



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

www.flclimatechange.us

TELECONFERENCE MEETING SUMMARY

Cap and Trade

Technical Working Group Call #7

June 20, 2008

Action Team Members and TWG Appointees Attending:

Debbie Harrison World Wildlife Fund	Greg Munson WRSScompass	Joe Miakisz for Armando Olivera Florida Power & Light
Robert Kaufman Georgia-Pacific	Terry Murphy Miami-Dade County Commission	Peter Smith for John Cahill Chadbourne & Park
Judi Greenwald Pew Center for Global Climate Change	Michael Hewett Publix Supermarkets	Michael Hewett Publix Supermarkets
Michael Kennedy Progress Energy Florida	Laura Crouch Tampa Electric Company	Julie Harrington Florida State University
Jerry Karnas Environmental Defense		

Florida Department of Environmental Protection (DEP): Brenda Buchan, Julie Ferris, Larry George, Matt Stamatoff

Center for Climate Strategies (CCS): Jeff Wennberg, Adam Rose, Dan Wei

Members of the Public: George Cavros (National Defense Council), Bob Krasowski (Florida Alliance for a Clean Environment), Bruce Reising

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. Fourteen 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 a presentation by Judi Greenwald from the PEW Center on Allowance Distribution Options and we will continue our conversation on priority cap and trade policies.

3. Review and Approval of the Call #6 Summary – Mr. Bob Krasowski provided us with the correct spelling of his name and affiliation (Florida Alliance for a Clean Environment) to insert in last meeting minutes. With that correction the minutes were accepted.
4. Presentation on Allowance Distribution Options by Judi Greenwald, PEW Center– This is an overview of how Florida may want to look at allowance distribution. How allowances are distributed does not affect the overall environmental result. Deciding which allowance distribution option to select deals with equity issues, which can make the program more complicated. There are two basic approaches which are free allocation, a form of auction, or a hybrid of those two (some of each). There is also the opportunity to shifting from one to another over time. The bottom line is to decide what you trying to achieve through the allocation. Both can be used to mitigate economic impacts of the program or to drive innovation. The distribution of allowances is like handing out money which is an inherently political task.

States have different needs and must decide if their decisions will have affects on other states. What are the costs of the program? What kinds of costs are you trying to mitigate? There are different kinds of costs including transition to competitiveness and others. Some states are using revenues to help smooth out

the economic impact on consumers. Some states may utilize the revenues to ensure that industries are not put at a competitive disadvantage.

Modeling will help determine potential costs. Accurate determination of exact cost is difficult and subject to interpretation. Florida may want to be conscious in our decisions to avoid putting new entrants at a disadvantage. Some states utilize auction revenues to address economic impacts, to improve on the effectiveness of the policy, to address impacts of climate change, to reduce or eliminate distortions in the economy and to contribute to general revenues. Florida has the opportunity to use revenues from auctions for any or none of these uses.

The state of California set out a number of principles for how they would use auction revenues. Some California allocation principles include: to reduce the cost of programs to consumers, especially low-income consumers, to avoid windfall profits, to promote investment in low-GHG technologies and to advance the state's broader environmental goals. Each state has different energy sector compositions and will need to address different sector needs. Where states are at the moment may not be where the state is headed and the different greenhouse gas sectors may change over time.

If a state wants to help companies, workers or consumers we must ask which companies and for how long and how to help them. For example should a state allocate or use auction revenues for rebates or tax incentives. States must consider ensuring a smooth market operation. This is where banking and borrowing can be used effectively. States may also allocate revenues to an allowance reserve for release when prices spike.

States can also allocate revenues to achieve advanced climate solutions, and to encourage technologies and new innovation. It could also be used to stimulate demand-side management programs or to stimulate efficiencies. Some RGGI states decided that 25% of allocation should be used for strategic emphasis on DSM. Adaptation is a long term issue and many states are examining the use of funds for intra-structure development.

It can also be used to contribute to general revenue. How would it relate to other taxes?

Some principles to avoid are to use the revenues to obscure the price signals because that would defeat the purpose of the program. Do not create perverse incentives or market barriers. Instead it would be better to assist with home insulation or appliance efficiency instead of masking low income effects.

Auction revenues can be used for many different purposes and can be combined with allocations. Florida will also need to keep in mind that a national cap and trade program is likely in the next few years.

