



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 #5
May 7, 2008

Action Team Members and TWG Appointees Attending:

Debbie Harrison World Wildlife Fund	Greg Munson WRSScompass	Randy La Bauve for Armando Olivera Florida Power & Light
Robert Kaufman Georgia-Pacific	Kathy Viehe Gainesville Regional Utilities	Judy Harlow for 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
Jerry Karnas Environmental Defense	Terry Murphy Miami-Dade County	Terry Murphy Miami-Dade County Commission
Judi Greenwald Pew Center for Global Climate Change	Bob Reedy Florida Solar Energy Research Center	

Florida Department of Environmental Protection (DEP): Secretary Michael Sole,
 Brenda Buchan

Center for Climate Strategies (CCS): Jeff Wennberg

Members of the Public: George Cavros (National Defense Council), Robert Kaplan
 (Georgia Pacific), Johnson Engineering

1. Introductions – Jeff Wennberg from CCS introduced himself and called roll for the members of the Cap-and-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 3 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 review the cap-and-trade section of Florida’s 2008 Energy Bill, discuss the cap-and-trade sector coverage, review the balloting results, and the next steps.

3. Review and Approval of the Call #4 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. Review of Cap-and-trade Section of Florida’s new Energy Bill – The Secretary of Florida’s Department of Environmental Protection spoke briefly about how Florida’s 2008 Energy Bill was historic in its scope and how it was a collaborative effort with many agencies and bodies of government.

Brenda Buchan provided an overview of the Cap-and-trade section within Florida’s 2008 Energy Bill. During the 2008 Legislative session the Florida House and Senate passed a historic comprehensive Energy Bill (HB 7135). As of this meeting the Governor has not signed the bill, but he has praised it to the press and is expected to sign it. The bill is 237 pages long and has 118 sections. Action Team staff is preparing a summary of the bill to distribute to the Action Team and Technical Work Group members. The summary will highlight the main changes in the bill and will separate the relevant actions by technical work group (energy supply & demand, cap-and-trade, agriculture, transportation, and government

policy). That document will be distributed this week. The section of the bill dealing specifically with cap-and-trade (section 65) was provided to the technical work group members yesterday and it is posted online.

The Energy Bill creates the Florida Climate Protection Act which orders the Florida Department of Environmental Protection (DEP) to develop a market-based greenhouse gas emissions abatement program, such as cap-and-trade. The Act defines greenhouse gases to include carbon dioxide, methane, nitrous oxide and the three fluorinated gases (hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride). It defines the participants in the initial program to be all electric generators whether they are investor-owned, municipally owned, or cooperatively owned. There is a provision in the bill to allow DEP to expand cap-and-trade to other industrial sectors in the future.

All electric generators must join The Climate Registry to register and report their emissions. The investor-owned electric generators will be permitted to recover the costs associated with joining The Climate Registry and verifying their emissions.

In developing the cap-and-trade program, DEP shall consult with the newly created Florida Energy and Climate Commission and the Florida Public Service Commission. They may also consult with the Governor's Action Team for Energy and Climate Change. It is anticipated that DEP will begin this process in early fall. DEP will factor into their decision-making the recommendations presented October 1, 2008, in the Actions Team's Phase II report. The cap-and-trade program and proposed rules will be developed, and workshops will be held, during 2009.

At the conclusion of the DEP rule making proceeding, the new Florida Energy and Climate Commission will review the program and present a report to the Legislature along with the proposed rules after January 1, 2010 to be considered and ratified by the Legislature during the 2010 Legislative Session.

The Act states that the rules must include:

- A statewide limit or cap on the amount of greenhouse gases (GHG)
- Methods, requirements, and conditions for allocating the cap
- Methods, requirements, and conditions for emissions allowances
- The relationship between the allowances and the specific amounts of GHG
- The length of the allowance periods
- The timeline of the allowances from initiation through 2050
- A process for trading allowances
- Cost containment mechanisms
- A process to discourage leakage to neighboring states
- Provisions for a trial period before full implementation

When DEP is recommending and the Florida Energy and Climate is evaluating the proposed features of the cap-and-trade program the following factors should be considered

- The cost-effectiveness of the program in meeting statewide goals
- Minimizing the administrative burden to the state
- Minimizing the administrative burden to the utilities
- The impacts on electricity prices for consumers
- The benefits to the state's economy for early adoption
- The benefits to the state's economy associated with the creation and sale of emissions offsets
- The potential effects on leakage
- The effectiveness in meeting identified targets
- The effect on near-term periods of long-term targets
- The overall costs and benefits to the state economy
- How to moderate impacts on low-income consumers
- Consistency of the program with other state and possibly federal efforts
- The feasibility and cost-effectiveness of extending the program to other industries
- Evaluate whether Florida should link its trading system to other systems or countries
- The conditions and options for eliminating the Florida program if a federal program were to supplant it
- Need for a regular evaluation of other cap-and-trade programs and their progress in abating emissions
- The desirability of broadening the scope of the state's cap-and-trade system at a later date to include more emitters or to include more sinks.

