

MINUTES OF THE MEETING

GOVERNOR'S ACTION TEAM ON ENERGY AND CLIMATE CHANGE

Knott Building, Room 412
The Capitol Complex
Tallahassee, Florida

Tuesday, September 18, 2007

Meeting called to order by Department of Environmental Protection (DEP) Secretary Mike Sole, serving as Chairman, at 9:00 a.m.

Members Present:

Secretary Mike Sole, Chairman
Mayor Rick Baker, Vice Chairman
Senator Jeff Atwater
Senator Al Lawson
Representative Stan Mayfield
Representative Dan Gelber
Tommy Boroughs
Camille Coley
Lisa Polak Edgar
Dr. James Fenton
Manley Fuller
David Guest
Debbie Harrison
Dr. Lonnie Ingram
Mark Kaplan
Jerry Karnas
Armando Olivera
Charles Pattison
Jack Shreve

Excused absences:

Jerry Montgomery
Kathleen Shanahan

Others Present:

Chris Kise, Counsellor to the Governor
Kelly Layman, Chief of Staff, DEP
Steve Adams, Director, Office of Strategic Projects and Planning, DEP
Jeremy Susac, Director, Florida Energy Office, DEP
Andrew Collins, Senior Executive Assistant, DEP
Kelley Smith, Governmental Analyst II, DEP

Chairman Sole welcomed the Action Team members and members of the public present.

Chairman Sole introduced Jill Duggan, Head of International Emissions Trading, United Kingdom, Department of Environment, Food and Rural Affairs (DEFRA). Ms. Duggan presented on the topic of Carbon Markets in Action: Key Lessons from the European Union.

Chairman Sole opened the floor for a question and answer period between members of the Action Team and Ms. Duggan.

Chairman Sole asked about the length of time for the European Union to design cap and trade rules.

Ms. Duggan responded that Phase 1 was to start January 1, 2005, but the EU was not fully prepared. The UK started in May 2005 and many National Allocation plans were still being approved into 2006. For Phase 2, submission plans were due by June 30, 2006; the UK submitted its plan in August 2006. So while Phase 2 did move quicker, it still was about 2 years for the design process.

Mr. Kaplan asked if Ms. Duggan was encouraging us to look at a regional solution instead of us “going it alone.” And if so, are there special considerations if our contiguous neighbors are not active?

Ms. Duggan responded that it would be ideal to have the contiguous neighbors join in a regional trading program, however if they are not going to join the issue of “leakage” may develop. “Leakage” occurs when emissions of greenhouse gases are moved from within a territory that has emission regulation in place to a territory in which no regulation exists as a means of avoiding greenhouse gas emission regulations.

Chairperson Edgar asked Ms. Duggan, if the EU program is revenue-neutral, who is it neutral toward, and would Ms. Duggan expand on that statement? Ms. Edgar also stated there was a need for assurance of economic impacts and how do we do that.

Ms. Duggan responded that the UK emissions trading program is revenue-neutral, not the EU program. For commercial enterprise there will be full auctioning, but those revenues will go back to the companies with the best economic assurances. This will be done on a program-by-program basis.

Mayor Baker asked Ms. Duggan whether auctioning allowances, like the ones to utilities, would be an easier way to avoid issue if Florida were to link with others, and how would that work? If Florida is setting value of allowances, but folding into a region that already has allowances, how would that work? What is being done to measure the cost for consumers? In the utility industry, is there a way of tracking the percentage cost increase that the consumer may have received as a result of the carbon effort?

Ms. Duggan responded that with regard to auctioning allowance, she could not be certain at the moment—over the next year they will have a lot more answers as the system functions. The carbon price in the first year was around 17 euros. The price was not fully passed on to consumers and the main reason for that is that there is a fairly vertically integrated electricity sector. They did not want to lose market share so they were not passing off the short-term costs. Electricity prices in the UK are the lower than they were ten years ago. The UK wants to increase the electricity prices just enough so that consumers look to reduce their energy consumption. Unfortunately there is not a single answer to this and more analysis needs to be done.

Mr. Olivera stated that in the U.S. there is a lot of discussion about cap and trade versus a carbon fee, and asked Ms. Duggan her view of the carbon fee and would you go still go down the same cap and trade road?

