DRAFT TELECONFERENCE MEETING SUMMARY
Cap-and-Trade
Technical Working Group Call #6
June 13, 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	**Kathleen Shanahan** WRScompass	**Tim Devlin** Public Service Commission
Jim Vick Gulf Power	**John Hewa** Talquin Electric Cooperative	**Michael Hewett** Publix Supermarkets
John Cahill Chadbourne & Park	**Laura Crouch** Tampa Electric Company	**Julie Harrington** Florida State University
Judi Greenwald Pew Center for Global Climate Change	**Terry Murphy** Miami-Dade County Commission	

Florida Department of Environmental Protection (DEP): Brenda Buchan, Julie Ferris, Matthew Stamatoff
Center for Climate Strategies (CCS): Jeff Wennberg; Adam Rose, Dan Wei
Members of the Public: George Cavros (National Defense Council), Robert Armstead (Climate Group), Paul Messerschmidt (Grace Financial), Sean McClinton, Bob Krafsofsky (Alliance for Clean Energy), Bruce Rising, Joe Miakisz (FPL), Florida Home Builders Association, Doug Back (Homebuilders); Patrick Cunningham, AZ DEQ (speaker)

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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 hear about the Western Climate Initiative, review the cap-and-trade priority policy recommendations, and hear a presentation on the modeling results if Florida were to join RGGI.

3. Briefing on the Western Climate Initiative by Patrick Cunningham, Deputy Director, AZ DEQ – The Western Climate Initiative (WCI) is an association of 7 states and 3 provinces of Canada. It was initiated by a coalition of governors and premiers in 2007. They have 3 goals: (1) to collaborate to reduce GHG and harvest the co-benefits such as energy efficiencies, clean air benefits through CARE, and energy conservation throughout state governments; (2) to set a regional goal for reducing GHG emission by 2020 of 15% below 2005 levels, through 2 sets of measures, the cap-and-trade system, and complementary measures; (3) to develop a design for a regional market based multi sector cap-and-trade, achieve regional goal and GHG reductions. Complementary measures are adoption of clean car rules to take care of vehicle GHG emissions (cars, light trucks) or it could be alternative measures, and energy efficiency in general through appliance standards for example. They will set actual measures for idling reduction. The WCI hope that all their actions will enable them to reach their goal.

   WCI is currently working on a description of the design for C&T. That design is anticipated to be released in September. There are five working committees; (1)

scope which is addressing who is under the cap, such as the electricity sector, transportation fuels such as jet and heavy trucks, heavy industry and perhaps home based fuel; (2) electricity has its own committee with leakage being an issue, this group is discussion how to award allowances and who gets them; (3) allocations how to distribute to states, then to emitters, where do you start and where do you end up; (4) reporting must be uniform and they will begin operation with two years of pre data; and (5) offsets is the final committee and all consider the use of offsets crucial. They want to use Kyoto offsets. In last hearing four separate groups came forward to talk about selling offsets (primarily forests and wind power).

WCI is developing an economic analysis and modeling project to describe costs of compliance and to ensure data is accurate. They have hired a contractor and it is a big scope of work. They are aggressively pursuing cost of compliance data. WCI will require each member to join the Climate Registry. The Climate Registry is doing good work at setting protocols for everyone to report GHG emissions and reductions. Reporting will be accurate, transparent and consistent. Mexico and 6 Canadian provinces are members. Small industry and corporate giants are members. Need to ensure data is accurate to allow parties to use their credits.

Has WCI considered linking to RGGI? Yes, they intend to allow RGGI allowances to be used with WCI. Also, the same with the Mid Western States they hope to link up with them all. It was pointed out to Patrick that Florida passed far reaching Energy Bill during this past session. Within the Bill it requires electric utilities in Florida to join the Climate Registry.

Is WCI concerned about leakage from the manufacturing sector? Products are made in the northeast and the southeast, but currently the northeast has C&T and the southeast does not. WCI put two areas in for comment from the private sector and manufacturing leakage was one of them. They asked the questions on how to deal with competition outside of WCI? If they can move manufacturing or mining out side of WCI will they leave or shift the process? The response they got back from industry was that they will not relocate as long as the allocations are fair. The WCI will try and allocate the allowances to make sure competition is fair. Labor/Union has made presentations on the need for jobs to stay and not be outsourced to non participating states. The question is how we treat industry fairly and uniformly. WCI thinks they have a solution.

