

## The Chicago Accord

### Introduction

The Chicago Climate Exchange<sup>®</sup> (CCX<sup>®</sup>) design phase participants have reached agreement on the architecture of a greenhouse gas trading program involving multiple industrial sectors, emission sources and carbon sinks. The comprehensive nature of this voluntary pilot program makes it unique among the existing cap-and-trade programs. This Summary Term Sheet reflects the agreement that has emerged from the efforts of thirty companies in the power generation, forest products, manufacturing, oil and gas and agricultural industries. The CCX<sup>®</sup> market architecture also incorporates input from technical experts representing eighteen design phase participants in the engineering, forestry, agricultural, academic, NGO and public sectors. Additionally, it reflects expertise drawn from domestic and international capital, commodity and environmental markets. In total, more than fifty corporate entities and hundreds of experts have contributed to the design phase.

### 1. Purpose of the Exchange

The Chicago Climate Exchange<sup>®</sup> is a self-regulatory organization that will administer a voluntary pilot greenhouse gas emission reduction and trading program for emission sources, carbon sinks, offset projects and liquidity providers in the United States starting in January 2003. Offset providers in Brazil can participate from the outset. Emission sources and offset providers in Canada and Mexico will be integrated into the market during 2003. There are two distinct CCX<sup>®</sup> affiliations:

1. **CCX<sup>®</sup> Members** will include corporations, municipalities and other entities that emit greenhouse gases. Members will adopt emission mitigation commitments that apply during the years 2003, 2004, 2005 and 2006.
2. **CCX<sup>®</sup> Participants** will include offset providers and liquidity providers.

The goals of the Exchange are to:

- (1) demonstrate unambiguously that a cross-section of U.S. industry can reach agreement on a voluntary commitment to reduce greenhouse gases and implement a market-based emission reduction program;
- (2) establish proof of concept by demonstrating the viability of a multi-sector greenhouse gas emissions cap-and-trade program supplemented by project-based offsets;
- (3) establish a mechanism for achieving price discovery as well as developing and disseminating market information;
- (4) allow flexibility in the methods, location and timing of emission reductions so that greenhouse gas emissions can be reduced cost-effectively;

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- (5) facilitate trading with low transaction costs;
  - (6) build market institutions and infrastructure and develop human capital in greenhouse gas emissions trading;
  - (7) encourage improved emissions management;
  - (8) harmonize and integrate with other international or sovereign trading regimes;
  - (9) develop a market architecture that rewards innovative technology and management and encourages sustainable farming and forestry practices.
2. **Geographic Coverage** Emitting sources and offset providers in the U.S. and its territories, as well as offsets providers in Brazil, (as outlined in Section 16) can participate from the outset of the program in early 2003. Emitting sources and offset projects in Canada and Mexico will be integrated during 2003.
  3. **Pilot Market Time Period** CCX<sup>®</sup> reduction commitments and trading will apply for years 2003 through 2006. CCX<sup>®</sup> Members may choose to extend the pilot beyond 2006, but Members for the 2003-2006 time period will have no obligation to participate beyond 2006.
  4. **Gases Covered** Emissions of the following greenhouse gases from facilities owned by CCX<sup>®</sup> Members will be included, as applicable:
    - carbon dioxide (CO<sub>2</sub>);
    - methane (CH<sub>4</sub>);
    - nitrous oxide (N<sub>2</sub>O);
    - hydrofluorocarbons (HFCs);
    - perfluorocarbons (PFCs); and
    - sulfur hexafluoride (SF<sub>6</sub>).

All greenhouse gases will be converted to carbon dioxide equivalent using the one hundred year global warming potential values established by the Intergovernmental Panel on Climate Change (IPCC).
  5. **Instruments, Vintages, Banking** The instruments are:
    - Greenhouse Gas Emission Allowances<sup>sm</sup> (GGEAs<sup>sm</sup>);
    - Certified Emission Offsets<sup>sm</sup> (CEOs<sup>sm</sup>) generated by mitigation projects; and
    - Certified Early Action Credits<sup>sm</sup> (CEACs<sup>sm</sup>).

