



POSEIDON CHANNELSIDE

a Poseidon Water company

June 14, 2016

Tom Luster
Energy, Ocean Resources, and Federal Consistency Division
California Coastal Commission
45 Fremont Street, Suite 2000
San Francisco, CA 94105-2219

RE: May 26, 2016 Condition Compliance Determination for Coastal Development Permit E-06-013 Special Condition 10 and Energy Minimization and Greenhouse Gas Reduction

Dear Mr. Luster:

Poseidon Resources (Channelside) LP (Poseidon) is writing in response to the California Coastal Commission's May 26, 2016 condition compliance determination letter addressing Coastal Development Permit E-06-013 (CDP) Special Condition 10 and Energy Minimization and Green House Gas Reduction Plan (GHG Plan) for the Claude "Bud" Lewis Carlsbad Desalination Project (Project). Commission staff's letter raises two compliance issues related to Poseidon's obligations under the GHG Plan and provides recommendations for addressing the issues. Poseidon appreciates the Commission staff's feedback on the Project's GHG Plan compliance, and offers the following response to staff's comments and recommendations.

Retirement of Carbon Offsets. The operation of the Carlsbad Desalination Project does not result in the direct emission of greenhouse gasses. However, as a condition of the 2007 approval of the CDP for the Project, Poseidon is required to offset the indirect emissions associated with electricity purchases for the project such that the Project is "net carbon neutral."¹ The Coastal Commission staff noted that while Poseidon had purchased sufficient Climate Action Reserve (CAR) certified carbon offsets to fully offset the first year of Project operations prior to consideration of any other mitigation options identified in the GHG Plan, Poseidon's obligation under the GHG Plan had not yet been fulfilled because the offsets had not been "retired." In response to staff's feedback, Poseidon retired an additional 78,048 tons of offsets in its CAR account on May 27,

¹ As noted on page 1 of the GHG Plan, "In October 2007, Poseidon Resources (Poseidon) offered as part of its Carlsbad Desalination Project (Project) a commitment to account for and bring to zero the net indirect Greenhouse Gas (GHG) emissions from the Project. Poseidon followed its unprecedented commitment with the development of a Climate Action Plan (CAP), Poseidon's roadmap to achieving its commitment over the 30-year life of the Project. Based on protocols adopted by the California Climate Action Registry (CCAR), the CAP was reviewed by the California Coastal Commission (CCC), the California State Lands Commission (CSLC), the California Air Resources Board (CARB) and, at the request of a Coastal Commissioner, the South Coast Air Quality Management District (SCAQMD)."

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2016. Please find enclosed the following documentation confirming the quantity of retired offsets in Poseidon's CAR account:

- 1) Poseidon CAR Carbon Offset Retirement SLC PRC 8727.1 - 2016.05.27
- 2) Poseidon CAR Carbon Offset Retirement GHG Plan - 2016.05.27

Public record of retired offsets can be found on the Climate Action Reserve Project Registry website (<http://www.climateactionreserve.org/>).

Avoided Imported Water Use. The operation of the Project reduces the San Diego County Water Authority's (Water Authority) need to purchase imported water from the Metropolitan Water District of Southern California (MWD). Under the GHG Plan, every acre foot of water produced by the Project that results in a reduction in water supplied by MWD receives a credit for avoided GHG emissions from an acre foot that MWD would otherwise have imported from the State Water Project (the "imported water offset"). The CDP does not require the Project participate in MWD's Seawater Desalination Program (SDP), which provides financial incentives to desalination projects offsetting a demand on MWD. However, the GHG Plan makes reference to MWD's tentative plan to provide a financial incentive to the Project "so long as the desalinated water purchased from the project offsets an equivalent amount of imported water." The GHG Plan states that that under the SDP, MWD would conduct recordkeeping and audits "to ensure that MWD water is offset." Subsequent to the Commission's 2008 approval of the GHG Plan, the MWD Board of Directors approved the Project's participation in the Seawater SDP financial incentive, but the agreement was never implemented for reasons unrelated to the Project. In its May 26, 2016 letter, Commission staff asserts that the imported water offset contemplated under the GHG Plan has not occurred because MWD is not conducting the recordkeeping and audits to verify that MWD water is offset by the Project. Commission staff recommends that Poseidon either amend the GHG Plan to remove the credit, or alternatively provide documentation showing the offsets have occurred.² Poseidon is pursuing the latter option.

The GHG Plan provides direction as to the type of information needed to validate imported water offsets in the absence of MWD review of the Project under the SDP financial incentive program (GHG Plan at 19):

The reduction of demand for imported water is critical to Southern California's water supply reliability, so much so that MWD not only supports the Project, but has also committed \$14 million annually to reduce the cost to Poseidon's customers. Under MWD's program, \$250 will be paid to water agencies for every

² Commission staff's May 26, 2016 recommendation: "We request that Poseidon submit a revised GHG Plan for commission review and approval that removes the presumed 1:1 imported water offset credit. Alternatively, Poseidon may propose to provide documentation showing that the offsets have occurred as presumed by the GHG plan."

acre-foot of desalinated water purchased from the Carlsbad facility, so long as the desalinated water offsets an equivalent amount of imported water. MWD has established "Seawater Desalination Policy Principles and Administrative Guidelines" that require recordkeeping, annual data submittals, and MWD audit rights to ensure that MWD water is offset (emphasis added).