Ms. Duggan responded that yes she would go down the same cap and trade road. Even though she knows they have a long way to go before they achieve the perfect trading program, different sectors require different solutions. In Europe there are very high taxes on gasoline but it is inelastic demand, so a carbon price would not have an impact on that sector. Different policies are needed for different sectors to achieve different outcomes that change behaviors.

Dr. Ingram asked Ms. Duggan whether the quality of carbon credits was settled at this point/certification and about guidelines. Dr. Ingram thought that the subject was open to interpretation and wondered if the argument had been resolved.

Ms. Duggan responded that there is a lot of criticism of the Clean Development Program. There are those who say it is too bureaucratic and rigorous and there are those who say it does not do enough. The Clean Development Program is the most transparent and rigorous of all other programs out there. It needs to be developed and improved as time goes on.

Mr. Karnas asked how agriculture and forestry fit into the EU market. What about the market and its impact in the long run – has the UK done any analysis on the effect on business and consumers? How much is saved on early action, as opposed to waiting?

Ms. Duggan responded that according to the Stern report [refer folks to what this is] the cost of early effective action on climate change would have a one-time “cost” of 1 percent of GDP. The cost of inaction would be 5-20 percent of GDP. Ms Duggan also stated that there is a lot of discussion on agriculture and how to include it. One of the problems to consider is the permanence of emissions reductions and how you account for them. There are various credits for agriculture available through Kyoto mechanisms.

Mr. Pattison asked Ms. Duggan to describe current and future efforts by the EU to address emissions from airline operations and to know what the nonprofit and NGOs have been doing to support projects in Europe.

Ms. Duggan responded that aviation is due to come into the EU emissions trading program in 2010 for all flights within Europe. A few years later all arriving and departing flights will be added. Rules and allocation methodology have not been finalized. Aviation will be an offsetting program where it will buy allowances to mitigate of offset industry emissions. NGOs in Europe are different from NGOs in the US. NGOs in Europe like the idea of environmental certainty of trading. They are supportive but will criticize on the details.

Chairman Sole introduced Commissioner Gina McCarthy, Connecticut Department of Environmental Protection, who presented the topic of Carbon Markets in Action: Key Lessons from the Regional Greenhouse Gas Initiative (RGGI).

Chairman Sole opened the floor for a question and answer period between the members of the Action Team and Commissioner McCarthy.

Chairman Sole asked Commissioner McCarthy about the length of time required to develop the RGGI model rule and about defining the trading rules. Did the utility industry embraced the RGGI 1-2 percent cost models? Is there a general consensus with utility companies?

Commissioner McCarthy responded that a great deal of discussion took place and that she would not say that anybody embraced these numbers. With every modeling, everyone "nit-picked" what should go in and what is missing. The fact that Connecticut had its energy commissioners at the table gave the state a real opportunity to poke at the numbers and to adjust them depending on how the energy commissioners thought they ought to look.

Mayor Baker asked whether the 1-2 percent increase between now and 2015 is an annual increase. Also what are the most common types of changes those electric utilities did to their plants to meet compliance?

Commissioner McCarthy responded that the 1-2 percent increase was total increase not annual. She also stated that there was a long lead time in the discussion. RGGI had a 2-year timeline and was still in the rule-making process. The member states of RGGI are supposed to have model rules done by mid-2008. It is a complicated business and they just are not there yet. The utilities in Connecticut understand what is going to be expected of them, and they probably already have designed themselves how they will respond.

Chairperson Edgar asked if the 1-2 percent includes investments in energy efficiency. What are the population growth trends for the RGGI states and how does that factor into the states' allocations?

Commissioner McCarthy responded that it does not include any new investments that the individual states might put toward energy efficiency. They did not factor in the

population growth trends or increase demand; what they did look at in some cases were projections for new generators that would be coming on the market, ones that were already in the permit process, and ones that were expected to drop out. They did look not only at the facilities that are in the system now, but what facilities were in the permit process that they knew would be there by the time RGGI was up and running.

Ms. Coley asked what the RGGI states are doing about utilities smaller than 25 megawatts. Are they coming aboard and what is the thought process for the next phase?

Commissioner McCarthy responded that the vast majority of greenhouse gases (GHGs) are emitted by please spell out... of that size in all of the RGGI states, that's why it was first to be tackled. These tend to be more heavily regulated, and already provide a wealth of information that was needed for the program. It was a start and there is a commitment on the part of the RGGI states to move toward other sectors and potentially the smaller units as well.

