



**From September 24, 2007**

In this report you will find a recap of the second meeting of the Governor's Action Team on Energy and Climate Change. This important group of policy makers is currently undertaking the challenge of implementing Governor Crist's recent Executive Orders on Climate Change. Energy is a critical issue for AIF and its member companies; therefore, we are closely monitoring the progress of this group and sharing with our members their findings.

Also included in today's report is coverage of AIF's first meeting of its Financial Securities Council as well as some recent press conferences held in support of the January 29th Property Tax constitutional amendment.

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### **Governor's Action Team on Energy and Climate Change**

The Governor's Action Team on Energy and Climate Change held its second meeting on Tuesday, September, 18th. The following is a recap of the presentations made to the Action Team:

Jill Duggan, Head of International Emissions Trading, United Kingdom, Department of Environment, Food and Rural Affairs (DEFRA), gave the first presentation – *Carbon Markets in Action – Key Lessons from the United Kingdom*. Ms. Duggan explained that Climate Change is a problem without geographic boundaries and requires an international solution. She explained emission trading is a central policy tool. Emission trading is a system where facilities within a cap and trade program are prohibited from emitting CO<sub>2</sub> unless they surrender an equivalent number of allowances (or tradeable permits) and the total number of allowances for all emitters is less than the total "Business as Usual" emissions. This creates a price for the allowances. Those for whom emissions abatement is cheaper than the allowance price will be able to abate and then sell surplus allowances and those whom abatement is more expensive than the allowance price will be able to buy allowances rather than abate.

There are 25 countries within the European Union who are in the Emission Trading System (ETS) with 2 more countries joining in 2007. She feels as though the cap and trade program gives certainty on the environmental impact and provides flexibility for least cost emissions reductions.

The ETS began in 2005 and they are still in what Ms. Duggan calls the "Learning Phase" which goes from 2005 – 2007. The allowances are mostly allocated for free with a limit of 5% for auctioning. They have a well-performing electronic registry system for CO<sub>2</sub> emissions only. Phase II will go from 2008-2012 where they will expand the amount of auctioning to 10% and expand to other major sources of CO<sub>2</sub>.

Some of the key lessons they learned from Phase I is that you need good data as a basis for allocation decisions and you need to develop a registry system. Also she stated that industry needs certainty of future targets and trajectories. Predictability is the key.

One of the successes from Phase I was a robust, functioning market system that was created within an ambitious timetable, with a high level of compliance in the first year – 99%. They have 6 million allowances traded a day creating a \$1 billion market.

Duggan recommends that a variety of policy options will be needed overall and that different sectors will need different policies. Some of the policy options may include target and promote behavior change and recognize regulatory burden.

She concluded that the “eyes of the world” are on the states and how they are moving forward with cap and trade. Also she noted that legislation was passed in 2003 to begin the ETS and it did not start until 2005 and that was still too short of a time frame; no one was ready. A plan was not submitted until August 2006. When Action Team members asked about regionalization or federal program approach she said that was the best way to go. Duggan told the Action Team to start “gentle” and consider the energy sector first before expanding.

The next presentation was by Commissioner Gina McCarthy from the Connecticut Department of Environmental Protection – *Carbon Markets in Action: Key Lessons from the Regional Greenhouse Gas Initiative (RGGI)*. Commissioner McCarthy told the Action Team that RGGI was started in 2003 with the plan legislatively endorsed in 2005. As states in the Northeast began developing climate change action plans, they decided to focus on the power generation sector to reduce greenhouse gas since they were already reporting emissions due to their acid rain policy. They decided to develop a multi-state cap and trade program to reduce carbon dioxide emissions from power plants in the participating states, while maintaining energy affordability and reliability. There were 7 states in the original RGGI framework (Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont). Massachusetts and Rhode Island rejoined RGGI in January 2007 and Maryland joined in April 2007. They believe the District of Columbia will join soon. They are still in rulemaking process and the rule should be done by mid 2008 and the program will commence on January 1, 2009.

Commissioner McCarthy stressed that energy efficiency goes hand-in-hand with a cap and trade program to keep prices down. According to modeling results there may be an additional 1-2% increase in electricity prices in the region between now and 2015 but she said that does not include any investment in new facilities in the future.

The final presentation was by Philip Fairey, Deputy Director, Florida Solar Energy Center – *Building Energy Efficiency: Keeping Our Eye on the Prize!* Mr. Fairey’s presentation was about how much electricity buildings use. He claims that 83% of electricity is used for buildings: 51% for residential and 32% for commercial. His report cites two recent studies; one from the American Council for an Energy Efficient Economy (ACEEE) and the other from the Florida Solar Energy Center. The first study from ACEEE states that building energy efficiency is a major factor in conservation. Homes built today are much more energy efficient than ever. He showed a graph of a 1979 home energy uses and one of a 2007 code home and you can see a drastic savings in cooling, heating and hot water but you can also see a savings in “all other” uses which includes lighting and electrical appliances.