What is the timeline in terms of modeling, when did WCI get started when will you get to active platform? How are you working with public? WCI started out in 2007 and will issue its design in September. They do not have all the answers nor is the modeling complete, but the economic data the contractor is providing for each partner state is good enough to issue a design. This fall they will work on their reporting rule. They believe that the WCI will be a living organism and will adapt to new information over time. WCI has been reaching out to the public through three public meetings around the region. They had 250 people attend their Salt Lake City meeting and 300 people attend their Portland meeting. WCI has been holding teleconferences throughout winter and spring; anyone could get on the phone and make comments. Last Monday they had 100 persons on their call and 25 making comments. Each state has its own stakeholder process at home. This is a 2 track process where WCI is building a regional plan and then each state is reaching out at home with a state plan.

In the process of discussing allocating credits WCI has considered auctions. As a point to begin the conversation they offered to auction between 75% and 25% to start with. Both sides of the debate weighed in and some said 25% was too much and others saying 75% was too little. Auction proceeds are a very a hot debate item! Some want to use Warner Lieberman to address the national deficit reduction. Others want to use it for research or low income offsets to help the poor, or to stimulate alternative fuel sources.

<u>Were there any specific features from RGGI they rejected?</u> WCI decided to have an economy wide cap instead of just the electricity sector. That is the biggest difference. RGGI's documents (i.e., MOU and progression) have been very helpful. Listen to people from the EU because they had too many allowances. Having too many allowances made price of carbon too cheap. They went to school on both systems. EU did not have enough banking. WCI is allowing banking. EU elected officials added a bunch of allowances because they received political pressure to be lenient.

<u>Will economy wide be a better market mechanism?</u> Yes, but they also just want more reductions. WCI wants to get to the transportation sector for more reductions. Also, the market will thrive if there are more reductions for others to purchase. Arizona is different nationally because of its projected growth. They are very similar to Florida. There is a lot in common. Florida also has a lot of transportation sector emissions.

<u>Is there any restriction on who can participate in the auction?</u> The auction will be open to everyone, but WCI is building in precise language on mechanism and safeguards. Brokerage firms and traders have been on all the calls and that unnerved some. One way to address those concerns is to have quarterly auctions, which are more available and region wide auctions. They do not want spectators to foul up the auction, must set up a fair market place.

<u>Do you have a comparison document that compares RGGI to WCI?</u> Have you done anything to look at basic design to compare and contrast? No. It would be useful. Arizona has made great use of Florida Governor Crist's Executive Orders released last year and Florida's 2008 Energy Bill. Patrick thanks us and said we have helped to arm Arizona in their climate change efforts.

Judi Greenwald from the PEW Center stated that they are working on a comparison/contrast chart with all the cap-and-trade designs. They will provide it by next week. Thank you, Judi.

4. Review and Approval of the Call #5 Summary – No comments. Approved.

5. Review of Action Team Decisions Concerning C&T Policies – Jeff reviewed the table on pages 8 and 9. Discussing how each item was specified in the Energy Bill or Phase I report. It was also pointed out that we unintentionally left off two items. They are C&T 9 Leakage and C&T 10 Trial Period. The power sector is the first phase but we have a wide open door to include other sectors in the future. We must get through as many of these questions as we can by the end of August. In September the report will get polished by the Action Team and delivered October 1.

   In developing RGGI, they decided to set aside 25% for consumer benefit and it was only later they decided to have nearly 100% of the allowances auctioned off in order to achieve that goal.

   To make priorities we have to set priorities. What will be Florida's geographic scope? Which sectors will participate? To what extend will there be sector coverage or timing of sector coverage? What conditions should be met before a sector is included? The RGGI program is on track to begin 1/1/09 with compliance concluding 2012. It may be difficult to join both RGGI and WCI because they go beyond the power sector. It would be an interesting concept for Florida to join RGGI for immediate initiation of program, but joining WCI for other sectors.

   Do we have models to look at the various tasks? Yes, but there is no magic and some of the areas are controversial. The RGGI goal of 10% below 2009 has been agreed to and doable, but it is not driven by state goals. WCI is different because their regional goal is 2020 based and linked to the state and provincial goals. RGGI and WCI have very different approaches. State of New Mexico is a member of the Chicago Climate Exchange (Illinois also a member). It is voluntary and the price is low because it is for folks with stuff to sell. It is not the same as a cap-and-trade program. (It is a contractual means to reduce emissions) Not for their whole economy, it is the emissions for which they have control over, for example the State of New Mexico's emissions.