Each instrument will represent one hundred metric tons of CO<sub>2</sub> equivalent and will be designated with a specific serial number and annual vintage. Each instrument will be recognized as equivalent when surrendered for compliance. Instruments may be used for compliance in

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their designated vintage year or in later years, subject to constraints described in Section 22 below.

**6. CCX<sup>®</sup> Emission Baseline** Each CCX<sup>®</sup> Member’s emission baseline will be the annual average emissions from facilities included in the baseline during 1998, 1999, 2000 and 2001. Baselines will be adjusted to reflect acquisition or disposition of facilities. The emission baseline for facilities placed into service after January 1, 1998 but before January 1, 2000 will be the annual average of the first two years of the facility’s emissions. The emission baseline for facilities placed into service on or after January 1, 2000 and before January 1, 2002 will be the emissions of such facilities during the first complete calendar year of operation.

**7. CCX<sup>®</sup> Emission Reduction Schedule, Greenhouse Gas Emission Allowance<sup>sm</sup> Allocations** CCX<sup>®</sup> Members will be issued Greenhouse Gas Emission Allowances<sup>sm</sup>, at the inception of the program, for the four-year period in an amount reflecting the CCX<sup>®</sup> emission reduction schedule:

Year	CCX <sup>®</sup> emission reduction schedule
2003	1% below Member’s baseline
2004	2% below Member’s baseline
2005	3% below Member’s baseline
2006	4% below Member’s baseline

**8. Economic Growth Provision<sup>sm</sup> (EGP<sup>sm</sup>)** The maximum increase in CO<sub>2</sub> equivalent emissions that will be recognized in determining the annual true-up for each CCX<sup>®</sup> Member will be 2% above that Member’s baseline emission level during each of the years 2003 and 2004, and 3% above its baseline during each of the years 2005 and 2006.

When combined with the CCX<sup>®</sup> Emission Reduction Schedule, this provision implies that the maximum amount of net purchases of Greenhouse Gas Emission Allowances<sup>sm</sup> and/or Certified Emission Offsets<sup>sm</sup> required for compliance is limited to 3% of each CCX<sup>®</sup> Member’s emission baseline during 2003, 4% of its baseline during 2004, 6% of its baseline during 2005 and 7% of its baseline during 2006.

This provision will be symmetric. The maximum recognized emission reduction below each Member’s emission reduction target will be limited to 3% of the Member’s emission baseline during 2003, 4% of its baseline during 2004, 6% of its baseline during 2005 and 7% of its

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baseline during 2006. Net sales and banking of Greenhouse Gas Emission Allowances<sup>sm</sup> by CCX<sup>®</sup> Members will also be subject to limits described in Sections 22B and 22C below.

Year	<b>Economic Growth Provision<sup>sm</sup>: Maximum amount of net purchases of Greenhouse Gas Emission Allowances<sup>sm</sup> and/or Certified Emission Offsets<sup>sm</sup> required for compliance</b>
2003	3% of Member's baseline
2004	4% of Member's baseline
2005	6% of Member's baseline
2006	7% of Member's baseline

**9. Annual True-up**

Subsequent to each compliance year, each CCX<sup>®</sup> Member must surrender any combination of Greenhouse Gas Emission Allowances<sup>sm</sup>, Certified Emission Offsets<sup>sm</sup> and Certified Early Action Credits<sup>sm</sup> in an amount equal to the CO<sub>2</sub> equivalent emissions released from that Member's included facilities during the compliance year (subject to the Economic Growth Provision<sup>sm</sup> and constraints on the use of CEOs<sup>sm</sup> and CEACs<sup>sm</sup>).

