



Governor's Action Team on Energy and Climate Change

State of Florida

Governor's Action Team on Energy and Climate Change Phase II Process

*Cap-and-Trade
Technical Work Group (TWG)
Meeting #8
July 18, 2008*

Welcome and Introductions

- Action Team TWG Members
- Florida Department of Environmental Protection
- Members of the Public
- Center for Climate Strategies

Agenda

- Introductions
- Purpose and Goals
- Review and Approval of Call #7 Summary
- Presentation of Offsets, Banking, Borrowing, and Safety Valve Mechanisms; Kate Zyla, WRI
- Discussion of Offsets, Banking, Borrowing, and Safety Valve Options
- Review of Pew Regional Program Comparison Table; Judi Greenwald
- Follow-up discussion on Allowance Distribution: *What are Florida's top four objectives for the use of allowance 'value'?*
- Report of Action Team discussion, July 9-10
- Review of Next Steps
- Agenda, Date, and Time for Next Meetings
- Public Comments
- Announcements

Purpose and Goals

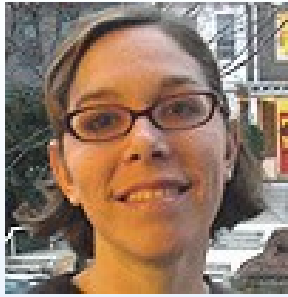
- To develop a comprehensive Energy and Climate Change Action Plan that will fully achieve or surpass Executive Order targets for statewide greenhouse gas reductions specified in Executive Order 07-127, including:
 - guidance on the design of a market-based emissions allowance trading program,
 - design of programs to further enable energy conservation
 - closer examination of emissions reduction opportunities offered by new technologies
 - an examination of revenue impacts of emissions reduction policies within the transportation sector
 - consideration of a low-carbon fuel standard
 - further consideration of the organization of Florida's state government to foster the development of a low-carbon energy market in Florida, and
 - other emissions reductions actions

Technical Work Group Roles

- Assist Climate Action Team
 - Identify full range of potential state actions
 - Identify suggested priorities for analysis
 - Suggest straw policy designs
 - Assist with analysis, development, and review of options
 - Assist with development of policy alternatives
 - Assist with input to and review of Action Team reports
 - Review and assist with the state GHG inventory and forecast

Approval of Call #7 Summary

- Review draft meeting summary for Cap-and-Trade TWG meeting #7
- Consider any corrections or additions to meeting summary
- Accept meeting summary with agreed upon changes



Offsets, banking, borrowing, and safety valves briefing:

Kate Zyla, World Resources Institute

Kate Zyla is a Senior Associate in WRI's Climate and Energy program, focusing on emissions markets and the intersection of climate change and energy security.

Before joining WRI, Ms. Zyla served as Senior Research Fellow for Domestic Policy at the Pew Center on Global Climate Change, where she worked on the design and implementation of federal climate policy.

Ms. Zyla previously explored climate and energy issues at the municipal level, advising the New York Metropolitan Transportation Council on opportunities to reduce greenhouse gas emissions in New York City's transportation planning and conducting an energy efficiency study of municipal buildings for the City of New York.

While in graduate school, she was a founding member of the Yale Climate Initiative, and she received a grant from Yale's Advisory Council on Environmental Management to study mitigation options for the University.

Ms. Zyla holds a Master of Environmental Management degree from Yale University and a Bachelor of Science degree in Engineering from Swarthmore College.