   There was a comment that the table does not capture the possibility of a National program. After discussion we decided to **add C&T 11 (National program)** to capture that concern. We need to design a program to achieve our Governor's goals to achieve GHG emission reductions, to achieve social goals through conservation and energy efficiency and economic development.

6. Discussion Regarding Priority Policy Recommendations – In the interest of time we moved directly into the modeling discussion.

7. Presentation and Review of Preliminary C&T Modeling Results: FL joins RGGI – It is important to remember this is preliminary data and will be changed and replaced as we get better data and make specific decisions. There is the potential for significant shifts. At this point in time this modeling run is an illustration of what the model can do. The Word document circulated has key assumptions. This uses a nonlinear model and is based on the cost of the jurisdiction to mitigate GHG. What is here is a preliminary simulation. This model was also used in Minnesota. Because the mitigation opportunities are low or negative cost options, we don't get a positive permit price in the market. An alternative is to auction the permits.

   In table 1 there are five northeastern states with negative mitigation targets giving them excessive credits/allowances to sell. This is good for Florida as it provides low cost alternatives to abatement of GHG emissions.

   There was a request if the group will be able to review the list of portfolio options? Jeff will follow-up on.

   RGGI has a reserve price with an inflator attached. Regardless of what the market will bear, the auctioneer will not sell below $1.86 a ton in the auction. They are well aware there will be a surplus of allowances. If you round up to $2 a ton there are some emissions that have a high cost of mitigation so for some it is cheaper to purchase the auctioned allowances. Table 3 illustrates how much GHG emission reductions can be offset if the credits are priced at $7 a ton. Vermont would be able to offset all emissions, Florida in contrast would offset 34%. They did not have Florida data so they used South Carolina data as a surrogate. Florida and South Carolina are similar because they both have coal power plants and gas power plants, also they have similar insulation and conservation costs and agricultural practices. South Carolina makes a good proxy for now. Slide 22 shows a cost curve with Florida compared to other RGGI states.

   CCS will provide actual mitigation options and the costs for each when the time comes. Florida appears to be in the middle of the pack, not as high as New York and not as low as Vermont. The model does banking. In the later years banking is important to get a lower price and stay away from the $50 to $60 dollar range. The bottom line is Florida can meet its goal without having to purchase a lot of allowances. The bottom line is that despite having to pay a lot for auction permits Florida can come out ahead by joining RGGI. The lower the auction price the better off Florida is. Florida can meet its goal at a negative net cost in the first phase of RGGI. The model takes into consideration the customers in the electricity sector as well as the industries themselves. Florida has a GHG emission goal and RGGI has a GHG emission goal, however, RGGI's goal is less stringent.

The amount of emissions mitigated is the same whether we follow Florida's goal or the RGGI goal. That is a quirk of the 100% auction.

There are many who think that RGGI will not have negative costs. Could Adam provide data as to why they think it could happen?

WCI is not truly economy-wide it is more like 80% economy wide coverage. Adam can run a model with Florida included in WCI where Florida is electric only and WCI is economy wide. They can pursue developing and fine tune later.

What is the purpose of this exercise is it to give the approximate allowance price? The exercise gives us a sense of how much mitigation takes place and the cost of mitigation within the program. What the savings are. Which states are permit buyers and which are sellers. How much cheaper is it for Florida to participate as a member.

Can we have a face to face meeting in the future? Yes, it is better for most if we set a date before or the day after an Action Team meeting. It was suggested that we hold a face to face meeting August 8th in Orlando. Brenda was charged with finding a location. We will also arrange to have a call in number for the public to call in or for members who can not attend in person.

8. Review of Next Steps –.Next week we will continue discussing the modeling run.

9. Agenda, Date and Time for Next Meetings - The next full meeting of the Action Team will be on July 9 & 10, 2008 in Tallahassee. The next scheduled meeting of the Cap-and-Trade TWG will be on Friday June 20, 2008, from 2:00 p.m. – 4:00 p.m. Eastern.

10. Public Comments – There were no comments from the members of the public. Why are the emissions for New York so much different than for Florida? New York has cleaner sources of power. The only states in RGGI that have lots of coal are Delaware and Maryland, and both are small compared to Florida.

11. Announcements – There were no announcements. The call ended at 4:35pm.