**10. Registry and Electronic Trading Platform**

An internet-accessible CCX<sup>®</sup> Registry will be managed and administered by the CCX<sup>®</sup> and will contain all Greenhouse Gas Emission Allowances<sup>sm</sup>, Certified Emission Offsets<sup>sm</sup> and Certified Early Action Credits<sup>sm</sup>. The CCX<sup>®</sup> Registry will be used as the official holder of record and transfer mechanism and will be integrated with the CCX<sup>®</sup> electronic trading platform. All transactions involving these instruments must occur on the CCX<sup>®</sup> electronic trading platform.

**11. Auctions**

CCX<sup>®</sup>-administered auctions will occur on a regularly scheduled basis.

**12. Facilities Included, Emissions Monitoring**

CCX<sup>®</sup> Members primarily engaged in electric power production will include in their baseline and quarterly emission reports CO<sub>2</sub> emissions from all power generation facilities having a rated capacity of 25 megawatts or larger. These Members may opt-in emissions from facilities having a rated capacity of less than 25 megawatts, but must include all such facilities if this option is chosen. Electric power generating units will use CO<sub>2</sub> emissions data from continuous emission

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monitors (CEMs) as reported to the U.S. Environmental Protection Agency. If CEM data is not available, Members will quantify CO<sub>2</sub> emissions by using the fuel consumption methods contained in the U.S. Code of Federal Regulations 40 CFR Part 75 or equivalent methods.

CCX<sup>®</sup> electric power sector Members may opt-in SF<sub>6</sub> emissions from electric power transmission equipment. Emissions from such systems will be quantified using protocols provided by the U.S. Environmental Protection Agency.

These Members may also opt-in emissions from vehicles they own and operate or lease by using the protocols for mobile sources developed by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) initiative.

CCX<sup>®</sup> Members not primarily engaged in electric power production, including Members in the forest products, chemicals, cement, manufacturing, and municipal sectors will report GHG emissions as follows:

- CO<sub>2</sub> emissions from stationary source fossil fuel combustion will be quantified using the protocols developed by the WRI/WBCSD;
- Process emissions (e.g. N<sub>2</sub>O, PFCs and CO<sub>2</sub>) will be quantified using the applicable WRI/WBCSD protocols;
- CO<sub>2</sub> emissions from vehicles will be included in the Member's baseline and quarterly emission reports if these emissions are greater than 5% of total entity-wide emissions and represent an integral part of the Member's operations. Otherwise, CCX<sup>®</sup> Members have the option to include emissions from vehicles in their baseline emissions and quarterly emission reports. Vehicle emissions will be quantified using the WRI/WBCSD protocols.

The CCX<sup>®</sup> will specify methods for monitoring emissions and/or emission reductions for:

- the oil and gas sector;
- gas pipelines;
- landfill methane;
- changes in carbon stocks in above-ground biomass in industrial forests;
- offset projects including forestry, renewable energy and fuel switching.

**13. Greenhouse Gas** CCX<sup>®</sup> Members in the forest products sector that have wood harvesting

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**Emission Allowance<sup>sm</sup> issuance for carbon sequestration by CCX<sup>®</sup> Members in the forest products sector**

operations will quantify and report net changes in carbon stocks (expressed in metric tons of CO<sub>2</sub> equivalent) held in above-ground biomass on land owned by the Member or on land for which the Member owns carbon sequestration rights. Greenhouse Gas Emission Allowances<sup>sm</sup> will be issued on an annual basis to these Members during the 2003-2006 time period in an amount reflecting net increases in stored carbon from the previous year. These allowances will have the vintage of the year in which the increase in carbon storage occurred.

These Members must surrender GGEAs<sup>sm</sup>, CEOs<sup>sm</sup> or CEACs<sup>sm</sup> on an annual basis in an amount reflecting net decreases in carbon stored in above-ground biomass during the 2003-2006 time period.

Quantification of changes in carbon stocks held in above-ground biomass will be based on standardized models and sampling procedures to be used by all Members in the forest products sector. The calculation of changes in carbon stocks will be adjusted to reflect acquisition or disposition of forest land.