Review of Regional Programs Comparison Table

Judi Greenwald

EMISSIONS REDUCTION PROGRAM	REGIONAL GREENHOUSE GAS INITIATIVE (RGGI) ¹	WESTERN CLIMATE INITIATIVE ²	MIDWEST GGRA ³	LIEBERMAN-WARNER CLIMATE SECURITY ACT (S. 3036) ⁴	EUROPEAN UNION EMISSIONS TRADING SCHEME (EU ETS) ⁵
GASES COVERED	CO ₂	6 gases*	6 gases	6 gases ⁶	CO ₂ (phase I, 2005-07); 6 gases (phase II and later)
REPORTING	The Climate Registry (TCR) ⁷ and State authorities	TCR and state authorities	TCR and state authorities	Establishes a new federal climate registry ⁸	Individual nations have their own registries that report to a common registry, the CITL. ⁹
SECTORS COVERED AND POINT OF REGULATION	Electricity Sector: fossil fuel plants with nameplate capacity greater than 25 MW. ¹⁰	Economy-wide; still under discussion. Large point sources proposed to be included downstream. Inclusion of mobile sources and residential/commercial fossil fuel use upstream under discussion. ¹¹ Considering "First jurisdictional deliverer" ¹² as the point of regulation for electricity; would cover both generation and imports.	Multi-sector	Economy-wide, "hybrid": upstream for transport fuels and natural gas and producers of some non-CO ₂ gases; downstream for large coal users; separate cap for HFC consumption ¹³	Large point source combustion, refineries, and metal, mineral, pulp, glass, lime, cement and other industries
NEAR-TERM TARGET	Stabilize annual emissions at current levels ¹⁴ through 2014. ¹⁵	No near-term target. ¹⁶	Under discussion	4% below 2005 level in 2012 ¹⁷	Phase II: 7% below 2005 levels during 2008-2012. ¹⁸
MID-TERM TARGET	10% below current levels by 2018. ¹⁹	15% below 2005 levels by 2020 ²⁰ for whole WCI program; cap and trade target could differ	Under discussion	19% below 2005 level in 2020	20% below 1990 levels by 2020. ²¹
LONG-TERM TARGET	N/A	Regional commitment to "do their share" to reduce GHG emissions 50-85% below current levels by 2050. ²² Also, member jurisdiction targets. ²³	Under discussion	71% below 2005 level in 2050	60-80% below 1990 levels by 2050. ²⁴
COMPLIANCE PERIOD	3 years; can be extended under certain circumstances. ^{25,26}	3 years ²⁷		1 year ²⁸	Phase I: 3 years Phase II & after: 5 years
ALLOWANCE BANKING & BORROWING	<u>Banking</u> : Yes, unlimited. ²⁹	<u>Banking</u> : Yes, unlimited <u>Borrowing</u> : Allowances from future compliance periods <i>should not</i> be eligible for use. ³⁰		<u>Banking</u> : Permitted without restriction. ³¹ <u>Borrowing</u> : Up to 15% of annual obligation may be borrowed from future years. Allowances must be "repaid" with 5 years, at 10% interest. ³²	<u>Banking</u> : Except for Phase I, allowances may be used for any emission during the current or subsequent compliance period. <u>Borrowing</u> : effectively allows for borrowing from 1 year in the future. ³³
OFFSETS	<u>If allowances cost less than \$7/ton</u> : Up to 3.3% of an entity's reported emissions ³⁴ may be covered by eligible U.S. offset projects. ³⁵ <u>If allowances cost \$7-\$10/ton</u> : Up to 5% of a source's reported emissions may be covered	Under discussion ⁴¹		Up to 15% of annual obligations may be met by domestic offset projects. Unused percentage under 15% may be carried forward to the following year. Furthermore, offset allowances	~10% of a country's emissions may be offset by Clean Development Mechanism (CDM) and/or Joint Implementation (JI). ⁴⁴

Follow-up discussion on Allowance Distribution: *What are Florida's top four objectives for the use of allowance 'value'?*

Other states have established priority lists of purposes including:

- Promoting energy efficiency investments
- Mitigating impacts on ratepayers/consumers
- Protecting regulated emitters from competitive disadvantage
- Promoting renewable or non-carbon technologies
- Stimulating or rewarding investment in carbon emissions abatement technologies
- Protecting regulated emitters from economic disadvantage
- Mitigating impacts of climate change, i.e., fund adaptation strategies
- Mitigating impacts on low-income or disadvantaged consumers or communities
- Funding program administration
- Supplementing general revenues to the state

Action Team Discussion, July 9-10

Rulemaking Issue Number	Rules for the Cap and Trade Proposal shall include	Key TWG Recommendations
C&T-1	Set a statewide limit or cap on the amount of greenhouse gases emitted by major emitters.	<ul style="list-style-type: none"> - What is the geographic scope of the program? - What sectors are covered by the program? - What sources within the covered sectors are included in the program? - What is the term of the program? (Starting date, reduction goal date, etc.) - What reductions goal is the program expected to achieve? - What is the electric sector basis for calculating emissions? (Production? Consumption? Other?) - What reporting requirements will be imposed on regulated sources? Will reporting requirements be imposed on non-regulated sources? How much reporting data must be received before the program can begin?
C&T-2	Establish methods, requirements, and conditions for allocating the cap among major emitters.	<ul style="list-style-type: none"> - How should allowances be distributed? (Free based on historical emissions? Free based on benchmarking? Auctioned? Other?)
C&T-3	Establish methods, requirements, and conditions for emissions allowances and the process for issuing emissions allowances.	
C&T-4	Establish the relationship between allowances and the specific amounts of greenhouse gas emissions they represent.	<ul style="list-style-type: none"> - What is the face value of an allowance?
C&T-5	Set the length of allowance periods and the time over which entities must account for emissions and surrender allowances equal to emissions.	<ul style="list-style-type: none"> - What is the length of a compliance period?
C&T-6	Set the timeline of allowances from the initiation of the program through to 2050.	<ul style="list-style-type: none"> - When does the program start? What is the cap for year 1? What is the cap for 2025? What is the cap for 2050?

