Illinois Cap and Trade Straw Proposal
May 7, 2007

Goals:

1. Ensure that 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: In concert with a suite of other strategies, the cap would be sufficient to meet the Governor's GHG reduction goals. The 2020 cap will be equal to the difference between the Governor's 2020 goal and the cumulative projected reductions from the other strategies recommended by the ICCAG. In order to insure that the Governor's reduction goals are met, there would be no cap on the price of allowances.

2. Schedule: Phased in. Cap emissions at current levels by 2015 and then reduce emissions gradually to meet the 2020 target reduction.

3. Covered sources: Large, point-source, direct emitters of CO2 specifically electricity generators and/or utilities and large industrials sources would be covered at the start of the program. Other sectors and GHGs other than CO2 would 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 reductions.

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 West Coast program) that can 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.

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, worker transition assistance and energy assistance to low income households.

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. Eligible offset categories and the geographic source of offset credits would be determined through a subsequent stakeholder process.

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. During the design and implementation of this program steps would be taken to minimize emissions leakage.