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October 20, 2009

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California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

This is to follow up on discussion we had in our conference call on September 21, 2009 concerning greenhouse gas carbon credits or reductions to be provided by SDG&E pursuant to Mitigation Measure AQ-4a. Just to recall, here's the language of the mitigation measure again for reference:

"SDG&E shall create greenhouse gas emission reductions or obtain and hold for the duration of project construction sufficient carbon credits to fully offset construction-phase greenhouse gas emissions. During construction SDG&E shall report to the CPUC quarterly the status of efforts to create reductions or obtain banked credits and the quantity of construction-phase greenhouse gas emissions offset by credits. At a minimum, SDG&E shall create or obtain and hold carbon credits to offset 55,000 tons of carbon dioxide emissions for each of the two years of construction. *Carbon Reduction Tons (CRTs) verified according to the rules of the California Climate Action Registry may be retired by SDG&E to satisfy this requirement.* (Emphasis added).

SDG&E has executed a purchase contract to acquire sufficient credits to satisfy this mitigation measure. Under the contract, SDG&E is not obligated to complete the purchase unless the Commission approves the use of the credits to satisfy mitigation measure AQ-4a. As noted during our conference call, the contract provides that SDG&E can acquire and retire 100,000 metric tonnes (110,000 short tons) of Climate Reserve Tonnes ("CRTs") from conservation-based forest management undertaken by the Conservation Fund ("CF") at two of its forests located in Encino County, California. These are the Big River and Salmon Creek forests. The CRTs are registered with the Climate Action Reserve (CAR) as a result of the Big River and Salmon Creek Forest Project 408 submitted by CF and approved by CAR.

The California Climate Action Registry (CCAR) operates under CAR. Both are nonprofit organizations. CCAR was created by the State of California in 2001 to address climate change through voluntary calculation and public reporting of emissions. The Climate Action Reserve is the new name for CCAR. CCAR has traditionally been a registry for GHG emission inventories, but through its transformation to the CAR, is now focused on developing standardized GHG reduction project protocols and a system that registers and tracks GHG offsets through a publicly accessible database.

The CCAR and CAR have spent over five years developing offset protocols including protocols for forest management related carbon credits. As of today, the CAR has

established protocols that provide for the recognition of reductions from the following methodologies:

- o Reforestation
- o Avoided forest conversion
- o Conservation-based forest management
- o Urban forestry
- o Collecting and combusting methane at landfills (US and Mexico)
- o Capturing and destroying methane from livestock manure management systems (US and Mexico)

The conservation-based forest management protocol was approved by the Air Resources Board for use to measure reductions from forestry projects in 2007. An updated version of the protocol was recently approved by the ARB Board on September 24, 2009. Though the forestry protocol is complex, the basic concept for crediting forest management activities is to quantify additional sequestration of carbon caused by increasing the rate of growth of woody material as compared to removal of such material.

The Conservation Fund (CF) maintains a detailed website concerning its activities. See <http://www.conservationfund.org/>. CF is an organization started in 1985 by the Nature Conservancy to invest in rural resources and manage lands for both conservation and economic returns. CF's budget for 2008 was approximately \$ 200 million for all of its operations nationally. The attached 300-plus page CF management plan for the BR/SC Forests describes CF's management goal as follows:

"The Big River and Salmon Creek Forests were acquired in November 2006 by The Conservation Fund (the Fund) in partnership with the State Water Board, the State Coastal Conservancy, the Wildlife Conservation Board and the David and Lucile Packard Foundation. The project is part of the Fund's North Coast Forest Conservation Initiative that seeks to demonstrate that large, under-stocked tracts of coastal forest can be returned to ecological and economic viability through patient, adaptive management by a non-profit organization in partnership with private and public entities and community stakeholders."

\* \* \* \* \*

The Fund is only able to adopt the relatively low-intensity forest management measures described in this Plan because of its ability to access the emerging market for carbon credits and the financial subsidy inherent in the grants and low interest loans used to acquire the Forests.

*CF Big River/Salmon Creek Forests Integrated Forest Plan, August 2009, pp. 3, 9.*

The CF application to the CAR for approval of its Project 408 for issuance of CRTs contained the following explanation of restrictions concerning its management of the BR/SC Forests:

To address permanence, the CAR protocols require permanent conservation restrictions on any forest project area. Additionally, the protocols require the use of natural forest management practices to reduce the risk of catastrophic disturbance. Both of these requirements have been met. There are two sets of permanent conservation restrictions that encumber the BRSC

property: one each for the State Coastal Conservancy (SCC) and the Wildlife Conservation Board (WCB). At the time of property acquisition, SCC and TCF signed a grant agreement that governs the use of the state funds. As required by the grant agreement, TCF executed and recorded in the county property records, the "Irrevocable Offer to Dedicate Title in Fee and Declaration of Restrictive Covenants" (Offer to Dedicate or SCC OTD). The Offer to Dedicate obligates the property to be managed for conservation and should, for any reason, the property not be managed in compliance with the terms of the grant agreement then the property will be dedicated to the State of California, acting through the State Coastal Conservancy. Also at the time of property acquisition and simultaneous to the granting of the Offer to Dedicate to SCC, WCB and TCF signed a "Grant Agreement for Acquisition of Fee Interest" which restricts the use of the property, in perpetuity, to the conservation purpose

