

## *Overview and Frequently Asked Questions*

### **Project-based Credits – “Offsets” – in Chicago Climate Exchange®**

#### *Summary*

- Inclusion of Offset projects in the CCX® market helps foster a broad array of win-win and cost-effective climate solutions.
- In 2007 the Intergovernmental Panel on Climate Change (“IPCC”) identified approximately three dozen currently viable GHG mitigation actions. A majority of these actions are appropriately implemented via a project-based Offsets approach.
- Every CCX offset project advances a mitigation action identified by the IPCC as currently viable.
- The following principles used to define eligible projects and determine the quantity of tradable Offsets issued:
  - To qualify, a projects must be beyond regulation, recently implemented, or as applicable, best-in-class
  - Conservative crediting
  - Independent verification by expert entities
  - Reserve pools for sequestration performance assurance
  - All Carbon Financial Instrument® contracts(i.e. CCX Allowances and CCX Offsets) are equivalent when surrendered for compliance
- The CCX principle of using standardized rules for defining eligible projects and quantifying project crediting is becoming widely adopted in programs across North America.
- To assure quality and legitimacy of Offsets transacted in CCX, CCX rules require an independent verification report on project eligibility and effectiveness before the exchange will issue Offsets to the Member’s CCX Registry account.
- To ensure that Offset Projects enrolled in CCX have not “double sold” credits by selling in both CCX and elsewhere CCX uses a unique serial number system in the CCX Registry and requires appropriate contractual provisions for project enrolled in CCX.
- CCX rules are designed to assure overall environmental progress and prevent “cherry picking”. Any entity that seeks to register CCX Offsets that also has significant GHG emissions at its own facilities can be eligible to earn Offsets only if makes the CCX legally binding commitment to manage its facility emissions under the CCX Emission Reduction Schedule.

## *Overview*

Chicago Climate Exchange (“CCX”) is an international rules-based greenhouse gas emission reduction, audit, registry and trading program based in the U.S. Launched as a pilot program in 2003, the market now includes over 350 entities. CCX participants in the industrial, governmental and academic sectors execute legally binding commitments to meet annual emission reduction goals of 4% below baseline for 2006 and 6% below baseline by 2010.<sup>1</sup> CCX rules require that all emission baselines, annual reduction commitments and Offset projects are annually subjected to independent audit by authorized experts.

As of this writing, the total included baseline emissions of Chicago Climate Exchange members is in excess of 500 million metric tons CO<sub>2</sub>. No country in the world has as much industrial emissions under a legally binding GHG emission reduction commitment.

Every active or proposed GHG cap-and-trade program worldwide includes a role for project-based emission reduction credits - “Offsets”. Offsets are tradable credits produced by implementing mitigation projects in sectors not covered by the emissions cap. Every GHG mitigation project enrolled in CCX must meet eligibility standards and undergo independent verification before it can be issued tradeable Offsets in the CCX Registry.

Achieving the goals of Chicago Climate Exchange on a scale with global significance meant it was necessary to move beyond debate and set credible and practical standards for project-based crediting. Offset projects enrolled in CCX produce multiple social, economic and ecological co-benefits. The participation of Offset providers in CCX broadens market participation, and the carbon price produced by the CCX market rewards innovation and efficiency, and encourages investment and risk taking that stimulates development of superior environmental technologies.

It is noteworthy that as various proposals to activate carbon markets emerge around North America, the CCX principle of applying standardized, predictable rules for defining Offsets, and, as well, the specific CCX definitions of eligible projects, are becoming widely accepted practice.

U.S. legislative proposals for limiting greenhouse gases call for major reductions in net emissions in the coming decades. The stringency of the proposed rules warrant the deployment of every possible mitigation option to achieve the legislated targets and to effect the needed scale of global emissions mitigation. Most of the currently viable GHG mitigation options identified by the Intergovernmental Panel on Climate Change can be fully implemented only if a robust and diverse program for engaging project-based mitigation is developed. CCX rules serve to proactively engage many of these diverse mitigation options, thereby advancing global environmental objectives.

The remainder of this document provides a description of the rules, rationale and experience with Offsets in CCX. Details on CCX rules for specific GHG mitigation projects are found elsewhere on this website.