Other suggestions from the reports included: using 75% solar water heating; moving heating and a/c systems to conditioned space; increasing ceiling and wall insulation; using programmable thermostats; and reducing wall and roof solar absorption. Mr. Fairey also believes Florida needs a stronger building code.

At the end of the meeting Secretary Sole stated that a market-based solution is needed for a cap and trade system. He also stated that recommendations need to connect with low income home owners.

Mayor Rick Baker wants to know what is being done in other Southern states such as North and South Carolina. Mayor Baker also suggests that the next public hearing they learn more on how electric rates are set.

When Secretary Sole was asked about cap and trade, he said that the Action Team will pursue this concept, but he does not know what it will look like. This would probably be an issue that will be pushed off until 2008 and "safe recommendations" will be made to the Governor and Legislature in their upcoming November 1 report.

Dr. Lonnie Ingram wanted the staff to clarify the differences between carbon trades in the United States and the EU.

The next meeting is tentatively scheduled for October 5 to discuss the transportation sector.

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### **Property Tax Amendment**

Associated Industries of Florida participated in two press conferences last week in support of the January 29th constitutional amendment on property taxes. On Monday, September 17th AIF's President and CEO, Barney Bishop, joined Governor Charlie Crist (R) in Tampa at a kick-off event for the "Yes on 1 – Save Our Homes Now" campaign. This broad coalition of business and government leaders is advocating for the passage of a proposed constitutional amendment which will establish a "Super Homestead Exemption" of up to \$195,000 per homestead property.

Speaker Marco Rubio (R-Miami) held an event on Wednesday, September 19th in Tallahassee to bring attention to this important property tax proposal. He was joined by several statewide business associations including AIF. Representatives from the business community took the opportunity to remind the Speaker that there is still much work to do in the area of property taxes and how they relate to business owners (both small and large). Primarily, the legislature should look at putting an end to a property assessment practice known as "highest and best use," in which a small family owned restaurant can be valued at a much higher rate because the land it sits on could be used for a high rise condo or other purpose. AIF is also looking at enacting reforms in 2008 to the existing Value Adjustment Boards, which hear disputes over property assessments. Currently, these boards are stacked against business and home owners and are so under staffed that very little time is given to present a property owner's case. Still, most business groups do support the amendment as a way to kick-start Florida's housing market and thus the state's economy as well.

On Monday, September 24th Leon County Circuit Judge Charles Francis threw out the Legislature's property tax amendment on the basis that the ballot language was misleading. The challenge was filed by City of Weston Mayor Eric Hersh. Judge Charles A. Francis wrote: "Try as this court has, and having considered all memoranda and argument presented to the court and having read, reread, examined and studied the ballot summary under review, the court cannot find that the language is clear, concise, unambiguous and fair. The language at issue is misleading and confusing, and does not provide fair notice to the voter, educated or otherwise, of the purpose and effect of the proposed amendments to the Florida Constitution."

The state did prevail in arguing that the Legislature had the right to impose the tax limitations under the statutory rollback already in effect. This issue was not addressed by Judge Francis.

It is unclear how legislative leaders will respond, but we expect that an appeal will most likely follow this decision by Judge Francis.

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### **AIF's Financial Securities Council (FSC) Holds First Meeting**

On Thursday, September 20th AIF's Financial Securities Council (FSC) held its very first meeting since its creation was announced back in July of this year. The FSC was formed to address property insurance concerns on behalf of the business community as well as other issues important to financial services companies like privacy legislation and health care. The purpose of the meeting was to hold initial discussions regarding the Council's legislative agenda for the upcoming 2008 Session. The Council will mainly focus on advocating for reforms in the property insurance arena so as to bring back a healthy private property insurance market in Florida. The Council is also looking at playing a major role in policy discussions revolving around the use of personal identification information, since both the House and Senate are currently in the process of reviewing Florida's laws regarding the use this data. For more information on how to become a member of the FSC please email Jose L. Gonzalez at [jgonzalez@aif.com](mailto:jgonzalez@aif.com)

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### **House District 101 Special Election Data Announced**

As a result of the un-timely death of Rep. Mike Davis (R-Naples) from health complications, Governor Charlie Crist (R) has announced that a Special Election will be held on November 20, 2007 to fill this seat. The Special Primary Election will be held on October 30, 2007. Florida Business United (FBU), AIF's political research division, will be covering all aspects of this race.