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## States and Cities Should Not Join the Chicago Climate Exchange

The Chicago Climate Exchange (CCX) is a voluntary cap-and-trade program in which private companies can learn about carbon management in a low-risk environment. While we do not oppose CCX's efforts to recruit companies to their program as a learning experience, we urge state and municipal governments not to take part in CCX. Here's why:

**CCX rules have loopholes that do not warrant government support** – Various loopholes – such as allowing companies to exempt emissions from new units – could allow companies to meet their greenhouse gas emissions targets on paper without actually delivering new emission reductions, above and beyond the business-as-usual scenario. Such provisions allow CCX companies to “comply” with their emissions caps even if, in reality, they are emitting far more pollution than permitted by the cap.

The CCX rules governing emissions “offsets” are also of concern. We are not confident that CCX offset investments will deliver real greenhouse gas reductions that compensate for the extra emissions allowed at CCX company facilities. The CCX rules do not include an “additionality” requirement that would ensure that they deliver environmental benefits above and beyond the business as usual scenario. This provision provides another opportunity for companies to technically “comply” with their “caps” without actually reducing pollution.

In light of the modest emission reductions that CCX requires –1% per year from baseline levels – these loopholes could easily result in a program that does not deliver any emission reductions relative to a business as usual scenario.

We are also concerned about the prospect of states selling offsets through CCX that they have created with public funds, such as energy efficiency investments supported by ratepayer-funded system benefit charges. The emission reductions that result from these investments are public goods, secured through the implementation of public policies designed at least in part to provide environmental benefits, all of which could be negated if states sell the reductions to CCX companies that consequently increase their emissions.

**Governments should not participate in programs developed through a closed, non-transparent process** – CCX was created in a closed process with little input from the environmental community or government. The expertise and personal integrity of individuals involved in CCX as staff or advisors is not in question, but that is not an adequate substitute for

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an open process in which stakeholders can contribute to the development of the program and fully understand the tradeoffs agreed to in the rule development process.

**Participation in CCX may limit the options for participation in other programs.** Once a city or state joins CCX, other trading programs are likely to preclude consideration of any carbon reductions the city or state accomplishes and registers or trades within CCX. For example, the northeast states' Regional Greenhouse Gas Initiative (RGGI) will not permit a reduction project to qualify as an offset credit if the sponsor has registered the emission reduction in CCX. Emerging market-based programs are likely to include similar restrictions, since no program wants to allow any reduction to get credit twice. A decision to join CCX, therefore, will preclude a city or state from participating in and benefiting from real mandatory cap-and-trade programs like RGGI, or seriously disadvantage it if it does join.

**States and cities can achieve their climate goals without joining CCX** – If states are interested in recording their emissions over time and demonstrating net reductions across all state facilities and vehicles they can do so without joining CCX. The northeast states are developing an Eastern Climate Registry and, in collaboration with the California Climate Action Registry, a Registry Alliance that any state can join. If states are interested in third party certification they can directly contract with firms to certify emissions reports.

We support every state and city's interest in learning more about measurement and reporting of emissions and emissions trading. However, they should do so by hearing from a variety of individuals and organizations working in this arena, in the context of developing their own climate policies rather than by participating in private sector initiatives. We strongly encourage CCX to participate in these efforts and help states learn from their experience.

We recognize that CCX is a pilot program that provides a platform for learning about carbon caps and trading, and that as such it is not going to be perfect. However, if a state joins CCX notwithstanding all of the questions and concerns that remain unresolved we believe it will be under tremendous pressure to accept CCX rules and procedures in the context of future regulatory programs, and this would be a terrible detriment to state and local policy.

**Voluntary programs are not the solution** – The history and features of the marketplace demonstrate that mandatory requirements are necessary if we are to reduce global warming pollution to the extent necessary to avoid catastrophic climate disruption. Businesses in all sectors of the economy have had access to a variety of voluntary programs for well over a decade, and these programs have afforded ample opportunities for educational experiences over the years. It is now time for action. State or municipal participation in CCX would imply approval of voluntary approaches to combating global warming pollution and is likely to be used to support those who contend that voluntary efforts alone are sufficient.

Leading states and cities are focused on developing mandatory policies. Eight northeast and mid-Atlantic states have joined RGGI, committing to develop the nation's first cap-and-trade program to reduce carbon dioxide emissions from power plants. California has adopted its landmark limits on greenhouse gas emissions from vehicles, and 10 other states have followed suit – together they represent one third of the nation's automobile market. New Mexico, Arizona, Montana and North

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Carolina have launched statewide initiatives to develop specific policy proposals to reduce global warming pollution, and several other states are expected to do so shortly. Many states are considering mandatory reporting of global warming emissions. And more than 270 mayors have signed the Climate Protection Agreement, committing to meet or beat the Kyoto Protocol pollution reduction targets in their own communities, through actions ranging from anti-sprawl land-use policies to urban forest restoration projects to high-efficiency requirements for new buildings.

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