As per Section 8 above (the Economic Growth Provision<sup>sm</sup>), the maximum amount of net reductions in carbon stored in above-ground biomass on company land recognized is limited to 3% of each CCX<sup>®</sup> Member's emission baseline during 2003, 4% of its baseline during 2004, 6% of its baseline during 2005 and 7% of its baseline during 2006. The maximum recognized quantity of net increases in carbon stored in above-ground biomass will be limited to 3% of the Member's emission baseline during 2003, 4% of its baseline during 2004, 6% of its baseline during 2005 and 7% of its baseline during 2006. Net sales and banking of Greenhouse Gas Emission Allowances<sup>sm</sup> by CCX<sup>®</sup> Members will also be subject to limits described in Sections 22B below.

**14. Emissions Reporting and Verification**

CCX<sup>®</sup> Members must submit quarterly emission reports. For CCX<sup>®</sup> Members primarily engaged in electric power production the quarterly reports must be signed by the Member's designated representative as defined in Title IV of the 1990 Clean Air Act Amendments. For other CCX<sup>®</sup> Members the quarterly reports must be signed by a corporate officer. Reporting on forest carbon storage by Members in the forest products sector will occur annually. Reporting on offset projects will occur annually or quarterly, as specified by the CCX<sup>®</sup>. Emissions and offset project reports and their underlying data will be subject to verification and audits. Verification and audit activities will be undertaken by entities approved by the CCX<sup>®</sup>.

**15. Expansion of CCX<sup>®</sup> Membership**

The CCX<sup>®</sup> Membership base will be enlarged as additional entities seek to enroll. Expansion will be managed with a view to furthering the goals of the Exchange and avoiding price congestion. New Members

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will be bound to the same terms and obligations as Original Members.

**16. Certified  
Emission  
Offsets<sup>sm</sup>  
(CEOs<sup>sm</sup>)**

Eligible projects can be recorded in the CCX<sup>®</sup> Registry and will be issued Certified Emission Offsets<sup>sm</sup> on the basis of mitigation tonnage realized during 2003-2006. CEOs<sup>sm</sup> will be issued after mitigation occurs and required documentation is presented to the CCX<sup>®</sup>. CCX<sup>®</sup> will specify project eligibility, project baselines, quantification, monitoring and verification protocols. With the exception of forestry projects, which will be eligible if undertaken on or after January 1, 1995, projects in the specified categories will qualify if they were placed into operation on or after January 1, 1999. Some offset projects undertaken by CCX<sup>®</sup> Members prior to 1999 will be eligible under the Certified Early Action Credits<sup>sm</sup> provisions described in Section 17.

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The initial categories of eligible offset project categories are:

- landfill methane destruction in the U.S.;
- agricultural methane destruction in the U.S.;
- carbon sequestration in U.S. forestry projects;
- carbon sequestration in U.S. agricultural soils;
- fuel switching, landfill methane destruction, renewable energy and forestry projects in Brazil.

CEOs<sup>sm</sup> from projects undertaken in Mexico and Canada will be integrated into the program during 2003. Projects that meet eligibility criteria but are located outside the U.S., Mexico, Canada and Brazil may be registered at the beginning of the program, with the allowed use of such offsets to be determined by the Standing Committee on Certified Emission Offsets<sup>sm</sup> described below. That Committee will also recommend additions to the list of eligible offset project types and locations, and will consider recommending automatic eligibility for approved Clean Development Mechanism projects to earn CEOs<sup>sm</sup>.

The minimum amount of CEO<sup>sm</sup> issuance to any project or group of projects in any single category is 10,000 tons CO<sub>2</sub> equivalent per year. Individual projects that achieve mitigation quantities of less than 10,000 tons CO<sub>2</sub> equivalent per year must be combined with other projects within the same project category by a CCX<sup>®</sup>-registered aggregator. Trading can occur in quantities less than 10,000 tons.

