

Illinois Climate Change Advisory Group

Subgroup: Cap and Trade
Policy Name: #16 State-level cap and trade program
Policy Type: Regulatory

June 30, 2007

Goals:

1. Ensure that the Governor's target GHG reduction goals are met.
2. Minimize costs to the state economy including consumers, industry, workers and regulated entities.
3. Spur technological innovation to enable the achievement of long-term GHG reductions in accordance with the Governor's goals.

Design Elements:

1. Stringency:

Covered emissions would be reduced to their 1990 levels by 2020. According to WRI's emissions inventory for Illinois, estimated 1990 emissions from covered sources in the Industrial, Commercial and Electric Generation sectors were approximately 72.6 million metric tons. In order to insure that the Governor's reduction goals are met, there would be no cap on the price of allowances.

2. Schedule:

In 2012, emissions would be capped at 2011 levels and then reduced gradually to meet the 1990 level target in 2020.

3. Covered sources: Existing and new point-source, direct emitters of CO₂, specifically fossil fuel fired electric generation units with a nameplate capacity of 25MW or higher or emit 25,000 metric tons of CO₂ or more annually; as well as stationary fossil fuel fired combustion units that emit 25,000 metric tons of CO₂ or more annually (see Table 1 below for alternative threshold levels) would be covered at the start of the program. Other sectors, smaller sources within covered sectors and GHGs other than CO₂ may be included over time if technically feasible and not duplicative in order to make the market more robust and efficient while also potentially achieving greater emission reductions at least cost.

4. Recognition of early action: Covered sources that have achieved GHG reductions within a certain period of time prior to implementation of the program would be rewarded for their actions. GHG reductions would need to be confirmed through verification of a source's own inventory or through the registration of emission reductions in a recognized GHG reporting program. In any event, generally accepted GHG accounting principles must be used for reporting early action reductions.

Modeling Assumption: Early action credits for reductions achieved from 2007-2011.

5. Linkages with other programs outside of Illinois: The preference is for an independent cap and trade program (e.g. not RGGI or the emerging Western states program) that will be linked to other emissions markets. Efforts would be made early in the design process to harmonize an Illinois program with existing and emerging state and international systems. Linkages or regional market development would be explored with Midwest states in particular.

Modeling Assumption: The All-In modeling run won't include linkages to other states; a sensitivity run will be done that includes linkages to RGGI. Under the RGGI linkage sensitivity run, regulated entities in Illinois (and the RGGI states) could buy EU allowances if the RGGI allowance price exceeds \$10. Allowances can flow between Illinois and the RGGI states but cannot flow from Illinois and the RGGI states to the EU.

6. Distribution of allowances: In order to minimize overall costs to the state economy, consumers, industry and workers, at least 85 percent of all allowances would be auctioned. All revenue generated by the auctioning of allowances would be recycled and directed to purposes that benefit the public. Possible activities that would receive funds would include efficiency incentives for appliances, buildings and industrial facilities; renewable energy deployment, the deployment of commercial applications of carbon capture and storage technology, worker transition assistance and energy assistance to low income households. Eligible public benefits activities, and the allocation methodology for any non-auctioned allowances, would be determined by a subsequent stakeholder process. The share of auctioned allowances may also be re-examined in this stakeholder process.

Modeling Assumption: (1) The All-In run assumes auction revenues are spent as follows- 80% EE; 10% CCS incentives; the remaining 10% divided between worker transition training (if necessary), program administration, and low-income energy assistance. (2) A sensitivity run will be done with auction revenues spent as follows- 45% EE; 45% CCS incentives; with the remaining 10% divided between worker transition training (if necessary), program administration, and low-income energy assistance.

7. Offsets: Regulated sources could use credits generated from offset projects in unregulated sectors to help meet up to 10 percent of their compliance requirements in any given year. The program should allow for a wide range of eligible offset projects, as long as the GHG reductions are real, permanent, additional and verifiable. Though offsets generated in Illinois are preferred, eligible offset categories and the geographic source of offset credits would be determined through a subsequent stakeholder process. Modeling Assumption: Regulated entities can buy CDM credits under the All-In scenario in accordance with proposed offset rules stated above. Under the sensitivity run that links to RGGI, regulated entities in the RGGI states and Illinois can use RGGI and Illinois offsets.

8. "Emissions leakage:" Emissions leakage (the shifting of electricity generation and associated GHG emissions out of state to avoid emissions caps and related costs) is likely to occur to some degree due to this program. Informed by the modeling results and recommendations of a subsequent stakeholder process, steps would be taken to minimize emissions leakage during program design and implementation.

Table 1: Estimate of covered emissions and number of facilities under three potential emissions thresholds .

	All emitters	>25,000 tonnes CO2/year	>75,000 tonnes CO2/year
Estimated covered CO2 emissions (metric tons CO2)	144,797,707	138,665,444	134,465,535
Percentage of total emissions covered by program	100%	96%	93%
Estimated number of facilities covered by program	2,115	191	90
Percentage of total facilities covered by program	100%	9%	4%

Source: IEPA Draft GHG Inventory Data for 2005