They did not allow banking from Phase I into Phase II; if they had it would have been a mess. They needed Phase I for learning. The EU is now bringing the aviation industry into the cap and trade program in the future. Every system starts out over allocated.

Is there concern about windfall profits from over-allocation of credits? In Phase II they get 65% of emissions. Anything they get for free is windfall. Any industry that can get free allocations benefits from those profits. That is why they are going to auctions.

What was the rational for the lesser developed world credits? The EU was moving from providing the developing world production subsidies to environmental subsidies. The EU is reconsidering that restriction and is looking at whether they should have domestic credit projects.

5. Discussion on Cap and Trade Sector Coverage - Do to time limitations we skipped this discussion.

6. Briefing on Carbon Tax – Warren Bell from British Columbia, Canada provided insight on how carbon taxes are used to reduce greenhouse gas emissions. Warren is located in the office of the Premier for British Columbia; he is responsible for Climate Action for the Premier and Government. Canada shares jurisdiction on climate change issues between the province and the country. The province has jurisdiction over energy policy. In British Columbia the biggest source of emissions is transportation. Most of the electricity is created by hydro electric generators so they do not burn fossil fuels. They do have some emissions from their natural gas extractions industry.

Using a carbon tax to reduce emissions is only one piece of British Columbia's greenhouse gas emission reduction plan. They set targets in law for carbon emissions. They are also looking into a cap and trade system to use with their large stationary emitters. They will also impose California low carbon fuel standard and energy codes for buildings. They are investing in a mass transit infrastructure.

Climate change has been a matter of debate in British Columbia for a number of years. There was a growing recognition that they must attach a price to emit carbon or nothing will happen to reduce the greenhouse gas emissions. British Columbia will introduce a $10 a ton revenue neutral carbon tax starting July 1 and that price will increase every year for the next few years. The carbon tax covers all fossil fuels that result in GHG emissions. The carbon tax covers over 70% of the GHGs released in BC. The tax increases by $5 a ton per year. Because the carbon tax system is laid out now, everyone knows that the tax is coming, when, and how much they will

have to pay. Every dollar is returned so that it is revenue neutral. It will increase the competitiveness of the British Columbia economy by shifting the tax burden away from small businesses. When designing the carbon tax they made a conscious decision to provide protection for lower income households.

Question: *Could that tax rebate be used in anyway such as investing it in new infrastructure?* No, the British Colombia rule authorizing the carbon tax is very specific that it must be tax neutral. For every dollar collected from the carbon tax there must be a dollar for dollar reduction in another tax. Those monies can not be used to fund government programs no matter how admirable. It was an innovative way to think about taxes. They are shifting it from one part of the economy to another part of the economy. In almost everyway British Columbia citizens' taxes will go down and for those who use little fossil fuels it will go down even more.

The carbon tax will take effect July 1st; the offsetting taxes will go down next spring when taxes are due. To offset the tax delay, the government will send a check for $100 to all tax payers this summer. The initial reaction has been more positive than anticipated. More than 50% of British Columbia citizens supported the carbon tax. They were happy government was doing something. Businesses have come out supporting the tax, including the petroleum industry, because it is province wide. Despite the positive support there are still a lot of challenges. This is a tax shift, not a tax increase or a tax grab. One of the challenges they have is countering the perception that the polluting industry is getting off the hook. This is not true because 2/3 of the revenue comes from the industry but 2/3 of benefit goes to individuals. There are some sectors not captured. There is a real concern that as the carbon tax increases over time it will begin to have an impact on some sectors. As the tax is increased over time, they know they are going to have to be careful to watch for unintended consequences and not hurt the economy. Rural British Columbians do not have the same options as metro citizens; they need their 4 wheel drives. Dealing with rural British Colombians will be a challenge. In the longer term the question is does it work? By 2012 or 2015 they will examine the results and make a decision on whether it is working.

How does the revenue neutrality work? It is revenue neutral from an overall government impact, but there is a shift within the sectors.

Have you done modeling to determine the reductions? Yes, they have done some modeling, the data shows they need to increase the tax over time to insure they meet their goals.

Will you have both a cap and trade system and a carbon tax? Yes, the tax is complemented by other emission reduction actions. They are pursuing joining a cap and trade program with the United States Western Initiative. The cap and trade and carbon tax will be integrated to insure that industry will not pay twice. The carbon tax will apply to small sources where cap and trade will apply to big stationary sources.

When you have a tax increase or a tax decrease and the government must make an adjustment won't you see a lot of lobbying to shift the burden? No doubt there will be a steady stream of businesses arguing their case, but the government has stuck to its guns that no exceptions and no exemptions. They have closed the door to special interests so far.

Provide more information on the dividing line between carbon tax and cap and trade. Which tool do you apply to which sectors? It is easier to apply a cap and trade reduction program to large industrial users who are able to find trading partners and are motivated to reduce their emissions costs; whereas, for small mobile sources such as individual drivers of automobiles and trucks as well as other end users of petroleum products it is easier to modify their behavior through a carbon tax.

Could you describe political coalition that got this done? Provincial politics are led from the top, the Premier decided it was the right thing to do and the right time to do it. Premiers act sort of like an elected dictatorship.

7. Review of the Florida Cap and Trade Catalog of States' Actions – Jeff asked each member to examine the Cap and Trade Catalog and think about which of the items in the catalog they would like to pursue for further study? Each member will receive a survey email and that email will have a link attached. Click on that link and the survey will pop up. There will be four questions asking you whether or not you support further study of each catalog item. Simply indicate which you support and which you don't. The results will be provided and discussed at the next call. The results will be presented to the full Action Team for their consideration.

8. Review of Next Steps – At the next meeting we will discuss narrowing the geographic scope of who we might wish to participate with on Cap and Trade. On the next call we will have a presentation on the Cap and Trade inventory and forecast estimates.

9. 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 Cap and Trade TWG will be on Friday May 7, 2008 from 2:00pm – 4:00pm Eastern. 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.

10. Public Comments – There were no comments from the members of the public.

11. Announcements – There were no announcements. The call ended at 4:00 pm.