16A. *Certified  
Landfill  
Offsets<sup>sm</sup>  
(CLOs<sup>sm</sup>)  
(U.S.)*

Certified Landfill Offsets<sup>sm</sup> will be issued to owners of GHG emission reductions achieved by landfill methane collection and combustion systems placed into operation at U.S. locations on or after January 1, 1999 but not required to comply with New Source Performance Standards. CLOs<sup>sm</sup> will be issued on the basis of tons of methane destroyed, net of CO<sub>2</sub> released upon combustion, during the years 2003 through 2006, at a net rate of 18.25 tons CO<sub>2</sub> for each ton of methane combusted.

16B. *Certified  
Agricultural  
Methane  
Offsets<sup>sm</sup>  
(CAMOs<sup>sm</sup>)  
(U.S.)*

Certified Agricultural Methane Offsets<sup>sm</sup> will be issued to owners of GHG emission reductions achieved by methane collection and combustion from manure digesters placed into operation in the U.S. on or after January 1, 1999. CAMOs<sup>sm</sup> will be issued on the basis of tons of methane destroyed, net of CO<sub>2</sub> released upon combustion, during the years 2003 through 2006, at a net rate of 18.25 tons CO<sub>2</sub> for each ton of methane combusted.

16C. *Certified*

Certified Forestry Offsets<sup>sm</sup> will be issued to owners of GHG emission

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Forestry  
Offsets<sup>sm</sup>  
(CFOs<sup>sm</sup>)  
(U.S.)

mitigation achieved by qualifying forestry sequestration projects initiated on or after January 1, 1995. CFOs<sup>sm</sup> will be issued on the basis of increases in tons of CO<sub>2</sub> equivalent carbon storage realized during the 2003-2006 period.

The CCX<sup>®</sup> will specify project eligibility, project baselines, quantification, monitoring and verification protocols.

16D. Certified Soil  
Offsets<sup>sm</sup>  
(CSOs<sup>sm</sup>)  
(U.S.)

Certified Soil Offsets<sup>sm</sup> will be issued to owners of GHG emission mitigation produced by agricultural soil carbon sequestration activities in designated states, counties and parishes in the Midwest and Mississippi delta regions of the U.S.

- Certified Soil Offsets<sup>sm</sup> will be issued at a rate of 0.5 metric tons CO<sub>2</sub> per acre per year to farmers who commit to continuous no-till through 2006.
- Certified Soil Offsets<sup>sm</sup> will be issued to farmers who commit to maintain soil carbon storage realized as a result of grass cover plantings that were undertaken on or after January 1, 1999. The commitment must be maintained through 2006. Under this provision CSOs<sup>sm</sup> will be at a rate of 0.75 metric tons CO<sub>2</sub> per acre per year.

The CCX<sup>®</sup> will specify project eligibility, project baselines, quantification, monitoring and verification protocols.

16E. Certified  
Emission  
Reductions<sup>sm</sup>  
(CERs<sup>sm</sup>)  
(Brazil)

Certified Emission Reductions<sup>sm</sup> will be issued to owners of GHG mitigation produced by qualifying projects undertaken in Brazil. Qualifying projects will include:

- reforestation and/or assisted forest regeneration;
- avoided deforestation together with reforestation and/or assisted forest regeneration;
- fuel switching;
- landfill methane destruction; and
- renewable energy generation from solar, wind, small hydroelectric and biomass systems.

The CCX<sup>®</sup> will specify project eligibility, project baselines, quantification, monitoring and verification protocols.

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- 17. Certified Early Action Credits<sup>sm</sup> (CEACs<sup>sm</sup>)** Certified Early Action Credits<sup>sm</sup> (CEACs<sup>sm</sup>) will be issued to certain projects undertaken from 1995 through 1998. To qualify, reductions must be:

- off-system;
- originally undertaken or financed by CCX<sup>®</sup> Members;
- direct emissions reductions or involve sequestration;
- clearly owned by the CCX<sup>®</sup> Member;
- measured and verifiable;
- registered in 1605b, USIJI, or an equivalent registry system.