This provision of the GHG Plan establishes that the documentation that needs to be provided "to ensure that MWD water is offset" includes the record keeping and annual data submittals set forth in MWD's *Seawater Desalination Policy Principles and Administrative Guidelines*, along with the right to conduct an independent audit of this information. In the absence of MWD participation in the Project, Poseidon is proposing to provide documentation required under the Water Purchase Agreement (WPA) between the Water Authority and Poseidon showing that MWD water is offset.

The Water Authority has adopted a comprehensive program to verify and confirm that the production from the Carlsbad facility is offsetting a demand on MWD. As noted in Table 1, the WPA requires recordkeeping, data submittals, and reporting; and the WPA grants the Water Authority wide-ranging inspection and audit rights that collectively are more rigorous than the requirements included in the SDP Agreement that was under consideration for approval by MWD and the Water Authority.

<p align="center">Table 1 Comparison of Recordkeeping, Data Submittals, and Reporting; and Audit Rights</p>		
Project Oversight	Applicable Terms of the December 20, 2012 Approved Water Purchase Agreement	Applicable Terms of the November 24, 2009 Draft SDP Agreement
Monthly Reporting	§8.11(A) Each month Poseidon is required to provide the Water Authority certified operating reports and billing statements documenting the quantity of water delivered during each billing period based on the metering requirements set forth in §9.16(B)(2).	NA
Annual Reporting	§8.11(B) Within 45 days of the end of the Contact Year Poseidon is required to provide the Water Authority an annual summary of the	§8.4 Each LRA [Local Retail Agency shall record deliveries of Desalinated Seawater to such LRA for each Fiscal Year of the

	information contained in the monthly operations reports.	Project operation and retain records of that data based on the metering requirements in §5.
Annual Reconciliation	§17.17 Within 60 days of the end of each contract year, Poseidon is required to provide the Water Authority with a certified annual settlement statement setting forth the aggregate of the monthly deliveries and a reconciliation of the actual amount of water actually delivered during the year.	§7.1 By December 31 each year the Water Authority shall provide MWD a certified statement of the amount of desalinated water delivered during the prior fiscal year with supporting documentation.
Audit Rights	§4.11 The Water Authority has the right to perform or commission an independent audit of Poseidon's monthly and annual billing statements.	§8.5 MWD shall have the right to audit the records of Poseidon by itself or by others regarding production for a period of five full Fiscal Years prior to such request to audit.
Site Access	§8.2 The Water Authority has a permanent office at the Project site.	NA
Inspection of Records	§8.9 The Water Authority has the right to inspect the plant records and performance upon request.	§8.5 MWD shall have the right to audit the records of Poseidon by itself or by others regarding production for a period of five full Fiscal Years prior to such request to audit.
Records Retention	§8.10(B) Poseidon is required to retain and maintain all operations, maintenance, performance, process control and similar records and data and make such information available to the Water Authority for inspection and copying upon request. §8.12 Poseidon is required to maintain project records for	§8.9 Each party shall retain and maintain records required to be kept pursuant to this agreement for not less than five years.

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	a period of 10 years.	
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The verification requirements set forth in the WPA provide the information necessary for the Water Authority to certify the extent to which the Project is offsetting a demand on MWD. Similarly, under the SDP, the Water Authority was responsible for certifying the amount of water delivered by the Project. Both the Water Authority's 2010 UWMP, as well as its draft 2015 UWMP update, establish as matter of Water Authority policy that the water that is confirmed to have been produced by the Project is a highly reliable supply that will result in a one-to-one offset in Water Authority demand on MWD.

Poseidon recognizes that to the extent the recordkeeping and reporting collected by the Water Authority is applicable to determining GHG Plan compliance, such information will need to be submitted to the Coastal Commission in conjunction with the annual reporting under the GHG Plan to allow the Commission staff to verify the quantity of MWD water that was offset during the reporting period. Poseidon will work with the Water Authority to ensure the applicable information is available for the Commission's review.

The two paragraphs from the GHG Plan immediately following the paragraph quoted on the bottom of page 2 and top of page 3 of this letter state that once the offset of MWD water has been established, and the SWP emission factor is determined, the Project is to be credited with an offset in GHG emissions for a one-to-one reduction in State Water Project (SWP) water imports to the San Diego region (GHG Plan at 19):

The benefits of a reduction in demand on MWD's system are reflected in, among other things, the energy savings resulting from the pumping of water that – but for the Project – would have to continue. For every acre-foot of SWP water that is replaced by water from the proposed Project, 3.4 MWh of electricity use to deliver water to Customers is avoided, along with associated carbon emissions. And since the Project requires 4.4 MWh of electricity to produce one acre foot of water, the net electricity required to deliver water from the Project to Customers is 1.0 MWh/AF (emphasis added).