The members participating in the call asked Secretary Sole several questions.

What is the status of this bill? The House and the Senate have passed the bill but it has not gone to Governor Crist to be signed yet. Governor has praised this bill to the media, it is anticipated he will sign. It may take several weeks for the bill to be prepared and delivered to the Governor.

It sounds like the bill requires DEP to develop a cap-and-trade program but not to implement it? DEP is being required to develop a cap-and-trade program. There is a clear path of actions that we must take laid out in that bill on when the rule will be delivered to the Legislature and when the Legislature expects to consider and ratify the rules.

Is the legislation limited to electric utilities? Can DEP add other industries? The bill initially focuses on electric utilities but will allow expansion at a later date.

The rule will focus on major emitters now but it can be expanded and the language does not define what a later date means. DEP could develop a phased approach to cap-and-trade with the electric utilities beginning the program and other industries added when deemed appropriate.

If the state wanted to join RGGI or another regional program would that be part of the rule for submittal to the Legislature? Yes, not sure if DEP's cap-and-trade rule can commit Florida to participation in a regional program. It may require a specific piece of legislation to allow Florida to join an existing market mechanism.

Does industrial cogeneration fall into the category of a major emitter? Does electric generation include generation and imports? What about consumption? We will examine these questions, verify and get back to the TWG on the answer. Added note, here is the response: In Governor Crist's Executive Order # 07-127 issued in July 2007, it directed the Department of Environmental Protection (DEP) to develop rules to adopt a maximum allowable emissions level of greenhouse gases for electric utilities in the State of Florida. DEP immediately initiated rule making to set caps on electric utilities by holding workshops in August and December of 2007. The question of ***what units should be included in the electric utility sector*** was asked. Emerging from those workshops were the following comments on what units should be included, however, this list is not comprehensive and is subject to revision within the rule making proceeding:

- Any fossil fuel-fired unit that provides electricity to the power grid
- Any unit that serves a generator of nameplate capacity equal to or greater than 25 MWe
- Any unit subject to the Clean Air Interstate Rule
- Interchange power from out-of-state using 1605(b) protocol or other method

At this time it is anticipated that DEP's rulemaking proceeding to set caps on electric utilities will be integrated into the rulemaking proceeding on cap-and-trade. The final decision on what should be included in or excluded from the electric utility sector will have to be decided in that rule making proceeding.

Does this bill contemplate a carbon tax? It does not address carbon tax. It only focuses on a cap-and-trade market solution to abate emissions.

Is it safe to assume that the rule making authority on vehicle/California emissions standards will continue? It does require that DEP's vehicle emissions rule go before the Legislature for ratification. DEP's vehicle emissions rule and cap-and-trade rule will be on separate tracks. The existing emissions data will probably be a starting point for discussion on the cap-and-trade rule. We anticipate a robust

process. We encourage the Action Team and TWG to delve into the subject and make recommendations concerning the cap-and-trade program.

Secretary Sole concluded by saying what an exciting time it is to be involved in climate change. He thanked the Action Team and Technical Work Group members for working hard to develop the recommendations for DEP's consideration. The Technical Work Group's recommendations will play a significant role in helping to shape DEP's Cap-and-trade rule making.

5. Discussion on Cap-and-trade Sector Coverage – Page 7 of the slide presentation listed nine bullets to be considered within the cap-and-trade program. There can be an overlap in the second and third bullets dealing with large stationary sources and fossil fuel extraction processes.

There was a question on the major administrative effort needed to include transportation fuel and waste management sources within a cap-and-trade program. Judi Greenwald of the Pew Center said she had information she will provide to the group to help answer this question.

Miami-Dade County's representative did not see where local government sectors fit into this program. Typically unless a local area is carved out and exempted, they are not treated any differently than a privately owned facility.

How are the two transportation bullets different? There are two ways to look at transportation, one way is to look at the importation of fuels and the price can be passed onto to customers. The other is to look at the source of using the fuel, such as a fleet of vehicles or a railroad. Since transportation accounts for 44% of greenhouse gas emissions in Florida it seems important to include transportation.