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<sup>1</sup> CCX core rules are found at: [http://www.chicagoclimateexchange.com/about/pdf/ChicagoAccord\\_050623.pdf](http://www.chicagoclimateexchange.com/about/pdf/ChicagoAccord_050623.pdf)

## *Frequently Asked Questions*

Q1: What are the options available to CCX members to comply with their annual greenhouse gas emission reduction commitments?

A1: Each CCX member that executes a legally binding emission reduction commitment has three options for achieving their annual compliance “true-up”:

- Achieve the emission reductions “internally” at the facilities owned by the CCX Member. This option, which accounts for a large majority of verified emission reductions and annual compliance realized in CCX, can be achieved through fuel switching, energy efficiency improvements and managerial changes.
- Purchase *extra* emission reductions, in the form of tradable “allowances”, from other committed CCX Members who have reduced their own emissions by more than the annual CCX reduction requirement.
- Purchase “Offsets” from CCX emission reduction projects that conform to CCX rules<sup>2</sup> and are independently verified by a CCX-approved verifier.

Q2: Why does CCX allow use of Offsets as an option for meeting its annual greenhouse gas reduction compliance commitments?

A2: Inclusion of Offset projects in the CCX market (and other GHG cap-and-trade markets) helps foster a broad array of win-win climate solutions. Importantly, including a diverse portfolio of greenhouse gas reductions mitigation options enhances the affordability of robust carbon management efforts.

In 2007 the Intergovernmental Panel on Climate Change<sup>3</sup> identified approximately three dozen currently viable GHG mitigation actions, many of which can be implemented at low or negative cost. At least half of these mitigation options are not natural for inclusion under the “cap” portion of a cap-and-trade system due to legal, social, institutional or technical reasons. Instead, these mitigation actions are most appropriately activated through the incentives provided through an offsets crediting system by those who elect to undertake the mitigation action.

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<sup>2</sup> The standards that govern Offset projects in CCX are summarized at:  
[http://www.chicagoclimateexchange.com/environment/offsets/offset\\_project\\_types.h](http://www.chicagoclimateexchange.com/environment/offsets/offset_project_types.h)

<sup>3</sup> IPCC, 2007: Summary for Policymakers. In: *Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA. (<http://www.ipcc.ch/SPM040507.pdf>)

Every CCX offset project advances a “currently viable” mitigation action identified in the IPCC report.

*(See the appendix below for further details of the IPCC findings and the means by which CCX rules incorporate the identified mitigation options).*

CCX Offset projects produce immediate ecological and economic benefits beyond mitigation of greenhouse gases. Methane recovered from landfills and farms is a clean, domestic, energy source for electricity and heating. Renewable energy projects can cut pollutants associated with fossil fuel use. Carbon sequestration projects on farms and forests can help improve water quality, provide animal habitat, and help landscapes and crops better withstand drought and other climate extremes. Market rewards for undertaking emission reductions and Offset projects can represent a significant financial stimulus to innovation as well as a new income source for those who provide local and global environmental services.

In summary, inclusion of Offsets serves to:

- Engage climate solutions and market participants in sectors and locations not subject to an emission cap
- Include all possible solutions and thereby optimize the market so that the maximum GHG mitigation is generated per dollar spent
- Realize important ecological and social co-benefits, including local environmental improvement and economic opportunities in developing countries.

Q3: What are the main types of projects that are producing Offsets under CCX rules?

A3: Upon launch of CCX in 2003, rules were activated that pre-specified a limited range of greenhouse gas mitigation projects. These were:

- methane capture and destruction at landfills and farms
- new renewable energy systems, such as wind, solar and renewable fuels
- carbon sequestration in newly planted trees, in North America farmlands managed with continuous conservation tillage and newly established grasslands
- fuel switching and end-use energy efficiency

CCX now includes protocols and is enrolling projects, involving:

- methane capture and destruction at coal mines
- soil carbon capture through grazing land best management practices
- destruction of ozone depleting gases that also contribute to global warming
- energy efficiency at best-in-class new and retrofitted warehouses

CCX regularly receives creative and socially important proposals to allow new project types to earn Offsets. These proposals are subject to initial assessment, and, as

appropriate, input from topical experts and review by the standing CCX Offsets Committee.

Q4: What is the process for verifying Offset projects enrolled in CCX?

