

## **Assessing the Feasibility of Hawaii Becoming a Member of the Chicago Climate Exchange**

Act 163, Session Laws of Hawaii 2006, appropriated funds to the Hawaii Energy Policy Forum (Forum) to reconvene the Forum for the purpose of “implementing the vision, concepts, and recommendations of the policy forum's final report, and the resulting ‘Ten Point Plan’ to meet Hawaii's energy goals.”

Act 163 contained a requirement that the Forum assess the feasibility of Hawaii becoming a member of the Chicago Climate Exchange. This report addresses that request.

### **Chicago Climate Exchange – Background**

The Chicago Climate Exchange (CCX) is a for-profit exchange, which is a greenhouse gas (GHG) emission cap and trade system for all six greenhouse gases. CCX is a voluntary, self-regulating, rules-based exchange designated and governed by CCX members. Members make a voluntary but legally binding commitment to reduce GHG emissions. A member can meet its target by reducing emissions or by purchasing GHG emissions reduction credits from other members who have exceeded their targets.

The exchange is funded through transaction costs and initiation fees and annual membership fees which range from \$5,000-\$50,000 based on the initial baseline. Members are required to establish a baseline for either the years 1998-2001 or 2000.

The stated goals of the CCX are to:

- 1) Facilitate the transaction of greenhouse gas emissions allowance trading with price transparency, design excellence and environmental integrity;
- 2) Build the skills and institutions needed to cost-effectively manage greenhouse gas emissions;

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- 3) Facilitate capacity building in both public and private sector to facilitate greenhouse mitigation;
- 4) Strengthen the intellectual framework required for cost effective and valid greenhouse gas reduction; and
- 5) Help inform the public debate on managing the risk of global climate change

### **Recommendation of the Hawaii Energy Policy Forum**

The Forum recommends against Hawaii becoming a participant in the Chicago Climate Exchange at this time, given:

- 1) The current emerging state of the carbon trading market;
- 2) Hawaii's lack of rigorously compiled accounting information on State Government greenhouse gas (GHG) baseline emissions for 1998-2001 or the year 2000;
- 3) The unknown shape and extent of federal regulation of GHG emissions; and
- 4) Participation in carbon trading may be incompatible with, and run at cross-purposes with, the State's efforts to promote energy conservation, demand-side management, and renewable portfolio standards designed to foster renewable electric generation and adoption of energy efficiency technologies.

This recommendation is aligned with that of the National Resources Defense Council, which issued a memorandum as to why states and cities should not join the Chicago Climate Exchange (see Appendix I.).

The Forum also recommends that the Department of Health (DOH) and the Department of Business, Economic Development and Tourism (DBEDT):

- 1) Investigate all protocols on how to establish a baseline inventory of State Government emissions of greenhouse gases (GHG) and choose one most adapted to Hawaii's atypical circumstances;
- 2) Register the chosen inventory with an appropriate registry, such as the California Climate Action Registry or the Eastern Climate Registry, in order to

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- standardize and verify the inventory (See Appendix II and III). Registering Hawaii's emissions will ensure any reductions achieved will be credited in regional, national or international greenhouse gas reduction programs the state chooses to join, as well as providing the strong foundation for an emissions tracking system; and
- 3) Provide the funding necessary for the DOH and DBEDT to accomplish the tasks recommended.

Many protocols have been published on how to establish a baseline GHG emissions inventory. The World Resource Institute (WRI) has developed two protocols to begin to understand the details of doing an organizational inventory and creating an offset project. (See Appendix IV and Appendix V.)

If the State can accurately measure its anthropogenic GHG emissions and determine the "proper accounting" standards for measuring "leakages" and other data, the State might better be able to consider becoming involved in Phase 3 of the Chicago Climate Exchange in the future. Until this information has been compiled and studied, the Forum believes that Legislative consideration of participation is premature.

The Forum further recommends against Hawaii participating in the Chicago Climate Exchange if it will have to purchase emissions from other members. Instead, participation would seem to be in the best interests of all of Hawaii's citizens only if the State can be a net **seller** of Carbon Financial Instruments to remote parties, while enjoying the benefits of a cleaner environment at home.

It is not clear how the renewable energy facilities already being promoted by the Renewable Portfolio Standards (RPS) law and other legislation that has already been enacted or is under consideration would be considered to be "eligible" to generate Carbon Financial Instruments. If the renewable energy otherwise eligible for carbon offsets were purchased by a utility, it would count toward the utility's

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State-mandated RPS and therefore would be automatically ineligible as an offset, to avoid “double-dipping”.

Similarly, the Chicago Climate Exchange is still evaluating an Energy Efficiency Offset Project, while the State’s incentives are already in place. While our State, with its vulnerable coastlines, certainly has a strong interest in minimizing global warming, the Forum is not persuaded that participation in the Chicago Climate Exchange will advance that interest.

It is still not clear whether becoming a net seller for all years of participation would mean that the State itself must undertake offset projects such as methane destruction and forestry practices, or whether it need only provide incentives for private parties to do so.

In summary, the Forum recommends that Hawaii not become a member of the Chicago Climate Exchange at this time. Rather, Hawaii should take immediate steps to establish baseline data on GHG emissions so that this matter can be considered again in the future using updated and complete information.