DRAFT TELECONFERENCE MEETING SUMMARY
Cap and Trade
Technical Working Group Call #8
July 18, 2008

Action Team Members and TWG Appointees Attending:

John Hewa Talquin Electric Cooperative	**Greg Munson** WRScompass	Randy LeBauve for **Armando Olivera** Florida Power & Light
Robert Kaufman Georgia-Pacific	**Kathy Viehe** Gainesville Regional Utilities	**Tim Devlin** Florida Public Service Commission
Kathleen Shanahan WRScompass	**Michael Hewett** Publix Supermarkets	**Buzz Hoover** Gate Biofuels, LLC
Michael Kennedy Progress Energy Florida	**Laura Crouch** Tampa Electric Company	Mr. Bassamawad for **Julie Harrington** Florida State University
Jim Vicks Southern Company	**Terry Murphy** Miami-Dade County Commission	

Florida Department of Environmental Protection (DEP): Julie Ferris
Governor's Energy Office: Brenda Buchan, Matt Stamatoff
Center for Climate Strategies (CCS): Jeff Wennberg
Members of the Public: George Cavros (National Defense Council), Bob Krasowski (Florida Alliance for a Clean Environment), Joe Miakisz (FPL), Bob Kaplan (Georgia Pacific), Paul Messerschmidt, Robert Armstead (The Climate Group), Robert Manning, Lisa Skold

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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. Fourteen TWG members and 8 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 Kate Zyla from the World Resources Institute discussing banking, borrowing, and safety valve mechanisms.

3. Review and Approval of the Call #7 Summary – We need to remove Kathy Viehe's name from last minutes list of attendees and correct the spelling of George Cavros' name. With those corrections the minutes were accepted.

4. Presentation on Offsets, Banking, Borrowing, and Safety Valve Options by Kate Zyla, WRI– All the mechanisms have pros and cons. Cap and Trade is a cost containment mechanism, because you seek out the lowest cost options. When comparing a cap and trade program to a carbon fee program you can see that cap and trade provides emission reductions certainty while the fee provides cost certainty. The more certainty you have over emission reductions (cap and trade) the less certainty you have for price and the more certain you are of price (carbon fee program) the less certain you are of emissions quantity reductions.

   By using offset credits is recognizes that there may be cheaper reductions outside the designated cap and trade sector (such as the electric sector), thus the pros are you get real reductions right away. Another benefit from using offsets is that you know where they are and how to track them. A con is that offsets are hard to quantify. Before accepting offsets, a regulatory body would have to ask

themselves how we know the offsets would not have happened anyway. Another concern with using offsets is that for every reduction you get from out of the sector (such as planting trees) then you may not get the reduction within the sector (i.e., coal emissions). The goal may be to see the tons of carbon reduced and you don't care where it happens.

It may be that Florida decides on the protocols and rules and we don't care where the offsets come from. Also, there may be a natural limit to the amount of offsets, thus there may not be a massive number available. Florida may find that the best way to get agriculture reductions from carbon emissions will be different from counting every ton of carbon.

Banking and borrowing offers participants in a cap and trade program some temporary flexibility. In general no one raises any real objections to banking. Most everyone likes banking, where if a participant has extra allowances they can carry them forward into the next year and use them. ***Is there a time frame by when a banked credit must be used?*** No it is usually open ended. In EU there was no banking between the first and second phase of the program, but that caused a problem with credit prices in Phase I. A lack of banking can cause problems. ***Could Florida see some utility carrying credits forward for five years?*** Yes, a banking program could offer that level of flexibility. Potential problem of going into your pocket for a long time before you see in industry changes made.

A Borrowing program is more of a problem and controversial. Does Florida want to allow cap and trade participants to borrow from future allocations? Some states allow it but make the participants pay interest on the borrowed allowances (10% charge via Warner Lieberman). Florida can also set a limit on borrowing; limiting how much a utility can be 'in debt' for future allowances. The Warner Lieberman proposal only allowed 15% of allowances used in any compliance period to be borrowed allowances; it also set a certain carbon tonnage that could be borrowed. The pro side of allowing borrowing is that total numbers of allowances (the aggregate amount) is held constant. The con to allowing borrowing is that some utilities could get themselves into trouble by borrowing too much and then not being able to pay off their debts. There is also the concern that emitters will go out of business with allowance debts unpaid. Finally, if we borrow carbon offsets from future we are not reducing now.

Setting a safety valve is like allowing borrowing without a payback. However, having a safety valve gives you certainty on the upper level of cost. If you are concerned about cumulative reductions over time it helps you to address that concern. Do you want a safety valve to kick in when you reach a certain price level? Individuals who are worried about market manipulation do not like safety valves for fear that speculation will force the valve to kick in. Others worry about

keeping prices too low and not allowing the market to send the correct price signals.

The Warner Lieberman Bill had all three (banking, borrowing and a safety valve) and they added up. If they all were used at same time utilities could just use the mechanism instead of making real reductions. Utilities say they needed the options. All are valuable and helpful in moderating the cost of the cap and trade program.

The more offsets available the cheaper the cap and trade program. If your goal is to get reductions somewhere then the unlimited availability of offsets doesn't matter, but if you specifically want to reduce emissions in the regulated sector(s) then you may not want offsets, or would want to place limits on their use. Whether or not to use offsets is a value judgment because either is appropriate, depending on your goal.

In deciding which if any of these three mechanisms should be used a number of questions should be asked. Is there a real carbon reduction and how will it impact the business? Setting a phase-in time is important as is the timing element. A utility may need to have time to complete construction projects and see emissions reductions. Sometimes offsets can take a long time to pay off. How long will it take each modification to be realized? Are offset needed more in the early years or later years? Prices can go up over time and they may be needed in the long run or it may take changes a while to be completed.