A4: All CCX projects are subject to verification by qualified independent entities (see below). The process involves confirming project eligibility, and periodic (typically annual) verification of project performance. Verifiers undertake site visits and records inspections to confirm project eligibility. They inspect project performance data (e.g. metered methane flows, electricity production data, tree measurements, visual inspection) and calculations to confirm a project's actual, annual GHG destruction, sequestration or emission avoidance (e.g. due to energy efficiency or renewable energy projects). An offset project is subject to initial verification, as well as annual verification for the duration of its enrollment in CCX. Verification reports are reviewed for completeness and accuracy by CCX and by the Financial Industry Regulatory Authority (FINRA - formerly NASD), the CCX provider of regulatory services. If the project's performance has been assessed by an independent organization that is not already a CCX approved verifier, then such documentation may be used to support the CCX verification provided the independent verifier then becomes qualified as a CCX verifier.

Q5: Who are the entities that conduct project verification?

A5: A diverse international group of entities has been authorized to provide verification services for CCX-enrolled projects. The list of eligible verifiers grows steadily and is posted at: <http://www.chicagoclimateexchange.com/content.jsf?id=102>

In order to be qualified by CCX to provide verification for a particular project type, the entity must: demonstrate professional capability in the project category (e.g. professional experience with landfill systems or forest quantification); demonstrate experience conducting verification; provide evidence of commercial independence relative to those involved in project implementation; and, hold specified levels of professional liability insurance.

Q6: Why do CCX rules allow issuance of Offsets only *after* the project performance has been documented and independently verified?

A6: To assure quality and legitimacy of Offsets transacted in CCX, CCX rules require presentation of an independent verification report on project eligibility and effectiveness before the exchange will issue Offsets in the CCX Registry to the account representative. This "*ex post*" rule means there is no "advance" selling of Offsets in CCX. Every Offset reflects GHG mitigation that has already been achieved.

Q7: How does CCX address the possibility of “double selling” of credits from Offset Projects enrolled in CCX?

A7: This issue is addressed through the unique serial number system used in the CCX Registry, contractual provisions applied to every CCX project, and public notice of enrolled projects on the CCX website.

The CCX registry assigns and tracks a unique identification code to every issued Carbon Financial Instrument (CFI<sup>TM</sup>) contract. Offsets are one form of CFI contracts. All project owners must execute a legal contract that explicitly states that the environmental services produced by the project enrolled at CCX are legally unique and to be sold only once and through CCX (unless the project owners choose to cancel the Offset in the CCX registry). Further, CCX lists on its website the identities of all entities that bring Offset projects to the CCX market. (see: <http://www.chicagoclimateexchange.com/offsets/projectReport.jsf> )

Q8: How do owners of eligible GHG mitigation projects enroll and participate in the CCX market?

A8: Offsets can be registered in CCX directly by the project owner or can be registered through a CCX-approved Aggregator. Entities that undertake eligible offset projects may join CCX as Offset Providers or Offset Aggregators. An Offset Provider is an owner of an Offset project that registers and sells offsets directly on the Exchange. An Offset Aggregator is an entity that serves as the administrative representative for multiple offset-generating projects on behalf of multiple project owners.

Q9: Can large emitters that do not commit to the CCX emission reduction schedule register and sell Offsets in CCX? How does this rule differ from other offset initiatives?

A9: No. An entity that has significant direct GHG emissions at its own facilities *cannot* register an Offset project in CCX unless it executes a legally binding commitment to manage its own emissions under the CCX Emission Reduction Schedule.

This important rule prevents "cherry picking" and maximizes the environmental integrity of the CCX system.

No entity is allowed to earn revenues through sales of Offsets unless it has an entity-wide CCX emission reduction commitment (meaning Offset sales would be made by an entity that is accounting for its broader emissions footprint). In contrast, private (non-CCX) vendors of carbon credits do not necessarily apply this same entity-wide standard. Therefore, some carbon credits in the open (non-CCX) market could be sourced from entities that in fact are emitting increasing amounts of GHGs to the atmosphere, not less.

Q10: Are the GHG mitigation projects rewarded through CCX rules consistent with the findings of the Intergovernmental Panel on Climate Change and provisions in existing policy frameworks?

