

Letter of Understanding

BETWEEN

CHICAGO CLIMATE EXCHANGE,[®] INC.

AND

THE PROVINCE OF MANITOBA

PREAMBLE:

The scientific community is warning that rapid increases in the concentration of greenhouse gases in the earth's atmosphere is caused by human activity, mainly fossil fuel combustion and deforestation. The risks include more severe drought/precipitation cycles; longer more extreme heat waves; damage to vegetation and agricultural systems; and threats to coastlines and property due to higher sea levels and storm surges. Independent of the scientific debate, the perception that global warming presents a problem that needs to be addressed is widespread.

In Manitoba, the people of Churchill are witnessing changes to animal migration patterns and the reproductive health of animals as the ice break-up is occurring earlier each year. Current climate models support what local communities in northern regions are witnessing – the dramatic effects of a warming climate. Virtually every aspect of Manitoba's environment is vulnerable to climate change including forests, lakes, soils and northern coastal shores and wildlife habitats.

The demand for action from governments and the private sector to take cost-effective steps to address the threat of climate change has grown steadily over the past decade. Both the Government of Manitoba (Manitoba) and the Chicago Climate Exchange,[®] Inc. (CCX) share a similar commitment to help reduce greenhouse gas emissions and reward environmental innovation.

Manitoba was first to support Canada's position in ratifying the Kyoto Protocol. Manitoba is at the forefront of implementing innovative emission reduction measures in Canada including: the continued development of clean hydroelectric power for domestic use and for export displacement of thermal generation; the development of other renewables such as wind energy, hydrogen, ethanol and ground source heat pumps; and a strengthened commitment to energy efficiency. Manitoba is also breaking new ground in Canada by pursuing the creation of the Manitoba Climate Trust (Trust), to provide new public sector, private sector and community-based solutions to greenhouse gas (GHG) emission reductions.

CCX is a self-regulatory exchange that administers the world's first multi-national and multi-sector marketplace for reducing and trading GHG emissions. CCX represents the first voluntary commitment by a cross-section of North American corporations, municipalities and other institutions to establish a rules-based market for reducing GHGs. The main goals of the CCX are to allow flexibility in the methods, locations and timing of emission reduction (ensuring cost-effective reductions); facilitate low-cost trading transactions; encourage improved emissions management; harmonize and integrate with other international or sovereign trading regimes; and develop a market structure that rewards innovative technology and management.



OPPORTUNITY:

This Letter of Understanding (LOU) has been agreed to by Manitoba and the CCX in order to investigate the potential development of the Manitoba Climate Trust in association with the CCX. A collaborative effort between Manitoba and the CCX to establish the Trust will benefit both organizations by creating a strong international, multi-party relationship that will provide a wide range of emission trading possibilities and reduce pollution. This relationship will demonstrate North American leadership in facilitating emission reduction initiatives for companies, governments and communities. The collaborative effort will build upon the existing relationship between Manitoba and CCX that has emerged through Manitoba Hydro's participation in the Chicago Climate Exchange,[®] Inc. as a Founding Member.

The Trust is intended to attract buyers from entities that need access to cost-effective emission credits in order to meet regulatory or voluntary GHG emission reduction targets. The Trust would invest in Manitoba community-based or corporate projects that will reduce GHG emissions or enhance carbon sequestration opportunities. In turn, emission credits from these projects would be returned to investors or purchased by those needing to reduce emissions, such as CCX members and Manitoba large final emitters. The Trust would be self-sustaining through the sale of credits. The Trust could also create a pool of new capital to leverage federal funding for energy-efficient projects and improvements to industrial processes which reduce GHG emissions in Manitoba and help participating companies meet reduction targets through capital improvements. The Trust would also explore opportunities within the still developing Canadian federal government's GHG regulatory system to offer cost-effective regulatory compliance opportunities for emitters subject to such GHG regulation.

MANITOBA AND THE CCX WILL:

- develop a terms of reference for the potential Trust;
- identify cost/benefits (for Manitoba, CCX, communities and industry) of establishing a Trust;
- explore ownership/management and corporate legal structure options for the Trust;
- investigate the potential for a Manitoba entity joining the CCX;
- determine the most appropriate membership category, should a Manitoba entity join the CCX;
- ensure the Manitoba/CCX relationship is consistent with CCX regulations;
- include Manitoba stakeholders (e.g., large final emitters) in all assessments;
- identify funding and other resource requirements; and
- provide recommendations.

CO-ORDINATION, TIMING AND IMPLEMENTATION:

A Manitoba/CCX co-chaired working group will be responsible for ensuring that the intent of this LOU is fulfilled and for recommending any future actions. The agreed-upon actions will be completed by April 1, 2004.

This LOU does not create any enforceable legal or equitable rights or obligations, but merely acknowledges the intentions of the participants to pursue mutually beneficial initiatives.

Signed in duplicate in Chicago, Illinois, this 3rd day of February 2004.

Original signed by

The Honourable Gary Doer
Premier
Province of Manitoba

Original signed by

Michael J. Walsh
Senior Vice President
Chicago Climate Exchange,[®] Inc.