Mr. Guest asked how the 1-2 percent increase compares to the fuel/energy cost that consumers have had since 2002 or 2003. Also in referring to the \$7 and \$10 per unit, are you referring to tons of carbon? If so why is there such a big difference between the RGGI process and the EU prices? Does the \$10 allow you to trade in the EU? Do you see a tension in the timeframe between the implementation of cap and trade and a tendency to where the cap is restrictive, and is that tension focused on whether you enter the market early or later?

Commissioner McCarthy responded that the increase costs would be considered very minor. The \$7 to \$10 per unit does refer to tons of carbon; those dollars are basically price triggers. They believe the price of the offsets would be in the area of \$1 to \$3 a ton at the beginning of the program. They do not expect that to fluctuate tremendously. The \$7 to \$10 per unit price was to provide some measure of certainty should the calculations and modeling be incorrect. Commissioner McCarthy also stated that the \$10 would allow trade with the EU. RGGI wanted a cap and trade program to allow the market to drive the decisions. The states attempted to have the 2012 level and then the reductions from 2012 to 2015 as a way to signal what the long-term obligation would be, allowing for maximum flexibility to the regulated community to participate in the market the way they wanted to and make those decisions for themselves.

Mr. Kaplan asked if he understood her to say that non-RGGI states can benefit from providing offsets, so long as there is a compliance monitoring agreement in place. Why did RGGI make that decision?

Commissioner McCarthy responded that he did understand her correctly—that non-RGGI states benefit from providing offsets to RGGI states. RGGI made this decision to encourage other states to consider doing similar cap and trade programs. The states had concerns that offsets within the region would not be as plentiful as they might need. The approach, therefore, will result in some investments in other states thru a memorandum of understanding so that offsets can be credible.

Mr. Karnas asked how knowledge of the Climate Stewardship Act by Senator Lieberman help to ready RGGI for a federal policy. What portion of the market will offsets for agriculture and forestry likely become in New England?

Commissioner McCarthy responded that RGGI greatly influenced the design of the Climate Stewardship Act. The major concern and reason for involvement is if RGGI states had a plan in place that works well regionally, interference from the federal level could make the program more complicated, more costly, and less advantageous to the individual states. Commissioner McCarthy said a “forestation” is critical—there is a push within RGGI to see whether or not the states can look at sequestration more effectively.

Mr. Olivera asked Commissioner McCarthy to elaborate on treating old generators equally, and the CO2 credits of \$1-\$3 — is that during the stabilization period?

Commissioner McCarthy responded that the \$1-\$3 is through 2015. The decision to look at the cap based on generator was based on the reorganization that all generators are not equal in terms of what they generate.

Dr. Ingram asked Commissioner McCarthy if sufficient time and data have been accumulated; where you can identify which uses of the money from funding is/are the most beneficial for consumers.

Commissioner McCarthy responded that Connecticut has had a systems benefit charge for quite a while as well as many other states in the region. There is a great deal of analysis on where investments should be made for energy efficiency, for conservation, and for renewables. The advantage of an auction process is that it will provide considerable funds, but it will be easy to administer because all we have to do is give it to the programs that we already have established in the state where we have that prioritization. When you combine that with changes in legislation that have accomplished decoupling and looked at energy efficiency as a resource, it provides a strong platform for those demand reductions that will decrease costs associated with a cap and trade program such as this one.

Chairman Sole introduced Philip Fairey, Deputy Director, Florida Solar Energy Center, who presented on the topic of Complementing Carbon Markets with Energy Efficiency policies.

Chairman Sole opened the floor for a question and answer period between the members of the Action Team and Mr. Fairey.

Senator Lawson asked Mr. Fairey to address the cost of efficiency technologies for lower-income Floridians. Senator Lawson followed up with a question about existing “weatherization” funding from state sources.

Mr. Fairey responded that if efficiency of those homes is increased on a lifecycle cost basis, Florida does that at a net cost and not as an increased cost. We have programs that are paying utility bills in the low-income sector of our economy. “Weatherization” funds from the federal government’s weatherization assistance program are set up in such a way that heating degree days and population count but cooling degree days do not really count. Florida has a cooling problem not a heating problem. Mr. Fairey proposed that we should utilize state public building funds to run a Florida weatherization program.

Mayor Baker asked what was it that Texas achieved to get to 37 percent penetration from utilizing ENERGYSTAR®.