CEACs<sup>sm</sup> can be used for compliance only by the CCX<sup>®</sup> Member that originally owned them.

Certified Early Action Credits<sup>sm</sup> will be given to the following project types that meet the eligibility criteria:

- reforestation, afforestation and avoided deforestation
- landfill methane destruction in the U.S.
- fuel switching and other energy related USIJI projects

Certified Early Action Credits<sup>sm</sup> will be issued on the basis of mitigation tonnage realized by the qualifying project during the years 1995 through 2006.

- 18. Electricity Purchase Opt-in Program<sup>sm</sup> (EPOP<sup>sm</sup>)** CCX<sup>®</sup> Members not primarily engaged in the production of electricity may opt-in purchased electricity as a supplemental reduction objective. If this option is elected, reduction commitments for purchased electricity will be identical to the CCX<sup>®</sup> Emission Reduction Schedule (i.e. 1% below baseline purchased electricity in 2003, 2% below baseline in 2004, 3% below baseline in 2005, 4% below baseline in 2006).

CCX<sup>®</sup> Members that elect this option will receive Greenhouse Gas Emission Allowances<sup>sm</sup> when the reduction objective is exceeded. When CCX<sup>®</sup> Members opt-in their electricity purchases and their electricity purchase reduction objective is not achieved the Member must surrender Greenhouse Gas Emission Allowances<sup>sm</sup>, Certified Emission Offsets<sup>sm</sup> and/or Certified Early Action Credits<sup>sm</sup>.

The baseline electricity purchase quantity is defined as the average of electricity purchases during years 1998 through 2001. The baseline will be adjusted to reflect acquisition or disposition of facilities that consumed power purchased by the CCX<sup>®</sup> Member.

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- CCX<sup>®</sup> Members that opt-in electricity purchases and reduce their electricity purchases to levels below the percentage decrease corresponding to the CCX<sup>®</sup> reduction schedule will be issued Greenhouse Gas Emission Allowances<sup>sm</sup> at a rate of 0.61 metric tons CO<sub>2</sub> for each megawatt-hour by which actual power purchased is below the reduction schedule.
- CCX<sup>®</sup> Members that opt-in electricity purchases and realize electricity purchases at a level that is above the percentage decrease corresponding to the CCX<sup>®</sup> reduction schedule must surrender Greenhouse Gas Emission Allowances<sup>sm</sup> and/or Certified Emission Offsets<sup>sm</sup> at a rate of 0.61 metric tons CO<sub>2</sub> for each megawatt-hour by which actual power purchased is above the reduction schedule.
- The Economic Growth Provision<sup>sm</sup> described in Section 8 above will apply to the Electricity Purchase Opt-in Program<sup>sm</sup>.

The 0.61 metric ton rate is applied only to electricity purchased by U.S. facilities as it reflects the U.S. average emission rate for electricity production during 1998-2001. National average emission rates for Canada and Mexico will be applied to facilities in those countries.

The initial pool of GGEAs<sup>sm</sup> available to be issued to CCX<sup>®</sup> Members under this provision will be 0.1% of the program-wide emission baseline per year. If fully subscribed, this quantity would represent 4% of the four-year program-wide targeted emission reduction (which is defined as the program-wide emission baseline minus the program-wide emission reduction target during 2003 through 2006).

**19. Renewable Fuels**

Emissions associated with combustion of the following renewable fuels will be excluded from CCX<sup>®</sup> Members' emission baselines and emission reports:

- wood, wood wastes and wood-derived fuels;
- agricultural residues, grasses;
- landfill and agricultural methane.

**20. Jointly Owned Facilities**

CCX<sup>®</sup> Members will be responsible for emissions from jointly owned facilities in proportion to the Member's ownership equity share, subject to the following exceptions:

- CCX<sup>®</sup> Members not primarily engaged in electric power

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production will have the option to exclude from their emission baseline and emission reports emissions from all facilities in which the CCX<sup>®</sup> Member's equity ownership share is less than 20%.