With a price trigger the prices can increase over time. The trigger can start out low and increase over time with inflation. ***How does the RGGI trigger work?*** RGGI's price trigger is set on the quantity of offsets allowed; only 3.3% of a utility's obligations can be met with offsets. How it works is, as the allowance price goes up, then the amount of allowed offsets also increases. In addition, the geographic scope of offsets also expands at a $10 allowance price (the program will accept CDM credits at this trigger). Offset are available to any RGGI state and any other state with an agreement with RGGI. This type of trigger can be limited to any state, the nation, or it can be allowed internationally. An individual state can specify the levels and the prices.

What is the biggest lesson that we should prepare ourselves for? When you allow offsets the reductions are real, but you must insist on quality offset as they are critical. Figure out what your goal is, and ask yourself if you are getting the lowest cost? Is your goal to get reductions in certain sectors? If not then you can get reductions in certain uncovered sectors. Prioritize your goals based on what you want to achieve from your program.

To what extent does your regulatory climate affect the decisions? If a utility gets a lot of free allocations then they may not want so many offsets, but if an auction is used to initially distribute allowances the utilities may need more offsets.

5. Discussion of Offsets, Banking, Borrowing, and Safety Valve Options – The technical work group may want to set priorities to help focus on to what degree the folks want to achieve different objectives. If you have any questions feel free to contact Kate.

6. Review of Pew Regional Program Comparison Table by Judi Greenwald- This presentation was postponed.

7. Follow-up discussion on Allowance Distribution: *What are Florida's top four objectives for the use of allowance "value"*? – Questions to be asked here are: What are the objectives or public purposes you would like to see served? What purpose should they be put to? What are your priorities here? Is there agreement within the group? How might allowances be distributed? Some goals may force auction because the value would have to be turned into cash.

   Suggesting that auction proceeds are used for deficit reductions helped sink the federal Warner Lieberman Bill. The costs will get passed onto rate payers and a question is, should some of the costs be funneled back to ratepayers to offset the burden?

   The following "goals" were discussed by the group and generally agreed upon (no dissenting comments).

   - Promote energy efficiency investments
   - Promote renewable or non-carbon technologies
   - Mitigate impacts of climate change, i.e., fund adaptation strategies
   - Mitigate impacts on ratepayers/consumers
   - Mitigating impacts on low-income or disadvantaged consumers or communities

   There was a uniform belief that one goal would be to mitigate impacts on ratepayers/consumers with the focus on low income and elderly. The first and the second should be included because they reduce the level of greenhouse gases. Include funding adaptation strategies. What is the bang for our buck, but ultimately what are we trying to accomplish? Also, we need to look at negative impacts. What consumers are being hurt? Take care of the disadvantaged.

   We may want to protect the regulated emitters from being at a competitive disadvantage in the Southeast. British Columbia exempts some industries from their carbon tax program for this reason.

8. Report of Action Team Discussion, July 9-10, 2008 – At the last Action Team meeting they accepted new issue number 11. Discussed the face to face meeting in August. The Action Team asked great questions about what the cap and trade model was telling them and what it was not telling them. Their discussion should lead to further discussion.

9. Review of Next Steps – How can we facilitate moving ahead? Jeff will prepare a survey for key questions, not a ballot! It would lay out the issues, such as Kate presented, and ask for individual preferences of the members. Also, there will be added space for comment and multiple responses. One of the available responses will be that you are not prepared to answer the question. The results of the survey will allow the group to see where folks are on the issues. Jeff will summarize the results and provide the summary back to the group as a basis for discussion at the face to face meeting. That was how it was done in South Carolina. The group would decide what to accept and move forward. The next teleconference meeting is July 29th and then the face to face on August 8th. Need the results in advance of August 8th. Jeff believes it will be possible to get the survey out the middle of next week with a quick turn around it will be available for our next meeting.

   The WCI modeling runs will be finished in a week and CCS will bring that back to the next meeting. There was a request for more depth on the assumptions that went into the model. They will be included.

   Next time we will have 3 or so key recommendations. ***Jeff asked if there was any key information you needed to see on any issue.*** It would be helpful if there was a chart showing timelines or constraints for banking and borrowing. Pick out several framework items and not lose the lessons learned. The chart would include: banking, borrowing, sources, facts and timeframes. We may be able to look at information in a summary format. It was a long time ago that we heard the presentations from RGGI and the EU, it would be helpful to get a summary.

10. Agenda, Date and Time for Next Meetings - The next full meeting of the Action Team will be on August 6 & 7, 2008 in Orlando at the Convention Center. The next scheduled meeting of the Cap and Trade TWG will be on Tuesday July 29, 2008 from 2:00pm – 4:00pm Eastern. An in-person meeting has been scheduled for August 8th, from 9 to 3pm in the Florida Department of Environmental Protection's Central District Office and that address is: 3319 Maguire Blvd, Suite 232, Orlando, Florida, 32803-3767.

11. Public Comments – George Cavros recommended Jeff clarify allowance value. There seems to be a misperception that allowances will affect rate payers the same way whether granting allowances or auction. EU ran into problems with allowances but that may or may not repeat it self.

Bob Krasowski was concerned that on page 9, other states have established priority lists. Supplementing state budgets with the revenues is something he would discourage the group from considering. He believes that it is inappropriate to use climate change revenues in that matter. Protecting regulated emitters from an economic disadvantage, aren't they being protected by the PSC and what other protection do they need? No one was in support of using the allowances for general revenue.

12. Announcements –The call ended at 4:00pm.