A10: Yes. Each category of projects that are included in the CCX cap-and-trade market is identified by the Intergovernmental Panel on Climate Change (“IPCC”) as currently viable actions that can contribute to reducing greenhouse gases. See the Table below for a summary of how CCX rules help advance the mitigation options identified by IPCC.<sup>4</sup>

Further, each of the project activities advanced through CCX Offsets rules are mitigation options and sectors cited by the United Nations Framework Convention on Climate Change, the Kyoto Protocol<sup>5</sup>, and the Pacala-Socolow mitigation “wedge” analysis.<sup>6</sup>

Q11: How does CCX establish the standards, definitions and crediting rates for Offset projects?

A11: When CCX was designed and launched there were no existing project-based crediting standards. Because the CCX development phase was an open process that accepted input from all who sought participation, CCX rules reflect the input of literally hundreds of individual experts.

Specific expertise that guides the rules for each type of Offsets is assembled, often via a Technical Advisory Committee, from leading experts from various sectors, including academic, industrial, non-profits, governments and verification firms. All recommended rule refinements are considered for approval by the standing CCX Offsets Committee.

Q12: Who trades Offsets in the CCX market?

A12: Buyers of CCX Carbon Financial Instrument contracts, including Offsets, are:

- CCX Members who execute legally binding commitments to meet annual greenhouse gas emission reduction targets. These industrial, governmental and academic entities commit to audited reduction goals of 4% below baseline for 2006 and 6% below by

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<sup>4</sup> IPCC, 2007: Summary for Policymakers. In: *Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA. <http://www.ipcc.ch/SPM040507.pdf>

<sup>5</sup> United Nations Framework Convention On Climate Change, United Nations, 1992, (<http://unfccc.int/resource/docs/convkp/conveng.pdf>)

<sup>6</sup> “Stabilization Wedges: Solving the Climate Problem for the next 50 Years with Current Technologies” S. Pacala and R. Socolow, *Science*, August 13, 2004 <http://www.princeton.edu/~cmi/resources/stabwedge.htm>

2010. Purchases of extra emission reduction achieved by other CCX Members, or of Offsets, is one compliance option.

- low-emission entities who track their emissions and annually retire Carbon Financial Instrument contracts in an amount equal to their emissions
- financial entities whose trading provides market liquidity and investment capital

Q13: What is the relative scale of Offsets compared to overall environmental progress being realized by CCX members?

A13: To date the quantity of project-based Offsets enrolled in CCX has been modest compared to overall scale of emission reductions realized by CCX Members. During CCX Phase 1 (2003 through 2006) overall emission reductions realized at the industrial sites included in CCX commitments accounted for approximately 90% of total verified emission reductions. Total Offsets enrolled have accounted for approximately 10% of total verified emission reductions.

Nevertheless, Offset projects allow for a broadening of the range of actions deployed to manage greenhouse emissions, and have the potential to be an important new funding and income source for those who can provide verifiable global environmental services.

Q14: Beyond mitigation of greenhouse gases, what are the other environmental and economic benefits that CCX Offsets projects can produce?

A14: CCX Offset projects produce a variety of immediate ecological and economic benefits in addition to greenhouse gas mitigation. Methane recovered from landfills and farms - a form of natural gas - that is a clean, domestic, energy source for electricity and heating. Renewable energy projects help avoid other pollutants associated with fossil fuel use. Carbon sequestration projects on farms and forests can help improve water quality, provide animal habitat, and make landscapes and crops better able to withstand drought.

Q15: How are the rules governing Offsets eligibility and verification established?

A15: Projects rules are set through identification of actions that offer large potential for greenhouse gas mitigation, can be defined in conservative fashion, and can be verified at reasonable cost. Typically a team of specialized experts from universities, governments, non-profits, CCX staff and industry is convened to identify appropriate project standards, crediting rates and verification procedures.

A set of standard and readily identifiable parameters are used to identify projects that can be considered beyond "business as usual". Depending on the circumstances, CCX rules that define eligible projects require such projects to be "recent" (new), rare ("best in class") and "beyond regulation". Further, the rules are designed to avoid encouraging

perverse actions – e.g. to avoid “reversals” that might occur if the rules encouraged someone to cut down old trees to plant new carbon-absorbing trees.

When the quantification of a project’s greenhouse gas mitigation benefits are uncertain, CCX rules require discounting and other methods to assure that each issued Offset represents one metric ton of CO<sub>2</sub> mitigation. This helps maintain both environmental integrity and market confidence.