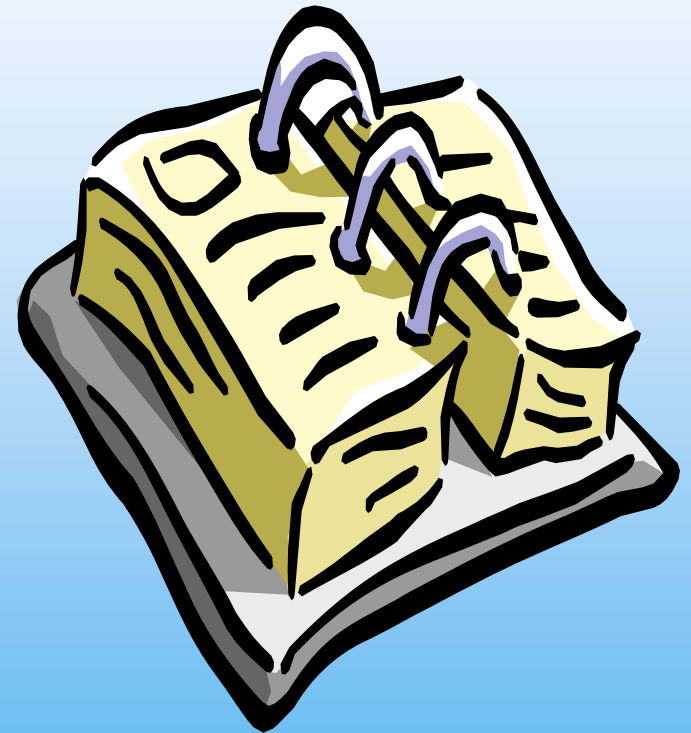
Rulemaking Issue Number	Rules for the Cap and Trade Proposal shall include	Key TWG Recommendations
C&T-7	Establish a process for the trade of allowances between major emitters, including a registry, tracking, or accounting system for such trades.	<ul style="list-style-type: none"> - The Energy Bill requires all major emitters participate in The Climate Registry. How does The Climate Registry tie into a cap and trade trading program? How will allowances be tracked from issuance to surrender?
C&T-8	Establish cost containment mechanisms to reduce price and cost risks associated with the electric generation market in Florida.	<ul style="list-style-type: none"> - Should major emitters be permitted to borrow allowances from future time periods to meet their current greenhouse gas compliance obligation? - Should major emitters be permitted to bank allowances in the current year to be used to meet obligations in future years? If so is there a time limit on allowance banking? - Should major emitters be permitted to purchase certified offsets from other entities that produce verifiable reductions in unregulated greenhouse gas emissions or that produce verifiable reductions in greenhouse gas emissions through voluntary practices that capture and store greenhouse gases that otherwise would be released into the atmosphere? - Should a safety valve mechanism be established to ensure that the market prices for allowances do not surpass a predetermined level compatible with the affordability of electric utility rates and the well-being of the state's economy?
C&T-9	Establish a process to allow DEP to exercise its authority to discourage leakage of GHG emissions to neighboring states attributable to the implementation of this program.	<ul style="list-style-type: none"> - Will leakage be addressed in the program design?
C&T-10	Establish a trial period on the trading of allowances before full implementation of a trading system.	<ul style="list-style-type: none"> - Will there be a trial period? If so, for how long? Will allowances issued in the trial period be honored by the program after the trial period?
C&T-11	Position Florida to anticipate and influence the development of a national program	<ul style="list-style-type: none"> - What actions can Florida take now to maximize the benefits to Florida from the establishment of a national market based program to reduce GHG emissions?

Next Steps

- Next TWG Call
 - Review revised modeling runs of Florida joining WCI
 - Feedback and guidance for next modeling runs
 - Begin formulating answers to Key TWG Recommendations questions
 - Other? (What does the TWG need to move ahead?)

Next Action Team Meeting

- Agenda:
 - Review and approve initial policy quantification and additional sections
 - Review updated Inventory and Forecast
 - Review progress on cap-and-trade design issues; receive first program recommendations
 - Review policy proposals from the Adaptation TWG
- August 6-7, 2008, Orlando



Timing – Action Team Meetings

Date	Location	Action
February 1, 2008	Tallahassee	1 st Action Team meeting
March 17, 2008	Tallahassee	2 nd Action Team meeting
May 29-30, 2008	Tallahassee	3 rd Action Team meeting
July 9-10, 2008	Tallahassee	4 th Action Team meeting
August 6-7, 2008	Orlando	5th Action Team meeting
August 22, 2008	St. Petersburg	6 th Action Team meeting
September 17-18, 2008	Tallahassee	7 th Action Team Meeting
September 26, 2008	Tallahassee	8 th Action Team Meeting
October 1, 2008		Phase II Final Report due
Between Action Team Meetings		TWG conference calls and meetings

Next TWG Meetings

- All times 2:00 p.m. – 4:00 p.m.
EDT unless otherwise noted
- *Tuesday* *July 29, 2008*
- *Friday* *August 8, 2008**
- *Friday* *August 15, 2008*
- *Tuesday* *August 26, 2008*

**6 hour in-person meeting in Orlando*



Public Input, Announcements