- Exceptions will be made on a case-by-case basis if a CCX<sup>®</sup> Member's ownership share is less than 50% and emissions data from the jointly owned facility is not accessible to the CCX<sup>®</sup> Member.
- Entities primarily engaged in electric power production will have the option to exclude from their emission baseline and emission reports emissions from all facilities in which the CCX<sup>®</sup> Member's equity ownership share is both less than 20% and represents less than 25 megawatts of generating capacity.

**21. New Electric Power Generating Units**

New electric power generating units are units placed into commercial operation on or after January 1, 2002. Each participating CCX<sup>®</sup> Member that operates one or more new electric power generating units will be allowed to exempt annually a quantity of emissions that is equivalent to the annual emissions of a 500 megawatt capacity natural gas combined cycle electricity generating plant operated at 55% of capacity and having a heat rate of 7,000 btu/kWh. The exempt emissions cannot exceed emissions from the new electric power generating unit or units. All new unit emissions above this level will be included as part of the Member's annual emissions.

**22. Market Efficiency**

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22A. Objectives

A limited number of market constraints will be employed in order to assure that emission mitigation under the CCX<sup>®</sup> reflects a balance of emission reductions at CCX<sup>®</sup> Member facilities and reductions from off-system projects, and to prevent market instability and price congestion. Adoption of these constraints reflects the limited scope and pilot nature of the CCX<sup>®</sup>. The CCX<sup>®</sup> does not endorse the imposition of limits on trading or on the use of offsets in large scale GHG trading systems that may emerge in markets created by government regulation.

The CCX<sup>®</sup> will, on a regularly scheduled basis, report to its Members the specific quantitative limitations, expressed in tons of CO<sub>2</sub>, associated with the constraints listed below.

22B. Single Firm Sales Limit

Net sales of Greenhouse Gas Emission Allowances<sup>sm</sup> by any single CCX<sup>®</sup> Member will be limited to 0.5% of the program-wide emissions baseline, apportioned over 2003-2006 according to the following schedule:

Year	Net Greenhouse Gas Emission Allowance <sup>sm</sup> sales limit: percent of program-wide baseline emissions that can be sold by a single firm
2003	0.05%
2004	0.10%
2005	0.15%
2006	<u>0.20%</u>
<b>Total</b>	<b>0.50% of program-wide baseline emissions</b>

Net allowed sales by a single firm will be escalated if program-wide emissions rise above baseline levels. The Escalation Mechanism<sup>sm</sup> will reflect the extent to which program-wide emissions rise above program-wide baseline emission levels.

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22C. *Limitation on Banking During 2003*

During 2003, each CCX<sup>®</sup> Member is allowed to sell and/or bank the quantity of allowances that is the lesser of the quantities determined by the symmetric Economic Growth Provision<sup>sm</sup> and the Single Firm Sales Limit.<sup>1</sup> If during 2003 the Single Firm Sales Limit is less than the quantity determined by the symmetric Economic Growth Provision<sup>sm</sup>, then the difference between those two quantities shall be placed in a special reserve for possible future release.

During 2004, 2005 and 2006 each CCX<sup>®</sup> Member is allowed to sell and/or bank the quantity that is the lesser of the quantities determined by the Economic Growth Provision<sup>sm</sup> and the Single Firm Sales Limit. During these years CCX<sup>®</sup> Members may also bank the amount by which the quantity determined by the Economic Growth Provision<sup>sm</sup> exceeds the Single Firm Sales Limit.