Q16: For each mitigation action targeted through CCX Offsets, what are the principles that guide development of specific rules?

A16: The general principles applied in defining whether and how many tradable Offsets are issued to a project were governed by the following:

- Conservative crediting
- Independent verification by expert entities
- Reserve pools for sequestration performance assurance
- All Carbon Financial Instruments are equivalent when surrendered for compliance (this includes CCX project-based Offsets as well as CCX original-issue emission allowances issued to Members in amounts corresponding to the CCX emission reduction schedule.).

Q17: What factors are considered when determining which GHG mitigation options are included as Offsets in CCX?

A17: Initially CCX rules for Offsets were designed to target actions that offered major mitigation potential, significant co-benefits, and were administratively feasible. This process included the following considerations:

- Identify mitigation options that are not well-suited for inclusion under an emission cap
- Include projects that can be verified as real and effective
- Mitigation of non-CO<sub>2</sub> gasses can be low-cost and multi-benefit
- Large potential in agriculture: soils currently hold 183 years of global CO<sub>2</sub> emissions
- Large potential in forests: forests currently hold 75 years of global CO<sub>2</sub> emissions
- Advance broader societal goals: sustainable agriculture and forestry, energy efficiency and security, foster renewable systems

Q18: How do CCX rules governing Offsets compare to those of other programs?

A18: Because CCX was the world’s first rules-based program that included offsets in a cap-and- program, there are limited comparisons available. An initial assessment finds that

CCX rules are either very similar to or more conservative than those found in existing initiatives and proposed rules for other programs in North America.

Q19: Is a common framework emerging for establishing rules for Project-based GHG emission reduction credits?

A19: Yes. CCX rules reflect a “standards-based” approach that pre-sets project eligibility rules. Sometimes this approach is referred to a “performance standards” approach. The same approach is being adopted in the Regional Greenhouse Gas Initiative<sup>7</sup> and was recommended for adoption by the Market Advisory Committee to the California Air Resources Board<sup>8</sup>.

Q20: Are there significant differences between the CCX offsets project standards and other standards now in use or proposed for the U.S.?

A20: No. In fact, the CCX standards are very similar to – and in many cases are more demanding than – the rules proposed for possible regional emissions trading systems in the U.S. CCX rules governing the most widely debated question – defining which projects are eligible for crediting – are nearly identical to the rules that have emerged in programs that major environmental advocacy groups have designed, implemented, vocally supported or utilized through their own voluntary transactions.

Q21: What does the documentation of CCX Offsets include?

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<sup>7</sup> “RGGI is taking a standardized approach to offsets, whereby initially it will set standards for a limited set of offset categories and add categories over time. This is expected to be more efficient and effective than the cumbersome project-by-project approach to offsets that is generally taken.” Source: “Comments from the Pew Center on Global Climate Change In response to Cap and Trade Program Design Options Overview, California Climate Action Team”, [http://www.climatechange.ca.gov/climate\\_action\\_team/meetings/public\\_comments/cap\\_and\\_trade/PewCenter\\_CalEPAcomments11-22.doc](http://www.climatechange.ca.gov/climate_action_team/meetings/public_comments/cap_and_trade/PewCenter_CalEPAcomments11-22.doc)

<sup>8</sup> “California must choose between a standards-based approach and one that requires a case-by-case review of individual offset projects. Because of its administrative complexity and costs, the Market Advisory Committee recommends against the case-by-case approach. Instead we recommend that California develop a standards-based approach. For simplicity, California could start with a short list of acceptable project types and add to it over time. New project types could also be considered by petition.”

Source: “Recommendations for Designing a Greenhouse Gas Cap-and-Trade System for California, Recommendations of the Market Advisory Committee to the California Air Resources Board” June 30, 2007 [http://www.climatechange.ca.gov/documents/2007-06-29\\_MAC\\_FINAL\\_REPORT.PDF](http://www.climatechange.ca.gov/documents/2007-06-29_MAC_FINAL_REPORT.PDF) (at p63)

A21: In order to receive tradeable Carbon Financial Instrument contracts, each project must conform to CCX rules and be independently verified by a CCX-approved entity. Such verification report must be deemed complete by CCX staff and by FINRA, which provides regulatory services to the CCX market.

