

# **Summary of the Third Meeting of the Illinois Governor Rod Blagojevich Climate Change Advisory Group**

**May 23, 2007**

**Thompson Center  
100 West Randolph Street  
Chicago, Illinois**

## **Introduction**

The third meeting of the Illinois Climate Change Advisory Group (CCAG) began at 10:45 a.m., with approximately 50 people in attendance. Illinois EPA (IEPA) Administrator and Advisory Group Chairman Doug Scott opened the meeting by thanking everyone for their participation in the CCAG process and for their extensive input during the subgroup conference calls of the previous weeks.

Director Scott restated the Governor's dual charge to reduce Illinois greenhouse gas (GHG) emissions to 1990 levels by 2020 and to sixty percent below 1990 levels by 2050. The CCAG process timeline was also reviewed. Mr. Scott then outlined the day's agenda, which would include an overview of the Energy2020 model and draft baseline reference case, the presentation of policy options by the different subgroups for modeling, discussions of those policies, and the identification of any additional policy design elements necessary to ensure that modeling runs were successful. A round of introductions was also initiated.

## **Review of Recent Activities**

Dr. Jonathan Pershing, director of the Climate and Energy Program at the World Resources Institute (WRI) reviewed activities since the previous meeting. These activities included a series of at least 3 conference calls for each of the four subgroups (power and energy; transport; cap and trade; commercial, industrial, and agriculture—CIA) in which policy straw proposals—initially drafted by IEPA, DCEO, and WRI—were reviewed, discussed, and revised based on feedback from subgroup members. Dr. Pershing noted that the modeling subgroup would still require feedback and additional information from the other subgroups as the policy options move forward to be modeled.

## **Presentation of Energy2020 Model and Reference Case Assumptions (Glen Wood, ICF)**

Mr. Glen Wood of ICF International provided an overview of the Energy2020 model. In brief, Energy2020 is an emissions and energy model with an integrated North American economy. Owned by Systematic Solutions, Inc., Energy2020 utilizes energy prices from the USDOE Annual Energy Outlook and economic output and employment forecast estimates from the REMI

model. Previous uses of the model include work for the province of Ontario. Mr. Wood also reviewed the status of the reference case scenario, noting that some further work on the reference case was still necessary.

Several issues surrounding the reference case were raised by members of the CCAG and responded to by Mr. Wood and the modeling team. These issues included:

- Quality assurance of model inputs (including projections of electricity sales and natural gas prices)
- The geographic resolution and delineation with which power sector nodes are modeled
- Inclusion/exclusion of new natural gas load, planned or proposed coal-fired plants, and assumptions around CCS technology
- Energy or electricity use in the industrial sector
- The incorporation of biofuels into the modeling exercise
- Comparability of the reference case to WRI projections
- Sensitivity testing using a range of estimations for certain elements (e.g., gas prices) to provide additional insights
- Inclusion of a “worst-case” scenario

The discussion closed with the modelers and several group members reemphasizing that a believable baseline is essential to providing a reference point for the rest of the modeling exercise, and that the modeling group will continue to meet and review assumptions. It was noted by the co-chairs that this process will also benefit from additional state-level data and information from CCAG members. The modelers closed the discussion by stating that ultimately, the reference case will represent one of many possible “futures.” Due to time and resource constraints, extensive sensitivity testing will not be possible, but those tests that are carried out will help bound predictions. They noted that if the methodologies for assembling the reference case are clear and reasonable, then the baseline projection and modeling runs will effectively serve to facilitate further discussion.

## **Subgroup Presentations on Policy Options to be Modeled**

### Transportation

Ron Burke (IEPA) and John Larsen (WRI) briefly summarized the six policies from the transportation subgroup. Some important caveats identified included the uncertainty of data regarding fuel-efficient vehicle purchasing incentives and the implicit, but not explicit, consideration of plug-in vehicles in policy #19—incentives for fuel efficient vehicles. Director

Scott asked if there were any objections to moving all transportation policies forward to be modeled. Ford objected to policy #18—GHG emission standards for automobiles (CA standards). No other objections were raised.

### Commercial, Industrial, and Agriculture (CIA)

Art Gibson (Baxter), the CIA vice-chair, presented the eight policy options under consideration by this subgroup. He also noted a need to address in the final report to the Governor the planning, staffing, and general resource requirements to enact CCAG's suite of policy recommendations and suggested this information come from the subgroups.

Several clarification questions and points of discussion regarding the CIA policy proposals were raised:

- The sectors and types of vegetation covered by policy #2—programs to encourage forest management, reforestation, tree- and grass-planting. *Ron Burke (IEPA) noted that this policy only takes tree planting into consideration.*
- The language and entity coverage of policy #3—encourage or require reductions in emissions of high GWP gases. *It was explained that since accounting for high GWP gases is currently limited, this policy will seek to monitor, report, and reduce these gases making sure that a standard accounting process exists by the time the policy is in place.*

Mr. Gibson, on behalf of the CIA subgroup, also introduced two new policy options that had been vetted by the CIA subgroup: increased recycling diversion rates and a land use development offset requirement. It was noted that for the recycling policy, developing IL markets and infrastructure for recycling would be critical to achieving net reductions in GHGs from this policy. The new land use development offset requirement ensures that changes in land use (and hopefully emissions sinks) are replaced elsewhere, although it was noted that the impacts of transportation and regeneration timing may need to be analyzed to ensure emissions reductions are comparable.

Policy option #1—incentives to reduce nitrogen application in crop fertilization—was recommended by the CIA group not to be modeled due to the complexities of the policy, lack of data, and estimated minimal reductions in total emissions.

There were no objections to moving the seven remaining CIA policy options forward to the modeling exercise.

