

HOGAN & HARTSON

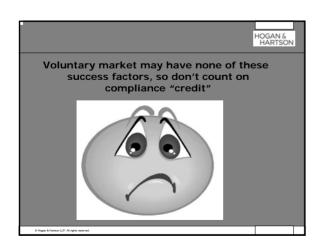
Chicago Climate Exchange:

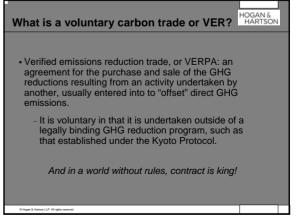
- •To mitigate risk: financial, operational, reputational
- To reduce GHG emissions
- •To prove action on climate to the public, shareholders, rating agencies, customers
- To establish cost effective GHG management systems
- •To drive policy based on experience
- ·To gain recognition as a leader
- •To establish a track record in the carbon market

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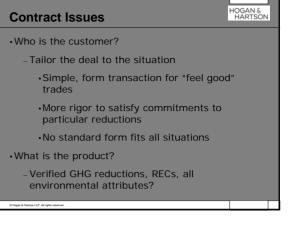
What do we want in a GHG market? Robust markets generally depend on: •Many participants •Common demand •Well understood rules Think: toothpaste, stocks, automobiles, even SO2 allowances The voluntary carbon market is not, and probably never will be robust.

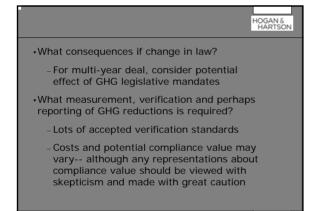
Market Success Indicators APX identifies six market success factors: Rigorous measurement, reporting and verification Reliable tracking of market activity Substantial penalties Transparency of market conditions Liquid market: banking, borrowing, trading platforms Market oversight to prevent manipulation

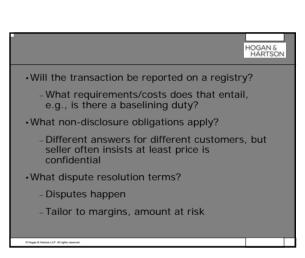


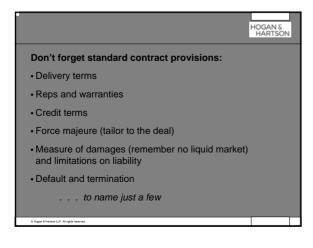


What is the deal? GHG reductions of a particular vintage? Purchase and sale or retirement of credits? Development of a particular project? If so, is the deal "unit contingent"? Who has what responsibilities? Is third-party performance critical? What if the third party fails to perform? Should the answers to these or other questions affect payment terms?









What Role for "Additionality"?
Additionality is at heart of many debates about the value of carbon offsets to climate mitigation efforts.
The key question stated at its most general level:
- Would the reduction have occurred in a "business as usual" world, without the incentives associated with a GHG market?
The Climate Trust breaks additionality down into 3 tests:
- Regulatory Surplus
- Implementation Barriers
- Common Practice

