

## MBP-3. Chicago Climate Exchange

### Policy Description

The Chicago Climate Exchange (CCX), launched in 2003, is the world's first and North America's only active voluntary, legally binding integrated trading system to reduce emissions of all six major greenhouse gases (GHGs), with offset projects worldwide.

CCX Members are leaders in GHG management and represent all sectors of the global economy, as well as public sector innovators. Reductions achieved through CCX are the only reductions made in North America through a legally binding compliance regime, providing [independent, third-party verification](#) by the Financial Industry Regulatory Authority (FINRA, formerly NASD). The founder, Chairman, and CEO of CCX is economist and financial innovator Dr. Richard L. Sandor, who was named a Hero of the Planet by Time Magazine in 2002 for founding CCX, and in 2007 as the "father of carbon trading."

CCX emitting Members make a voluntary but legally binding commitment to meet annual GHG emission reduction targets. Those who reduce below the targets have surplus allowances to sell or bank; those who emit above the targets comply by purchasing CCX Carbon Financial Instrument® (CFI®) contracts. The states of New Mexico and Illinois are Members of CCX.

The commodity traded at CCX is the CFI contract, each of which represents 100 metric tons of CO<sub>2</sub> equivalents. CFI contracts are comprised of Exchange Allowances and Exchange Offsets. Exchange Allowances are issued to emitting Members in accordance with their emission baseline and the [CCX Emission Reduction Schedule](#). Exchange Offsets are generated by qualifying [offset projects](#).

### Goals of CCX:

- To facilitate the transaction of GHG allowance trading with price transparency, design excellence and environmental integrity
- To build the skills and institutions needed to cost-effectively manage GHGs
- To facilitate capacity-building in both public and private sectors to facilitate GHG mitigation
- To strengthen the intellectual framework required for cost effective and valid GHG reduction
- To help inform the public debate on managing the risk of global climate change

### Benefits of Membership:

- Be prepared: mitigate financial, operational and reputational risks
- Reduce emissions using the highest compliance standards with third party verification
- Prove concrete action on climate change to shareholders, rating agencies, customers and citizens
- Establish a cost-effective, turnkey emissions management system

- Drive policy developments based on practical, hands-on experience
- Gain leadership recognition for taking early, credible and binding action to address climate change
- Establish early track record in reductions and experience with growing carbon and GHG market

NOTE: Various Michigan-based businesses are members of the CCX, including, Ford Motor Company, DOW Corning, Steelcase, DTE Energy, Smurfit-Stone, Knoll Inc., DuPont and Michigan State University. In addition, the states of Illinois and New Mexico are also members of CCX.

### Policy Design

- Leading by example—Michigan will inventory and quantify all greenhouse gas emissions from sources that result from state government operations and are under the control of state government. Typically speaking, state government's primary sources of GHG are energy usage in office buildings and transportation.
- Join the Chicago Climate Exchange (CCX)<sup>1</sup> which requires a 6% reduction in GHG emissions from state governmental sources by 2010, and possibly additional reductions beyond 2010 under Phase 3.

**Goals:** TBD – [as approved by the TWG]

**Timing:** TBD – [as approved by the TWG]

**Parties Involved:** Governor Granholm and Executive Office staff, various Executive Departments and Agencies, Michigan Legislature?

**Other:** Contracts for GHG reductions are legally binding and extend for multiple years. To the degree that compliance with those contracts imposes a cost on the state; the Legislature would be obligated to appropriate the necessary funds to purchase credits if the state of Michigan was unable to meet associated GHG reductions.

Alternately, membership and compliance may present opportunities for new revenues (for example, biological sequestration on state forest lands), which would be under the jurisdiction of the Legislature through the budget setting process.

### Implementation Mechanisms

The MCAC suggests the state of Michigan join the CCX by issuance of an Executive Order through the Governor's office. A determination of the necessity for involving the Michigan Legislature in this process needs to be made accordingly. The states of Illinois and New Mexico have joined the CCX. Example: The State of Illinois joined by Executive Order 11 of 2006 (see web link; <http://www.illinois.gov/gov/execorder.cfm?eorder=54>)

<sup>1</sup> See <http://www.chicagoclimatex.com/>

## Related Policies/Programs in Place

None, however the state of Michigan, under Executive Directive 2007-22 (<http://www.michigan.gov/gov/0,1607,7-168-36898-180298--,00.html>) has committed to reducing the carbon footprint of state government by reducing energy consumption and furthering efficiency efforts in fleet management, green procurement, and recycling. This effort would complement the voluntary GHG reduction commitments required as part of being a member of the CCX.

Specifically, all state buildings under the Department of Management Budget and other state agencies under the Executive branch have a goal of achieving 10% reduction in energy use by December 31, 2008, and a further goal of 20% reduction in grid-based energy purchases by December 31, 2015, when compared to energy use and purchases in fiscal year ending September 30, 2002.

In addition, the Midwestern Governors Association GHG Accord (Participating States and Provinces: Illinois, Iowa, Kansas, Manitoba, Michigan, Minnesota, Wisconsin

Observer States: Indiana, Ohio, South Dakota) to establish a Midwestern Greenhouse

Gas Reduction Program (hereafter Program) to reduce GHG emissions in member states through the following actions:

1. Establish GHG reduction targets and timeframes consistent with those of MGA member states and provinces; and
2. Develop a market-based and multi-sector cap-and-trade mechanism to help achieve GHG reduction targets; and
3. Join The Climate Registry to enable tracking, management and crediting for entities that reduce GHG emissions; and
4. Develop and implement other associated mechanisms and policies as needed to achieve the GHG reduction targets, such as a low-carbon fuel standard and regional incentives and funding mechanisms.

NOTE: Michigan Department of Environmental Quality (MDEQ) participates on the Steering Committee for the development of The Climate Registry, a multi-state program designed to be an essential piece of infrastructure for the development of state and federal climate change programs. Thirty-nine states and the District of Columbia in the United States, six states in Mexico, nine Canadian provinces and three Indian tribes have already signed on to join The Climate Registry. For more information about The Climate Registry go to <http://www.theclimateregistry.org/>.

## Type(s) of GHG Reductions

TBD – [as approved by the TWG]

### **Estimated GHG Reductions and Costs or Cost Savings**

TBD – [as approved by the TWG]

**Data Sources:** [TBD, as approved by the TWG]

**Quantification Methods:** [e.g., Full life cycle analysis with supply/demand equilibrium adjustments on TWG approval]

**Key Assumptions:** [TBD, as approved by the TWG]

### **Key Uncertainties**

TBD – [as needed and approved by the TWG]

### **Additional Benefits and Costs**

TBD – [as needed and approved by the TWG]

### **Feasibility Issues**

TBD – [as needed and approved by the TWG]

### **Status of Group Approval**

Pending – [until MCAC moves to final agreement]

### **Level of Group Support**

TBD – [blank until MCAC moves to final agreement]

### **Barriers to Consensus**

TBD – [blank until final vote by the MCAC]