### Energy and Power

Howard Learner (ELPC), subgroup vice-chair, reviewed the ten policy options considered by the power and energy subgroup. Policy #27—expand transmission capacity for wind power—was recommended by the subgroup to *not* be moved forward to the modeling exercise since state data

shows that there is approximately 5500MW of wind power in development in Illinois and transmission capacity in these areas is not a problem. It was agreed that policy option #9—carbon capture and storage (from the outset) portfolio standard—had been discussed in the first subgroup call, was viewed as an enhancement of the Governor’s Energy Independence Plan, and should go forward to modeling. Two policies not included in the original policy list—enhanced RPS of 25 percent by 2025 and enhanced energy efficiency programs—essentially establish more aggressive goals for policies already contained in the Governor’s Energy Independence Plan.

Art Gibson (Baxter) added that promoting “energy efficiency” does not guarantee that consumers will know what to purchase. The state should facilitate education and knowledge-sharing forums so consumers better understand their options and what products are most efficient.

The remaining nine power and energy policy options were unanimously put forward to be modeled.

### Cap and Trade

After a lunch break, the CCAG reconvened to discuss the more complex and contentious policy option of an Illinois cap and trade program. John Larsen (WRI) provided an overview of policy #16—state level cap-and-trade program—which included two options, both of which will hopefully be modeled.

Discussion opened with the group requesting a more thorough explanation of the auctioning of allowances process in a cap and trade system. Dr. Pershing (WRI) provided three examples of how this system might operate: 1) a closed or blind auction by the government; 2) create a brand new entity and put allowances in a public forum (e.g., bond sale market) with no restrictions about how one can purchase them; 3) turn allowances over to the private sector with some government oversight. He noted that there is currently no analog for a 100 percent allowance auction—the closest is EPA’s allocation system of SO<sub>2</sub> allowances.

Members of the group raised several general concerns regarding the auctioning of allowances process:

- One entity with significant financial resources could dominate the process and keep out smaller businesses that need allocations.
- This type of market mechanism could create competitiveness issues in the industrial sector and present a disincentive for businesses to locate in Illinois.
- The selection of 85 percent as the amount of allowances to be auctioned may not be appropriate for Illinois.
- The EU experience highlights the flaws of a government run and overly political allocation process.

Dr. Pershing noted that if there above 30 or 40 players in a cap and trade system, you probably will not have a monopoly scenario unless you have much larger players and that the 85 percent

number is not critical for the modeling process. John Larsen (WRI) added that a secondary market for the resale of allowances would almost certainly emerge alongside the auctioning process and would provide another venue for allowance procurement.

Other points of discussion surrounding cap and trade included:

- Coverage of the transportation sector by the cap
- Revenue recycling of money generated in the auction process, investment in research and development, and the price of allowances
- Anticipated consumer costs
- Leakage and out-of-state transmission constraints
- Incentives for clean, in-state power
- Model elasticity
- Constraints on gas capacity and price sensitivities

There was also some concern around how Illinois' power market would be modeled (regulated vs. deregulated) and what the impact on consumer prices might be. Howard Learner (ELPC) stated that it would be best to model based on Illinois' current situation, where all electricity generating units are wholesale and competitive (and therefore a cap and trade is likely not to result in any pass-through costs for the majority of consumers). Mr. Learner also provided the group with a brief summary of Illinois' power market regulatory framework.

A point of concern was raised regarding the enactment of an isolated cap and trade program in Illinois. It was noted that this policy might create an unfair playing field for Illinois and that many of the current problems in the EU-ETS could manifest themselves in Illinois.

It was ultimately decided, however, that modeling this policy would provide much needed emissions and economic information, although not all questions and concerns would be able to be addressed by the modeling exercise.

### **Additional Discussion**

Mary Culler (Ford) reiterated concerns regarding moving policy option #18—GHG emission standards for automobiles (CA standards)—forward in the modeling process. Specifically, she noted the disagreement between data provided by auto makers and CARB could result in different modeling outcomes and that it is unclear which data set should be used. Ms. Culler also noted that the “Pavley” legislation is still under litigation and that this policy measure does not take into consideration issues specific to the Illinois economy.

Group members disagreed about the legitimacy and attainability of “Pavley” standards and the resulting economic impact from enacting such a policy. Although Ms. Culler made it clear that Ford supports a national policy, it was agreed that this was problematic for the modeling exercise and does not fall within the CCAG's charge to recommend policies to reduce GHG emissions within the state. Doug Scott noted that there are lots of uncertainties about what is going to

happen at both the federal and state level with regard to this policy, but that the modelers need some definitive criteria in order to successfully model this policy.

Dr. Pershing suggested that sensitivity tests be done around both sets of data (auto makers and CARB) and Ms. Culler offered to provide the group with these data sets.

Additional discussion revolved around price setting of power, its economic impacts, and its ability to be captured satisfactorily in the model. Craig Siebins (Siebins Associates) noted that a range of price responsiveness might help the group determine how to prioritize certain policies.

Dr. Pershing (WRI) noted that the modeling will involve a “package” of policies and some nuances will be difficult to glean from the exercise. The modelers assured the group that some economic competitiveness data (e.g., employment) would be available.

### **Next Steps**

Dr. Jonathan Pershing (WRI) then reviewed the following action items, expected to take place prior to the next CCAG meeting:

- Obtain additional input from the subgroups and clarify policy specifics in order to move forward with policy modeling in a set of subgroup calls the following week
- Modeling subgroup check in
- Finalize policy scenarios for modeling exercise; begin modeling of policy options
- Staff will begin to put together pieces of the final report

The next meeting of the CCAG is expected to occur in late June or early July.

The meeting adjourned at 4 p.m.