

July 13, 2010

California Environmental Protection Agency
Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: Chicago Climate Exchange (CCX) input on “Cost Containment in a California Cap-and-Trade Program”

Chicago Climate Exchange welcomes the opportunity to provide input to the California Air Resources Board (CARB) on cost containment in a California Cap-and-Trade Program.

This input extends our track record of providing input to CARB, including several past instances where CCX executives extensively briefed CARB officials and participated in various seminars¹ and workshops associated with AB32.

Chicago Climate Exchange (CCX) operates the world’s first and North America’s only voluntary but legally binding cap and trade system for all six greenhouse gases, with global affiliates and projects worldwide. CCX Members are leaders in greenhouse gas (GHG) management and represent all sectors of the global economy, as well as public sector innovators.

Reductions achieved through CCX’s legally binding compliance regime are independently verified by the Financial Industry Regulatory Authority (FINRA, formerly NASD). The 2010 reduction requirement of CCX members is a minimum of 6% below baseline emission levels. Total emissions subject to this requirement exceed 600 million metric tons CO₂, which is a larger baseline of emissions in a cap and reduction system than the National Allocation Plan (NAP) of Germany in the European Union Emissions Trading Scheme (EUETS). Through CCX, the United States has more greenhouse gas emissions under an emissions trading cap than any single nation in the world.

Dozens of CCX members are based in or have major facilities and GHG mitigation projects located in California. (Please see Appendix 1). Many of these entities, which include major employers and taxpayers, will be subject to regulation under AB32. Importantly, their experience as CCX members makes them well-poised to measure and reduce GHG emissions. Because the input provided herein reflects the views of CCX, and not its members or affiliated verifiers, we encourage CARB to take advantage of the experience and insights these entities have built through up to ten years of practical experience in designing and implementing a multi-sector GHG reduction and trading system.

We would also note that the Chicago Climate Futures Exchange (CCFE), which is a CFTC-regulated Designated Contract Market, is the leading exchange marketplace for GHG, SO₂ and NO_x emissions and renewable energy instruments, including futures contracts for Climate Action Reserve CRTs.

¹ CCX Public Presentation to CARB: <http://www.arb.ca.gov/research/seminars/ccx/ccx.pdf>

July 13, 2010

The following input on cost containment reflects two decades of professional experience in the successful implementation of emission reduction markets.

- 1) Given the importance of activating emission reduction programs without harming the economy, businesses and employment, intelligent implementation of state, provincial and federal greenhouse gas reduction mandates should maximize opportunities to contain costs.
- 2) Maximizing cost containment need not compromise environmental objectives. On the contrary, cost containment opportunities such as project-based GHG mitigation in areas such as efficiency, methane and agricultural best management practices, yield new income and business, proving that environmental leadership goes hand in hand with innovation and new economic opportunities.

For example, in the US, cost containment through access to project-based offset credits will be critical for emitting entities that cannot make internal cuts despite all best efforts. At the same time, offsets can generate revenue for offset providers, not to mention generate innovative mitigation options in response to a price signal for GHG reductions.

- 3) Policy uncertainty faced by entities that make early verified emission reductions and implement offset projects (including early projects) has eroded confidence in emissions markets, and caused prices to fall, including prices of offset credits registered in the Climate Action Reserve (CAR). This erosion of value in the marketplace has undermined the nation's capacity to continue to supply project-based reductions as low prices translate to lost income for early offset project providers, including farmers, small businesses and energy innovators.
- 4) Importance of early action recognition: Program rules that encourage and foster ongoing efforts to manage and reduce emissions will help assure the smooth and low-cost introduction of the policy structures called for in AB32. CARB can advance these objectives by providing recognition towards compliance goals for entities that have made absolute, independently-verified emission reductions, and for project-based mitigation, when these actions have been achieved by entities who took leadership by participating in rules-based GHG reduction programs before required to do so by law.

California's leading position in adopting state-mandated GHG reductions makes it critically important that the policy activation process avoids penalizing entities who demonstrated leadership in cutting emissions before being required by law. Conversely, recognizing their early environmental progress will signal that leadership is recognized and valued from both public and private sectors. This will be an important consideration when federal and international policymakers are in a position to properly recognize California's leadership in implementing climate policy.

July 13, 2010

Chicago Climate Exchange (CCX) welcomes the opportunity to provide input on implementation of AB32. As always, we stand ready to discuss these and related matters in detail with appropriate CARB officials.

Note: As of July 8, 2010, the Chicago Climate Exchange (CCX), the Chicago Climate Futures Exchange (CCFE), and the European Climate Exchange (ECX) are wholly-owned subsidiaries of the Intercontinental Exchange (ICE).

July 13, 2010

Appendix A: CCX Members and Facilities in California

CCX Members in California

- Amtrak
- Bank of America
- Baxter
- Bayer
- City of Berkeley
- Cargill
- Dow Corning
- IBM
- Intel
- Interface
- Jesuits of Santa Clara
- MeadWestvaco
- City of Oakland
- Presidio School of Management
- Rolls Royce
- Sacramento County
- Safeway
- San Joaquin Commuter Rail
- Smurfit-Stone
- SONY Electronics
- STMicroelectronics
- Temple-Inland
- United Technologies
- UC San Diego
- Waste Management

CCX Members' Included Facilities in California (partial)