Because the Project will avoid the use of 56,000 AFY of imported water to Customers, once in operation, the Project will also avoid 190,641 MWh/yr of electricity consumption otherwise required to deliver that water to Customers, as well as the GHG emissions associated with pumping, treatment and distribution of this imported water. At 780.79 lbs CO₂per MWh, the total expected Avoided Emissions as a result of the Project is 67,506 metric tonsCO₂/yr. Each year, Poseidon will be credited with Avoided Emissions based on the most recent SWP emission factors and the amount of water Poseidon produces (emphasis added).

The Coastal Commission's *Final Adopted Findings Adopted for Request for Revocation #R2-E-06-013*, February 10, 2010 (the "Findings") reaffirms this point. The Findings state that once the offset of MWD water is established, the Project is to be automatically

credited an offset in GHG emissions equivalent to a one-to-one reduction in State Water Project (SWP) water imports to the San Diego region (Findings at 2):

In approving the GHG Plan, the Commission required Poseidon to directly account for other emission reduction measures, but automatically credited Poseidon with these asserted reductions from reduced SWP imports.

In closing, the Project oversight granted the Water Authority under the WPA accomplishes the recordkeeping and audit function that was initially contemplated for MWD under the GHG Plan. To the extent that the Water Authority is able to provide sufficient data, recordkeeping and reporting to verify the quantity of MWD water that was offset during the reporting period, the role contemplated for MWD under the GHG Plan is satisfied.

Sincerely,



Peter MacLaggan
Vice President

Enclosures

Cc: Frank Belock
Robert Yamada



Primary Account | Active Accounts | Retirement Accounts | Exported

Retirement Accounts: GHG Plan - Annual Emissions



Retirement Account	Retirement Reason	Retirement Reason Details	Email Notification	Project ID	Project Name	Project Type	Protocol Version	Vintage	Offset Credit Serial Numbers	Quantity of Offset Credits	Date Issued
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR878	Bluff Road Landfill	Landfill Gas Capture/Combustion	Version 3.0	2011	CAR-1-US-878-4-659-NE-2011-1358-1 to 16890	16,890	01/27/2014
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR764	Cedar Rapids Linn County Solid Waste Agency Landfill Gas Project	Landfill Gas Capture/Combustion	Version 3.0	2011	CAR-1-US-764-4-371-JA-2011-520-1 to 3696	3,696	08/24/2011
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR764	Cedar Rapids Linn County Solid Waste Agency Landfill Gas Project	Landfill Gas Capture/Combustion	Version 3.0	2011	CAR-1-US-764-4-371-JA-2011-1087-1 to 26153	26,153	04/24/2013
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR502	Central Sanitary Landfill	Landfill Gas Capture/Combustion	Version 2.1	2012	CAR-1-US-502-4-335-MI-2012-1045-30001 to 43415	13,415	03/19/2013
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR502	Central Sanitary Landfill	Landfill Gas Capture/Combustion	Version 2.1	2012	CAR-1-US-502-4-335-MI-2012-1334-23101 to 23633	533	12/24/2013
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR512	Rio Grande Valley Landfill	Landfill Gas Capture/Combustion	Version 2.1	2012	CAR-1-US-512-4-332-TX-2012-1528-121 to 288	189	08/13/2014
GHG Plan - Annual Emissions	Compliance Requirements	GHG 2016	gbeatty@poseidon1.com	CAR512	Rio Grande Valley Landfill	Landfill Gas Capture/Combustion	Version 2.1	2012	CAR-1-US-512-4-332-TX-2012-1356-4345 to 21537	17,193	01/27/2014

Total

78,048

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Retired Offset Credits														
Vintage	Offset Credit Serial Numbers	Quantity of Offset Credits	Status Effective	Project ID	Project Name	Project Type	Protocol Version	Project Site Location	Project Site State	Project Site Country	Additional Certification (\$)	Account Holder	Relinquish Reason	Relinquish Reason Details
2011	CAR-1-US-521-4-339-MO-2011-663-19179 to 23867	4,689	05/27/2016	CAR521	Maple Hill Landfill	Landfill Gas Capture/Combustion	Version 2.1	Macon	MISSOURI	US		Poseidon Resources (ChannelSide) LP	Compliance Requirements	SIC PRC 8727.1
2011	CAR-1-US-521-4-339-MO-2011-1259-3075 to 7936	4,862	05/27/2016	CAR521	Maple Hill Landfill	Landfill Gas Capture/Combustion	Version 2.1	Macon	MISSOURI	US		Poseidon Resources (ChannelSide) LP	Compliance Requirements	SIC PRC 8727.1
2012	CAR-1-US-521-4-339-MO-2012-1258-16844 to 32392	15,449	05/27/2016	CAR521	Maple Hill Landfill	Landfill Gas Capture/Combustion	Version 2.1	Macon	MISSOURI	US		Poseidon Resources (ChannelSide) LP	Compliance Requirements	SIC PRC 8727.1

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