The Carbon Financial Instrument contract produced by an eligible and verified project is simply an electronic “certificate”, which is comprised of a unique serial number and other identifying codes (e.g. project type and timing) which is recorded in the CCX Registry. Once these electronic “certificates” are issued to the trading account of the Offset project manager, an authorized trader can execute sales on the CCX electronic trading platform. Trades involve the overnight transfer of Offsets from seller’s registry account to buyer’s account and payment by the buyer to the seller through the CCX clearing process.

Q22: What entities are eligible to serve as independent verifiers of Offset projects?

A22: Entities that wish to provide independent verification of CCX Offset projects must complete a registration process that requires evidence of professional capability and experience, independence, financial capacity and possession of professional liability insurance.

Q23: What is the role of an Offset project “Aggregators”?

A23: In order to efficiently enhance sell-side access to the CCX market, “Aggregators” serve as administrative agent for multiple small projects. Aggregators manage project documentation, arrange for independent verification by CCX-qualified entities, conduct market trades on behalf of project owners and distribute sales proceeds to them.

Q24: What is the current market value of tradable CCX Offsets?

A24: See [www.chicagoclimateexchange.com](http://www.chicagoclimateexchange.com).

Q25: Is there a difference in the market price of CCX Carbon Financial Instrument contracts and privately-traded project-based credits?

A25: It is not possible to definitively answer this question because price and project information on private trades involving various “offsetting” transactions are not made public and are not subject to external oversight. Factors that influence final prices in private trades, such as brokerage fees, overhead costs or advisory charges, are generally not made public, a fact that further impedes comparisons.

Q26: Is the “price” of a carbon credit in any way linked to the “quality” of a carbon credit?

A26: Not necessarily. A project either reduces or sequesters greenhouse gas emission or it does not. Every project included in CCX is based on activities that are cited by all expert bodies as beneficial to the climate. The CCX rules governing Offset projects are more demanding or consistent with those proposed in other proposed programs for North America.

Q27: Are Offsets simply a way for emitters to “buy their way out” of commitments?

A27: No. While relatively limited in scale thus far, Offsets offer one of many options for meeting quantified emission reduction commitments. To date, CCX members have found that reducing emissions at their own facilities – through energy efficiency, fuel switching and use of lower-emitting industrial materials – offer the greatest opportunity to meet annual reduction commitments.

Q28: How can individuals buy CCX Offsets?

A28: Trading on CCX is subject to U.S. regulations that allow *direct* access to the electronic market only for “Eligible Commercial Entities”. Individuals can acquire and retire CCX Offsets through purchases made by CCX members that provide this retail service.

Q29: Why does CCX employ standardized rules governing offset project eligibility?

A29: Given the high transaction costs and uncertainties associated with case-by-case assessment of individual emission reduction projects, CCX elected to pre-specify a limited range of project types as presumptively eligible (when eligibility conditions are met, and subject to verification of project eligibility and performance) and, as well, keep open the possibility to expand the range and accept unique projects. The group of pre-specified projects was developed by first considering the project types that offer large emission mitigation potential at low cost, are verifiable, and advance important social objectives. The following summarizes important considerations that influence rule design:

- science-based
- consistent with international policy recommendations and agreements
- predictability: facilitate carbon finance and significant capital flows to GHG mitigation
- other than “business as usual” beyond regulation, rare, recent
- verifiable: eligibility, quantities, ownership
- no cherry picking – emitters must take entity-wide reduction commitments to be eligible to trade Offsets

- avoid perverse incentives: do not encourage harmful actions, such as reversal of sequestered carbon
- activities that are consistent with the rules of existing comparable programs
- keep transaction costs low

Q30: How do CCX rules identify projects that are “additional” or beyond “business as usual”?

A30: CCX rules address this issue by employing a set of programmatic rules designed to provide easily understood filters to distinguish eligible projects from routine, “anyway” projects. CCX took an approach that weighed a variety of factors related to each potential project type such that eligibility would be based on whether or not a particular category of actions provided some or all of the following characteristics:

- “rare” (e.g. best-in-class actions)
- “beyond regulation”
- “recent”
- does not encourage “reversals” of greenhouse mitigating activity.

Q31: Some CCX Offset project eligibility rules use a “placed in service” date to identify “new” actions. How do CCX rules on cut-off dates compare with those of other emerging programs?

A31: Generally the date cut-offs used in CCX are comparable to those of other existing or proposed U.S. programs.