It was recommended we remain broad in our modeling and to include as much as possible. What can we expect to see about modeling results? The modeling data will provide projections of allowance costs, how allowances will move between sectors or jurisdictions, and the costs of allowances expected and aggregate. We should be looking at the cost structure to insure that we don't try and include something at a huge cost. Plus, by examining the costs we'll be able to ensure that it makes sense to include a specific sector into the cap-and-trade program.

The private sector will not be able to capture its costs like the IOUs if you include industry. It seems to make more sense to just start with the electric and consider the industrial sector at a later date.

It was decided to leave everything on the plate now and give it some more thought. Cities and county governments are anxious to do something and they control county roads and waste systems. It was suggested to start with the public sector (cities and counties) first and add the others later. Jeff reminded the group

that other TWGs are also looking at these issues: government policy, transportation, and agriculture. We will need to look and see what the biggest bang for the buck is. Agriculture and forestry needs to be considered for offsets. One of the policies needs to be to develop a carbon market in Florida. The offsets need to be in sectors that are not regulated. The offset need to be a project that is outside the system, thus if agriculture and forestry are included in the cap-and-trade process it would be hard to include offsets from them.

6. Review of Balloting for Priority Policy Recommendations to the Action Team – The balloting process turned out to be more complicated because of software considerations. Based on voting the first three recommendations (1.5) measures that would help Florida complete in a future national market-based program, (1.4) measures to enable or promote Florida GHG emissions reduction projects to qualify for state, regional, national or international carbon offset credits, and (1.3) establishing a market advisory group passed with a majority vote. The fourth recommendation of a carbon tax failed the vote as worded.
7. Discussion/Decision Regarding Priority Policy Recommendations – There is some concerns that the Market Advisory Group mentioned in C&T 1.3 would not be nimble enough to move quickly in the event of the triggering of a safety valve. It is within this groups control to determine the function of the market advisory group, you do not have to accept the wording provided. A majority supports keeping 1.3 on the table for now, with the understanding that the details can be developed later.

Three persons thought that a revenue neutral carbon tax with an equal reduction in sales taxes was an attractive option. Another member was concerned that the tax shifting within sectors was not attractive. Different points were made regarding whether a carbon tax is market based and if it should even be under consideration. Another member stated the belief that a carbon tax has the potential to reduce GHG emissions and thus should be considered by the Action Team. Jeff pointed out that, based on data in other states, that the cost to use a carbon tax is similar to that of the cap-and-trade program.

Can a carbon tax be considered for non-point source uses? Would putting limits on the carbon tax make it more attractive such as qualifying it as revenue neutral and leaving the final decision to the legislature? A member pointed out that a carbon tax is going to increase costs to consumers, the consumer will be hurt. Another said that the same is true for cap-and-trade; ultimately energy costs will be higher for consumers. One member believes we should move with extreme caution to ensure we do not harm the economy. Another rejects that argument and points to other parts of the nation and world where there are cap-and-trade programs and their economies were not harmed and in some cases were stimulated. In British Columbia their program does not go into effect until June or July. It has merely been designed and is underdevelopment. While a carbon tax

may at some point be determined to best address a specific segment of the economy, there is not enough time to address it now.

There was a suggestion to take the consideration of a carbon tax, set it aside, and include it under the market advisory group for them to consider at some point in the future. A revenue-neutral carbon tax policy would not be pursued as a stand-alone policy, instead it would be considered a complement to the cap-and-trade at a later date if it appears to be a promising way to address a sector not covered by cap-and-trade. After a spirited discussion the decision is to consider moving it forward as last proposed. There was one objection. The decision was to send the wording out in an email and have everyone register their support or dissent on that particular issue.

8. Review of Next Steps – At the next meeting we will discuss and review the Action Team decisions. Straw proposals will need to be developed by either teams or a single person. Brenda will check with a DEP attorney to ensure there is no conflict with the public records law. Will need to set up a conversation on key policy design to assist the development of the straw proposals. Modeling results and allowance distribution will also be presented in the near future.
9. Agenda, Date and Time for Next Meetings - The next full meeting of the Action Team will be on May 29 and 30, 2008. The next scheduled meeting of the Cap-and-trade TWG will be on Friday June 13, 2008 from 2:00pm – 4:00pm Eastern. The date of the late June TWG meeting will need to be moved as it is in conflict with the Governor’s Climate Change Summit. We will poll the members for another date. 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 – The Governor has announced a 2008 Climate Change Summit. It will be held June 25-26, 2008, at the Intercontinental Miami Hotel. It will build on the foundation for Florida’s energy future that began at last year’s summit. The 2008 summit will focus on stimulating economic development in clean technologies as well as greening Florida’s business community. For more information on the summit or to register please go to www.myfloridaclimate.com
The call ended at 4:10pm.