22D. *Use of Certified Emission Offsets<sup>sm</sup> and Certified Early Action Credits<sup>sm</sup>*

During 2003 program-wide use for compliance of Certified Emission Offsets<sup>sm</sup> will be allowed in an amount equal to 0.5% of the total program wide-baseline emissions. Certified Early Action Credits<sup>sm</sup> may be used for compliance starting in 2004. During years 2004, 2005 and 2006, program-wide use of Certified Emission Offsets<sup>sm</sup> plus Certified Early Action Credits<sup>sm</sup> will be allowed in an amount equal to 4.5% of the total program wide-baseline emissions, apportioned over 2004-2006 according to the following schedule:

Year	Total allowed use for compliance of Certified Emission Offsets <sup>sm</sup> plus Certified Early Action Credits <sup>sm</sup> as a percent of program-wide baseline emissions
2004	1.0%
2005	1.5%
2006	2.0%

The total program-wide quantity of Certified Early Action Credits<sup>sm</sup> used for compliance during 2004, 2005 and 2006 will not exceed 50% of the total quantity of Certified Emission Offsets<sup>sm</sup> plus Certified Early Action Credits<sup>sm</sup> used for compliance.

<sup>1</sup> In this context, allowed sales means the net sales by the CCX<sup>®</sup> Member.

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Total allowed use for compliance of Certified Emission Offsets<sup>sm</sup> during 2003 and Certified Emission Offsets<sup>sm</sup> plus Certified Early Action Credits<sup>sm</sup> during 2004, 2005 and 2006 will be escalated if program-wide emissions rise above baseline levels. The Escalation Mechanism<sup>sm</sup> will reflect the extent to which program-wide emissions exceed program-wide baseline emission levels.

22E. *Offsets from Owned and Operated facilities*

For each CCX<sup>®</sup> Member, total net sales plus use for compliance of Certified Emission Offsets<sup>sm</sup> (e.g. Certified Landfill Offsets<sup>sm</sup>) produced by facilities that it owns and/or operates will be allowed in an amount equal to no more than 0.5% of the total program wide-baseline emissions, apportioned over 2003-2006 according to the following schedule:

Year	Total net sales plus use for compliance of CEOs <sup>sm</sup> generated from a CCX <sup>®</sup> Member's owned and operated facilities
2003	0.05%
2004	0.10%
2005	0.15%
2006	<u>0.20%</u>
<b>Total</b>	<b>0.5% of program-wide baseline emissions</b>

Allowed sales plus use for compliance by a single CCX<sup>®</sup> Member under this provision will be escalated proportionately if program-wide emissions rise above baseline levels. The Escalation Mechanism<sup>sm</sup> will reflect the extent to which program-wide emissions exceed program-wide emission baseline levels.

23. **Exchange Governance**

Standing Committees comprised of CCX<sup>®</sup> Members will be formed for the purpose of providing oversight of specific market functions. Additional Committees may be formed as necessary. The following lists the currently envisioned Committees and their anticipated responsibilities:

*Exchange Executive Committee:*

- oversee the affairs of the exchange;
- receive and act upon recommendations from other CCX<sup>®</sup> Committees;

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- address any unresolved issues emerging from other Committees;
- establish additional Committees as necessary.

*Committee on Certified Emission Offsets<sup>sm</sup>:*

- recommend additional project types and locations for CCX<sup>®</sup> eligibility and develop rules for such projects;
- consider recommending automatic eligibility for approved Clean Development Mechanism projects to earn CEOs<sup>sm</sup>;
- provide guidance on the project registration process;
- provide oversight for the registration of projects undertaken in locations that are not initially eligible for CEOs<sup>sm</sup>;
- monitor the diversity of registered project types and propose methods for maintaining diversity as necessary;
- develop methods for apportioning the use of registered CEOs<sup>sm</sup> and CEACs<sup>sm</sup> by individual CCX<sup>®</sup> Members if the total quantity of these instruments that Members wish to use for compliance exceeds the quantities established by the market constraints described above.

*Committee on Market Efficiency:*

- monitor market operations and identify actions that may be needed to enhance market performance and avoid congestion;
- oversee the periodic expansion of the market with a view to assuring efficient market performance.

*Committee on Compliance:*

- serve as a peer group to monitor compliance with exchange rules;
- evaluate violations of exchange rules and recommend responses;
- establish rules and oversee implementation of emissions and project verification, audits and inspections;
- may provide dispute resolution services.

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