For example, the in-service dates proposed for landfill gas projects to be eligible for Offsets in the Regional Greenhouse Gas Initiative (“RGGI”) is 42 months before the first compliance year in that program, while in CCX it is 48 months prior to the start of the first compliance year.

As with the RGGI program, other date project cut-off dates employed in CCX are generally similar to cut-off dates in programs that leading environmental advocacy groups have helped design, endorsed, or utilized. For example, the earliest eligible planting date for reforestation projects in CCX is 1990, which is identical to that employed in the Kyoto Protocol. Another example is the date cut-off for “crediting” renewable energy projects by the Bonneville Environmental Foundation<sup>9</sup>, which is quoted below:

*We believe your money should be spent to support projects that were either built recently in anticipation of the demand for green power, or for projects that will be built soon. The environmental community*

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<sup>9</sup> Bonneville Environmental Foundation web page FAQ <http://www.greentagusa.org/GreenTags/faq.cfm>

*has chosen to simplify this process by setting a date. In the Pacific Northwest, any renewable energy project built on or after May 1, 1999, is considered new.*

Finally, citing the entry into force of the United Nations Framework Convention on Climate Change, the U.S. “America’s Climate Security Act” (sponsored by Senators Lieberman and Warner) uses 1994 as the reference date for defining credits for early emission reductions realized by industrial emission sources.

Q32: Why is predictability of rules governing Offset project eligibility important?

A32: Predictable and stable rules help facilitate the flow of capital to greenhouse gas mitigation projects. If an entity that is considering implementation of GHG mitigation projects knows in advance whether the project will be able to obtain revenues through sale of Offsets, then such projects will be better able to secure funding needed to proceed from banks, investor and other sources of investment capital. A good example of this important feature is found in the case of Intrepid Technology and Resources, Inc. A press release (below) describing the strength of their capital offering to finance new agricultural methane digester equipment highlights this important issue.

**Press Release Highlighting Role of Predictable Carbon Offset Rules  
for Facilitating Emission Mitigation Finance (selected sections)**

IDAHO FALLS, Idaho, Sept. 8 /PRNewswire-FirstCall/ -- Intrepid Technology and Resources, Inc. (ITR) (OTC Bulletin Board: IESV), a renewable energy company, has recently signed an Engagement Letter with the brokerage firm of Ferris Baker Watts, Washington D.C., to commence the marketing and placement of 17,790,000 dollars in Tax Exempt Industrial Revenue Bond financing. The financing, expected to be completed within 45-60 days, will provide ITR the capital to triple the size of their existing biogas facility near Rupert, Idaho,(and) construct the Westpoint Dairy biogas plant, ...

*our ability to sell the substantial number of green credits that the system produces on the Chicago Climate Exchange makes these four projects very attractive to ITR's shareholders. At the same time we provide enhanced air, ground and water quality for the livestock owner.*

(emphasis added)

Q33: Are there limits on the use of Offsets in CCX?

A33: Yes. In order to assure that more than half of the total emission reductions realized through operation of CCX occur at the facilities operated by its Members, CCX rules limit total allowed use of Offsets in compliance to no more than 50% of required program-wide emission reductions. Use of this provision in CCX, which was established as a pilot program, does not necessarily suggest that such a limit should be used as part of a national policy program.

**Appendix: Nature of “Currently viable” Mitigation Options Reported by the Intergovernmental Panel on Climate Change\*, Treatment Under Chicago Climate Exchange Rules**

