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March 19, 2007

Honorable John D. Dingell
Chairman, Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Dingell,

Thank you for your leadership to gather input on issues related to management of greenhouse gas emissions and cap-and-trade as a flexible tool for implementing public policy with respect to climate change mitigation. The questions raised in your letter of February 27, 2007 touch upon all the critical elements involved with a successful greenhouse gas cap-and-trade program.

As you may know, Chicago Climate Exchange ("CCX") is the world's first and North America's only active and live cap-and-trade greenhouse gas emission reduction and trading program. CCX is a rules-based multi-sector market, covering all six greenhouse gases. We launched CCX in 2003, which was prior to the launch of the emissions trading system based in Europe. CCX now has more than 200 members throughout the United States, and also includes members from around the world.

CCX is a global financial institution created to advance economic, social and environmental goals. Our existing structure and rules are completely synergistic with all emerging public legislation, whether state, regional or national. We believe that CCX represents an implementation system for policy, not a substitute for policy.

CCX members undertake voluntary but legally binding commitments to meet annual emission reduction goals of 4% below baseline for 2006 and 6% below by 2010. CCX Rules require that all emission baselines, annual reduction commitments and Offset projects undergo a standardized third-party independent annual audit by NASD. As you know, NASD is a provider of regulatory services to the financial sector and was created pursuant to the Maloney Act, which was passed by the US Congress in 1938 for that purpose.

CCX Membership includes Ford, Dow Corning, Michigan State University, American Electric Power, DuPont, IBM, Intel, Sony Electronics, Eastman Kodak, United Technologies, Cargill, MeadWestvaco, Roanoke Steel, PinnOak Resources, CNX Gas, International Paper. Membership also includes cities such as Chicago and Portland Oregon, the States of New Mexico and Illinois and others. (A full list is attached.)

CCX members must meet their annual commitments by either making internal emission reductions or through purchase of emission allowances from other members who have cut beyond their commitments, a core cap-and-trade principle. Members report that the commitment to reduce, and the process of establishing an audited baseline and annual progress requirements, enables them to realize hidden value and revenue. The program helps members better understand the hidden price of carbon constraints while simultaneously managing emissions and energy costs. Members reduced their emissions through various means, increased energy efficiency, expanded use of renewable fuels, switching fuels and other materials, and realization of low-cost reductions in non-CO₂ greenhouse gases through use of direct abatement equipment.



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The CCX Offsets module, which offers another compliance option for realization of annual commitments, is proving successful at rewarding emissions mitigation realized through sustainable farming and forestry, while also providing a new income source for U.S. agriculture.

CCX has also created exchanges for US SO₂ and NO_x emission allowances (Chicago Climate Futures Exchange) and the European Climate Exchange (ECX), which is the leading Exchange in Europe that handles Kyoto-compliant instruments within the European Union Emissions Trading Scheme. Each of these financial institutions advance social objectives and economically efficient environmental protection by providing rules-based markets with low transaction costs and transparent prices.

The attached one-page document summarizes key elements in the program, and answers some of the main questions posed. We will be pleased to provide further detail as your process evolves.

Sincerely,

Michael J. Walsh
Executive Vice President

Attachments

1. List of current Members of Chicago Climate Exchange
2. Core principles of an effective greenhouse gas cap-and-trade system



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Core Principles of An Effective Greenhouse Gas Cap-and-trade System Submitted by Chicago Climate Exchange to the U.S. House Committee on Energy and Commerce

Chicago Climate Exchange (“CCX”) appreciates the opportunity to provide input on the questions raised by the House Energy and Commerce Committee in its February 27, 2007 letter.

CCX is the world’s first, and North America’s only operating, active and legally binding greenhouse gas (“GHG”) emission reduction and trading system. CCX is the only rules-based, independently audited market for U.S. reductions in all six GHGs, with price transparency, registry and clearing provided through a comprehensive mechanism. Total emissions under management since 2003 makes CCX the world’s second largest live GHG market (second only to Germany). CCX’s 240 members represent a cross-section of the US economy, including leading companies such as Ford, DuPont, IBM, Baxter, American Electric Power, Tampa Electric, Dow Corning; cities such as Portland, OR, Chicago, IL and Oakland, CA; and the States of New Mexico and Illinois. CCX is the world’s only GHG reduction market incorporating standardized emission offsets for forestry, agriculture and methane. CCX’s CEO, Dr. Richard L. Sandor, formerly served as Vice-Chairman of the Chicago Board of Trade and directed the first auctions for USEPA SO₂ emission allowances in 1993. Our input reflects decades of unique, real-world, and workable experience in developing environmental and commodity markets, including our affiliates the European Climate Exchange and Chicago Climate Futures Exchange.

Use Trading System Designs that Have Repeatedly Proven Successful

CCX experience demonstrates that a GHG cap-and-trade system that allows emitters to manage annual reduction commitments – a design used in other proven trading systems (US SO₂ and NO_x, EU CO₂) – gives clear signals that lead to direct internal action and trading responsibility and attendant opportunities. This design:

- Maximizes the benefits of emissions trading, as proven in the SO₂ program, and allows carbon pricing and trading to stimulate financing of capital improvements.
- Maximizes entrepreneurial response and rewards environmental innovation.
- Can cover a major portion of emissions from all six types of greenhouse gases, can be integrated with upstream systems for other emissions, and allows opt-in by small sources.
- Can bring significant benefits to the agriculture and forestry sectors, assuming carefully screened and specified rules with attendant scientific validity and verification.

Use Simple and Broad Emission Reduction Schedules, Credit Early Action and Projects

CCX experience suggests a workable system should:

- Include the maximum diversity of sectors using simple, percentage reduction schedules.
- If auctions are employed, follow the successful precedent of the limited-scale SO₂ auctions. Returning auction proceeds *pro rata* to emitters would optimize reductions at least cost.
- Fully recognize standardized and verified early reductions, as this will maximize ongoing capital investment, avoid undermining prior investment, and boost market liquidity.
- Include project-based mitigation activities, such as methane capture, and carbon sequestration by farms, forests and ranchlands, which produce multiple global and local benefits, help finance sustainable agricultural practices, and have proven workable.
- Maximize innovation by allowing the market to work unencumbered by price constraints. Flexibility from trading, offsets, banking and borrowing can contain compliance costs.

Effectiveness of the above is being demonstrated by CCX members today. The environmental and economic benefits being generated are of national and global significance.

The input provided herein reflects the views and experiences of Chicago Climate Exchange only, and not necessarily those of its members, vendors or partner organizations.