Mr. Fairey responded that Texas was sued by the EPA for being in noncompliance with regards to the EPA’s ozone levels. Texas then passed Senate Bill 5, which made building code systems mandatory.

Mr. Olivera asked, with increase usage in electricity and a lot of that due to consumer behavior, how do we incorporate the behavioral aspects of the consumer? To what extent have you studied that?

Mr. Fairey responded that in their studies of energy in buildings they have found 40% variance in energy use, which is entirely contributable to consumers’ lifestyles.

Mr. Kise asked whether the Center has looked at the viability of taking the concept of “decoupling” in pieces. Have you looked at utility companies recovering their returns on a house-by-house basis in order to be more affordable to the consumer?

Mr. Fairey responded that there is one utility in the state that is doing something similar. It has linked together solar hot water heating and demand management in such a creative way that the combination actually passes the Rate Impact Measure (RIM) Test. This utility also has received permission from the Public Service Commission to offer incentives for solar hot waters systems based on the residents opting for demand management systems. Mr. Fairey proposed that there be some mechanism that utilities can profit from items that save rather than demand energy use. He stated that right now the utilities’ only mechanism is saving demand.

Two PowerPoint presentations to date in the meeting were provided in hard copy to the Action Team members. Chairman Sole reminded all present that the materials for all meetings and more reference information were available on the DEP climate change area of the agency’s web site: www.dep.state.fl.us/climatechange

Chairman Sole opened the floor to public comment.

Comments were heard from:

- Mr. Stephen Smith representing the Southern Alliance for Clean Energy
- Mr. George Cavros representing the Southern Alliance for Clean Energy
- Mr. Leon Jacobs representing the Southern Alliance for Clean Energy

- Ms. Susan Glickman representing the Natural Resources Defense Council
- Ms. Holly Binns representing Environment Florida
- Ms. Heidi Whidden representing Calpine Corporation
- Mr. Bill Gallagher representing the Florida Solar Energy Industries Association
- Mr. David Bruderly representing Clean Power Engineering

Chairman Sole thanked the members of the public for their comments.

Chairman Sole requested a motion to extend the meeting beyond 12:30 in order to provide sufficient time to provide instruction to staff. Dr. Ingram motioned for adjournment extension. Ms. Edgar seconded the motion. Motion passed unanimously.

Chairman Sole asked members to advise staff of any questions or topics that they would like staff to provide information on in advance of the next meeting.

Mayor Baker asked staff to give an update on the progress of North Carolina and South Carolina and their work on climate change, as well as contiguous states. He also asked staff to provide information on how utility rates are set and recommended that the Action Team receive a presentation or information from the utility industry.

Ms. Harrison asked for a presentation from the Southern Alliance on Clean Energy and the National Resources Defense Council on their cap and trade proposal. Chairman Sole indicated that at this time and prior to the November 1 report deadline to the Governor, the Action Team would not have an opportunity to do so within the constraints of the next two meetings and still allow for public comment.

Dr. Ingram asked staff to specify if there can be a resolution to the value of carbon credits in the United Kingdom/EU and RGGI. There was a discrepancy in price between the two markets.

Mr. Karnas asked staff to look into ways to engage the Legislature over a period of time, and to have the Legislature authorize the members to look throughout the country at what other states are doing. Mr. Karnas said there seemed to be a general consensus on the cap and trade but to be careful for the balancing act and let American ingenuity prevail within that system.

Mr. Kise asked staff to look into the issue of “decoupling,” in which public utility profitability is no longer linked to bulk sales. Mr. Kise suggested that a form of phased decoupling with perhaps including solar hot water heating in the public utility rate base as a logical first step or as a “pilot.”

Mr. Guest asked about the Public Service Commission’s statutory authority to use the Rate Impact Measure (RIM) test in evaluating the cost-effectiveness of demand-side management programs. Mr. Guest asked whether the Commission had authority to discontinue the use of the test or whether legislation was required. Ms. Edgar offered to have the Public Service Commission staff provide information on rate-making to the

Action Team in writing to serve as pre-brief materials prior to the next meeting, and it was agreed this would be provided.

Action Team members were advised that the next meeting will be Friday, October 5, where they will hear presentations on the topic of energy and climate change with regard to the transportation sector.

Chairman Sole requested a motion for adjournment. Mayor Baker motioned for adjournment. Dr. Ingram seconded motion. Motion passed unanimously.

The meeting was adjourned at 12:40 p.m.

Minutes respectfully submitted by DEP staff.