| Currently viable mitigation actions   | Can be significantly stimulated through inclusion under an emissions cap | Can be significantly stimulated <i>mainly</i> through inclusion via project-based crediting | Requires both emissions cap and offset rules to optimize uptake | How addressed through CCX Rules?            |
|---|--|---|---|---|
| <b>Energy Supply</b><br>Improved supply and distribution efficiency   | Yes  |   | Yes   | Cap<br>Cap + offsets                        |
| <i>fuel switching</i><br>nuclear power  | Yes  |   |   | Cap   |
| <i>renewables, combined heat/power</i><br>early applications of Carbon Capture and Storage                                      | Yes  |   | Yes   | Cap + offsets<br>Not yet addressed          |
| <b>Transport</b><br>More efficient vehicles   | Yes  |   | Yes   | Cap + offsets                               |
| biofuels  | Yes  |   | Yes   | Cap + offsets                               |
| non-motorised transport (cycling, walking)  | (maybe)  |   | n.a.  | n.a   |
| land-use and transport planning   | (indirect role for carbon market?)                                       |   | (possible role for offsets?)                                    | Not yet addressed                           |
| <b>Buildings</b><br>More efficient lighting + appliances + HVAC   | Yes  | Yes   | Yes   | Cap + offsets                               |
| insulation  | Yes  | Yes   | Yes   | Cap + offsets                               |
| alternative refrigerants, recycle/ <i>deconstruct</i> fluorinated gases<br>(NB: word “ <i>deconstruct</i> ” not in IPCC report) | Yes  | Yes   | Yes   | Cap + offsets<br>(CCX ODS destruction rule) |
| passive and active solar design for heating and cooling   | (indirect role for carbon market?)                                       |   |   | Cap + Offsets                               |
| <b>Industry</b><br>end-use electrical equipment   | Yes  |   | Yes   | Cap + offsets                               |
| heat and power recovery   | Yes  |   | Yes   | Cap + offsets                               |
| material recycling/ substitution  | Yes  |   | Yes   | Cap + offsets                               |
| control of non-CO2 gas emissions  | Yes  |   | Yes   | Cap + offsets                               |
| process technologies  | Yes  |   | Yes   | Cap + offsets                               |

\* *Distilled from:* IPCC, 2007: Summary for Policymakers. In: *Climate Change 2007: Mitigation. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* [B. Metz, O.R. Davidson, P.R. Bosch, R. Dave, L.A. Meyer (eds)], Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA. (<http://www.ipcc.ch/SPM040507.pdf>)  
Any errors are attributable to Chicago Climate Exchange

(continued)

**Appendix: Nature of “Currently viable” Mitigation Options Reported by the Intergovernmental Panel on Climate Change\*, Treatment Under Chicago Climate Exchange Rules**

| Currently viable mitigation actions                       | Can be significantly stimulated through inclusion under an emissions cap | Can be significantly stimulated mainly through inclusion via project-based crediting | Requires both emissions cap and offset rules to optimize uptake  | How addressed through CCX Rules?                       |
|---|--|--|--|--|
| <b>Industry</b>   |  |  |  |  |
| end-use electrical equipment                              | Yes  |  | Yes  | Cap + offsets  |
| heat and power recovery                                   | Yes  |  | Yes  | Cap + offsets  |
| material recycling/ substitution                          | Yes  |  | Yes  | Cap + offsets  |
| control of non-CO2 gas emissions                          | Yes  |  | Yes  | Cap + offsets  |
| process technologies                                      | Yes  |  | Yes  | Cap + offsets  |
| <b>Agriculture</b>  |  |  |  |  |
| increase soil carbon via improved crop/grazing land mgmnt | No   | Yes  |  | Offsets  |
| restore degraded lands                                    | No   | Yes  |  | Offsets  |
| improved rice cultivation                                 | No   | Yes  |  | Not addressed  |
| livestock methane   | No   | Yes  |  | Offsets  |
| energy crops to replace fossil fuel                       | Yes  |  | Yes  | Cap + offsets  |
| improved energy efficiency                                | (maybe)  | (indirectly)   | Yes  | Offsets/indirectly via conservation tillage incentives |
| <b>Forestry</b>   |  |  |  |  |
| Afforestation; reforestation                              | No   | Yes  | <i>All four forestation management goals can be advanced via on net carbon flux crediting/ debiting</i><br>Yes | Offsets + forest flux rules                            |
| forest management   | No   | Yes  |  | Offsets + forest flux rules                            |
| reduced deforestation                                     | No   | Yes  |  | Offsets+ Forest flux rules                             |
| harvested wood product management                         | No   |  |  | Cap + offsets  |
| forest products/bioenergy to replace fossil fuel use      | Yes  |  |  |  |
| <b>Waste</b>  |  |  |  |  |
| Landfill methane recovery                                 | No   | Yes  |  | Offsets  |
| waste to energy   | Yes  |  |  | Cap + offsets  |
| waste water treatment                                     | No   | Yes  | Yes  | Offsets  |
| recycling and waste minimization                          | (indirect via cap)   |  | (possible role for offsets)  | (indirect via cap)                                     |