



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

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**DRAFT MEETING SUMMARY**  
**Cap-and-Trade**  
**Technical Working Group Meeting #12**  
**August 26, 2008**

**Action Team Members and TWG Appointees Attending:**

<b>Laura Crouch</b> Tampa Electric Company	Ryan Victor for <b>John Cahill</b> Chadbourne & Park LLP	Randy LaBauve for <b>Armando Olivera</b> Florida Power & Light
<b>Jim Vick</b> Southern Company	<b>Kathy Viehe</b> Gainesville Regional Utilities	<b>Tim Devlin</b> Public Service Commission
<b>Michael Hewett</b> Public Supermarkets	<b>Michael Kennedy</b> Progress Energy Florida	<b>Robert Kaufman</b> Georgia-Pacific
<b>Buzz Hoover</b> Gate Biofuels	<b>Judi Greenwald</b> Pew Center	

**Governor’s Energy Office:** Brenda Buchan

**Public Service Commission:** Devlin Higgins

**Center for Climate Strategies (CCS):** Jeff Wennberg

**Members of the Public:** Susan Fernandez (Consensus Communications, Inc.), Paul Messerschmidt (Grace Financial), Bob Krasowski (Florida Alliance for a Clean Environment), and Katie Travis (CDM Environmental Consulting on behalf of Reliant)

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. Eleven TWG members and 4 members of the public either were in attendance or identified themselves over the phone.
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 discuss the final issues within the Cap-and-Trade draft policy option's document.

3. Review and Approval of the Call #11 Summary—There was a request to eliminate the word "equally" on the list of priorities and to include FPL's comments on Leakage in the summary document. Also, it was requested to not reference a specific time for the periodic reviews. Currently it says three years and that three year reference will be removed.
4. Review and Discussion of Trial Period Recommendation—In the survey there were 6 votes for a trial period and another 6 votes for no trial period, but instead to make the initial period more flexible. There were a final 3 votes for no trial period at all. There was some discussion of having multiple elements in this recommendation.

**The first element would be to encourage the development of a national program that would be phased-in with binding obligations, but during the transition there would be special rules with greater flexibility.**

Neither WCI nor RGGI chose to have a trial period because of the problems it caused with the European Union. The EU had problems with the trial period of their cap-and-trade program.

**The second element would be to recognize the existing structure of any regional climate initiative Florida chose to join.**

There was a discussion on whether or not to place a trial period as a criterion for joining a climate initiative. Some thought it should not be a criterion. The group's concern is that in

the early stages of a cap-and-trade program there could exhibit price volatility, from which we want to protect consumers and utilities. It was suggested that we acknowledge it could be disruptive to a climate initiative if a state chose to join in the middle of a compliance period.

5. Discussion of Federal Programs Actions Recommendation—It is highly likely that the new administration will consider a cap-and-trade policy next year. Given that, what can Florida do to better position itself to influence the decision or prepare itself for that out come? Authorizing and initiating rule making on cap-and-trade and greenhouse gases is itself taking action to influence the federal policy on GHG reductions. Is there something else Florida should be doing? If Florida is in a regional initiative and the Federal government develops a national initiative will Florida be able to join the national program? That question comes up all the time in the other initiatives. The concern is the investment in mitigation infrastructure by the utilities and the purchase of allowances or offsets. The question is, will those expenses or instruments be honored? This depends on how the Federal program is structured. Florida should seek to ensure that the regional programs would be integrated into the new Federal program.

Florida should have three objectives for the development of a Federal cap-and-trade program. By joining a regional program, Florida and sources within Florida will be able to develop good baseline data; by participating Florida might play a role in setting up a regional program in order to have it look more like what Florida would want the federal program to look like, and finally, any regional initiative Florida joins needs a transition mechanism in the event a Federal program is developed.

One member suggested that a few sentences be developed on the importance of establishing good emissions data and baselines in the anticipation of a Federal program.

6. Discussion of ESD-10 Grace Period for Replacement of Carbon-Intensive Units—A member stated that if they were not allowed to have these exemptions it will penalize their customers while they are trying to retire fossil fired generation in favor of renewable and clean energy. A grace period would apply to those carbon burning generation units. The utilities would receive a five year grace period for those generation units that will be shut down. The grace period would apply of those fossil units to be phased out and their CO<sub>2</sub> emissions would be removed from the cap. There was no consensus on this issue.

Another suggested that if a grace period is used it must have severe limitations placed on it, such as major penalties if the utility does not shut the fossil unit down in five years. Jeff and Judi mentioned it that neither WCI nor RGGI would currently allow such a provision. It was suggested that if the desire for a grace period would jeopardize Florida joining a regional climate initiative, it should not be considered. We do not want a design requirement that would preclude Florida joining a regional climate initiative. However, if the opportunity exists to incorporate an exemption from penalties then Florida should consider its incorporation.

**To the extent it is consistent with any regional initiative Florida wants to join, we would agree to incorporate an exemption from carbon regulation for generating units scheduled to be shut-down within a reasonable period of time, with severe penalties if**

**they fail to shut down by the deadline. The details on length of the grace period and which would be acceptable replacement units would be left to the Florida DEP cap-and-trade design. Non-electricity sources would also have the same opportunity.**

7. Review of Next Steps—These edits will be included in the summary to the full Action Team and they will be circulated for additional edits. We encourage everyone to attend the next full Action Team meeting on September 17 & 18. It will be the first time they will see the summary document and could have a lot of questions. So if you can be present to participate in the conversation it would be very helpful. After that examination it will come back to us and will be discussed on Tuesday September 23 from 2 to 4 p.m. EDT. We are still waiting for the numbers to be delivered to us in the very near future. When we get the Florida specific numbers we will replace the South Carolina data in the “Florida joining RGGI” or “Florida joining WCI” estimates. If we get that data before September 17th meeting it will be presented to the Action Team.
8. Agenda, Date and Time for Next Meetings—The next full meeting of the Action Team will be Tuesday and Wednesday September 17 & 18 in Tallahassee. Following that meeting will be the final teleconference meeting of the Cap-and-Trade TWG on September 23, from 2 to 4 p.m.
9. Public Comments—Bob Krasowski asked if we had approved the notes from meeting #10. We have not; however, the decision was that we would get the summary right first and then true up the notes to reflect our decision. Jeff will work on that.
10. Announcements—The meeting ended at 4:00 p.m.