5. Discussion of Allowance Distribution Options – Does the cap and trade replace an RPS? Almost every state participating in RGGI has a renewable portfolio standard and there is no motion to eliminate them. If you have multiple reasons to pursue renewables then a state should stick with a RPS. Solar needs it because the price is still high and needs the incentive. North Carolina has integrated renewable portfolio standards with efficiency into a RPSE.

How do we determine the allocations are awarded and how are they retired? How do we reach our goals? Over a ten year period you have a declining annual budget that is slowly declining. Overall the cumulative total would go down, but in some years, with banking, the actual emissions would not go down as much as planned for that one year. If all allowances are distributed freely then there is no revenue coming back to the state to fund state mitigation programs. The state may also hold some of the allowances back.

There are many ways to pursue achieving mitigation goals. The legislature will have the ultimate choice of allocating the revenues from any auction. If the group starts with a short list of purposes it will help to focus the conversation. The allowances themselves represent value, so the question is, what purpose does that value serve?

Who Florida links with may affect the allocation of allowances and auction revenues. RGGI states that 25% of revenues will be used for consumer benefit, but in largest part this means energy efficiency. Each state has its own priorities and opportunities so they need to have the flexibility to adapt to what is best for them. It is okay to think about linkage and allowance distribution in parallel. What priority goals should Florida consider? Whatever guidance the TWG can give would be helpful.

The Warner Lieberman Amended bill is the most far along any cap and trade proposal has made it in the Congress.

Market manipulation is of concern. Could a speculator buy up allowances and sell them for a lot of profit and skewed the results? Economists would say more players are better and it helps everyone. Those who have the obligation are nervous about others entering the market for speculation. Does it create an unfair advantage? Does it hurt those who need it most? RGGI will have an open market but will watch to see who is purchasing and that there is no anticompetitive behavior. Another choice is to give the allowances to the utilities and make them auction them. That way they know who will be buying. RGGI has limited the amount of allowances that can be purchased during any one cycle. They did not want to limit access but still recognize the concerns of the emitters. RGGI's first auction is in September, so everyone will be watching.

Jeff asked if there were any questions on the memorandum by Adam Rose/Dan Wei sent out this week. There was one question on the how were the GHG

estimates developed? They were developed through a stakeholder consensus process including simulations, survey work, rate cases, and vetting by experts in the technologies or applications. Are there overlaps between the policies? They have tried to eliminate overlaps but there may still be some. Some policies do in fact overlap and interact.

Will there be additional economic analyses of these options? First level of GHG tons reduced with the cumulative cost per ton. Then later another analysis will be completed on fuel reductions to address energy security. Finally, double counting and overlaps are scrubbed out. Also the inclusion of macroeconomic impacts on jobs may come later.

6. Discussion of Priority Policy Cap & Trade Policies and Questions- Items 9, 10 and 11 have been added to the policies and questions. There was a request to modify the wording of new C&T 11 addressing the question of what Florida will do if a national program were developed. They requested after maximizing benefits to add minimize the costs.

Just before the call Judi provided Jeff with a table and he passed it onto the group. The table compares the various characteristics of RGGI, WCI, the EU, and Warner Lieberman. Over time as Florida makes decisions that will be added to the table as well.

7. In Person Meeting Scheduled – An in person meeting has been scheduled for August 8th. There was a request to hold the meeting from 9 to 3pm. It will be at the Florida Department of Environmental Protection’s Central office in Orlando and that address is: 3319 Maguire Blvd, Suite 232, Orlando, Florida, 32803-3767.
8. Review of Next Steps – There was a question last week about whether Florida would be able to join both WCI and RGGI and act as a bridge between the two. This would be a situation where RGGI is only covering the electric sector and WCI is looking at all sectors. Potentially Florida could cover its electric sector in RGGI and everything else in WCI. Jeff asked the hypothetical question to several WCI members last week and the response was positive to those who were asked. It would put Florida in a unique position nationally. As of this meeting, he has not had the opportunity to pose the same question to anyone from RGGI.
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 July 18, 2008 from 2:00pm – 4:00pm Eastern.
10. Public Comments – From George Kavros: look at allowance value in regard to allocating versus auctioning. There is some concern that when allowances are freely allocated the owners and stockholders of the utilities benefit but when allowances are auctioned then consumers benefit. This issue is complex and will

need to be taken into consideration.

Bob Krasowski mentioned that on slide 19 there was a concern about some businesses not being able to pass on the costs of cap and trade. If there are auctions what will the money be used for? Cap and Trade should be used as a transition between dirty to clean technology and not as a revenue source.

11. Announcements – Next week will be the Governor 2008 Climate Change Summit 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 4:00pm.