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The permanent conservation restrictions on this property explicitly outline that native forest types are to be restored and/or maintained. The restrictions allow only those forest management activities that "are consistent with the acquisition purpose" (described above). Management in accordance with the restrictions will ensure the conservation of the native tree species. There will be minor shifts in species abundance as late-seral forests are recruited and past clear-cuts and floodplains are replanted with native species.

Fire management. Fire is recognized to be an infrequent but natural part of the California coastal forest ecosystem. Therefore, fire management activities, including suppression or prescribed burning, is permitted."

*CF CAR Submittal Form, Uploaded to CAR October 30, 2008. Responses to Item III, 4.*

With this background, SDG&E requests Commission staff approval of the use of the CF BR/SC CRTs covered by the purchase contract to satisfy the requirements of Mitigation AQ-4a. The CRTS fall squarely within the language of the mitigation allowing submittal of CAR CRTs. To further support approval we note the following:

1. The source of the credits is a forest managed by the non-profit CF under a sophisticated and fully documented management plan emphasizing conservation and with conservation land restrictions that ensure future permanence of the credits.
2. There are only four fully "registered" batches of CRTs currently on the CAR registry. A registered project has completed the full CAR verification and quantification process. Three of the four fully registered projects from California sources are forest conservation related projects. We are unaware of any CRTs being available in sufficient quantities from these sources other than the BR/SC CRTs from Project 408.
3. The price of the CRTs is reasonable given current market conditions. We have been informed by an active broker (CanterCO2e) that other credits, particularly future created credits, would cost significantly more to acquire. The availability of future credits for purchase is also uncertain since others are currently actively seeking such credits.

4. The credits are created by activities within the State of California. Other credits that may be available could be from out-of-state activities.
  
5. CTRs created from past reductions may be used for mitigation of future emissions. Any offset that has already gone through the vetting process at the CAR must necessarily result from a prior reduction since the CRTs can only be issued after the reduction (and in this case, sequestration) has occurred. The ARB has approved the use of CRTs under the protocol for "early action" credit. The whole concept of early action implies that reductions in one year will be credited in another. GHG emissions remain effective in the atmosphere to contribute to global warming for 100 years or more. Therefore, reductions in a prior year contribute to beneficial reductions throughout future decades. As noted in the original 2006 California Climate Action Plan preceding AB32, the overall goal is to prevent the cumulative increase of the total climate inventory of GHGs beyond the "tipping point" which at that time was estimated at about 450 to 500 ppm of CO<sub>2</sub>. Currently, the inventory is about 385 ppm CO<sub>2</sub>. Thus, any reduction to keep gases out of that inventory as it exists in 2050 is effective. Finally, it should be noted that GHG emissions do not themselves have short term health effects in neighboring areas, such as can be a concern with criteria pollutants (e.g., PM<sub>10</sub>). They pose solely a cumulative risk as just discussed. Therefore, contemporaneous reductions are of less concern. Yet even for criteria pollutants, the use of APCD-banked Emission Reduction Credits from prior years shutdowns or emission control installations have long been accepted for both Clean Air Act compliance and CEQA mitigation purposes.

SDG&Es intention is to complete the purchase of the CF CRTs, subsequent to your approval. We would then retire an amount of the CRTs on a quarterly basis, based upon actual construction GHG emissions. Actual GHG emissions will be calculated using estimated equipment and vehicle usage data monitored for compliance with Mitigation Measure AQ-1h.

A final point is that the approach to assessment and mitigation of GHG emissions for the Sunrise Power Link project should be viewed solely in the context of this unique project. The project necessarily was reviewed prior to the development of much of California GHG policy, prior to implementation of AB32, and prior to development of CEQA guidance by various lead agencies and by the Office of Planning and Research and the Natural Resources Agency. The Sunrise Power Link project is also a much larger, complex and high-profile undertaking than typical transmission projects. Therefore, while SDG&E has committed to follow the approach outlined above for this project, we do not believe this is necessary or appropriate for subsequent, more typical transmission projects.

Please let me know if you have further questions. We would like to obtain your approval within the next few weeks in order to complete the transaction and move forward with the project. Thank you for arranging the conference call where we could provide

additional background on the GHG issue. It's still a new world in many ways, particularly as to need for and creation of GHG credits.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Alan Colton". The signature is fluid and cursive, with the first name "Alan" being more prominent than the last name "Colton".

Alan Colton  
Manager – Sunrise Powerlink Environmental Services