



UTILITREE CARBON COMPANY

CO₂

August 23, 2002

TO: Chief Executive, Member Company
Power Partners Company Representatives

Subject: Funding Solicitation for Cost-Effective Tree Planting to Reduce CO₂ and
Support President Bush's Approach to Addressing Greenhouse Gases

The purpose of this letter is to solicit your company's participation in a new initiative ("UtiliTree II") to manage CO₂, which we believe can play an important role in the electric power industry's support of President Bush's approach to addressing greenhouse gases.

BACKGROUND

Trade groups and companies of the power generation industry have been considering how to support President Bush's approach to climate change and his Business Challenge. Many believe that substantial industry efforts are needed to make the President's program work. Failure of our industry to step forward may lead to a mandatory, national program to reduce greenhouse gas emissions. The industry is working with the Department of Energy to develop a new program (tentatively called Power Partners) and EPA has already formed its Climate Leaders program. About three dozen power generators have named formal representatives to participate in formation of the Power Partners program with DOE. Power Partners could be unveiled with the President this fall.

One approach to addressing greenhouse gases is to use trees to remove CO₂ from the atmosphere and store it in tree biomass and roots, and soils. Many companies have already undertaken tree planting and related efforts. Furthermore, the industry formed the UtiliTree Carbon Company in 1995 with funding by 40 power generators. UtiliTree has funded 10 projects to manage CO₂, primarily through tree planting, and has been recognized as one of the most successful voluntary programs (see attached poster listing the UtiliTree sponsors and projects).

NEW OPPORTUNITY - UTILITREE II

This solicitation unveils "UtiliTree II" to support President Bush's approach. Attached are letters supporting UtiliTree II from CLECO President and CEO David Eppler and from the U.S. Fish and Wildlife Service.

UtiliTree II focuses on opportunities to plant trees in the lower Mississippi River Valley (MRV). We are currently evaluating very sound opportunities to restore natural forest ecosystems on over 30,000 acres. Specific reasons why UtiliTree II is focusing on projects in this region of the country are shown in Table 1 below.

Table 1. Reasons to Undertake Tree Planting Projects in the Lower MRV

- New projects will build on the success of UtiliTree - UtiliTree is already funding seven projects in MRV and has developed knowledge of players and projects.
- We expect that these projects result in carbon benefits and cost effectiveness as good as any in the U.S.
- The lower MRV is the nation's top Federal and conservation group priority area for reforestation, due to extensive past deforestation.
- The projects involve top-notch Federal government and conservation group partners.
- Programs with the Federal government increase the chances of gaining carbon credits.
- In response to President Bush's February 14 directive, the U.S. Department of Agriculture (USDA) is taking the lead in establishing credible accounting and reporting for forest carbon projects in an improved Energy Policy Act 1605(b) system, with transferable credits.
- These particular projects are designed to negate possible problems of leakage, permanence, additionality and monitoring.
- These projects provide major secondary environmental benefits that include new habitat for waterfowl, migratory birds, songbirds, bears and other wildlife; improved water quality due to less use of fertilizers and less erosion due to cultivation; improved flood control due to trees stabilizing soil and the new ecosystem storing more water; and recreation opportunities and other esthetic improvements.
- The public holds tree planting in high regard.
- The reach of the Mississippi River extends throughout the nation beyond its cultural and economic importance. Migratory birds from many states travel through or to the MRV. The Mississippi River drains one of the largest areas in the world, touching virtually every state east of the Rocky Mountains.

We believe that there are numerous reasons why the industry should work together through UtiliTree II, as listed in Table 2 below.

Table 2. Reasons to Undertake This Work Cooperatively

- UtiliTree is a proven success.
- A successful UtiliTree II in time for announcement with the rollout of Power Partners will provide President Bush with concrete evidence of industry action. UtiliTree II is one of only three industry-wide initiatives currently available (see August 23, 2002 package from EEI President Tom Kuhn for details on the abandoned mine land and coal combustion product initiatives, which are each requesting contributions of \$5,000).
- The cooperative approach provides “pooling” or sharing of risk, compared to a company undertaking a single project and “putting all its eggs in one basket.”
- UtiliTree provides infrastructure and unification, for undertaking projects and for pursuing reasonable public policy.
- Under UtiliTree, project management and monitoring will be less resource intensive and more cost effective compared to each company undertaking management and monitoring for its own separate projects.
- Companies that have not undertaken their own projects can learn from UtiliTree’s experience.

PROGRAM DETAILS

The projects being evaluated are of two types – easements on private land and purchases of land to be donated to the National Wildlife Refuge system of the U.S. Fish and Wildlife Service (FWS), an agency of the Department of Interior.

UtiliTree II’s projects are conservatively anticipated to provide carbon benefits of more than 400 and 450 tons of CO₂ per acre by years 70 and 100, respectively. These CO₂ benefits will cost less than \$2.00 per ton.

Preliminary advice from our legal counsel suggests that UtiliTree II be established as a Limited Liability Company, which would allow carbon credits to be passed to its members and allow the company to take advantage of tax benefits of land donation.

YOUR FINANCIAL SUPPORT IS CRUCIAL TO UTILITREE II'S SUCCESS

UtiliTree II is aiming for a core budget of \$5 million to be significant and pass public scrutiny. The target is set high because we believe UtiliTree II must exceed the levels of past efforts – UtiliTree's \$3 million effort and the multi-million dollar efforts in the MRV of several individual companies. UtiliTree II will fund projects in accordance with the funding commitments received in response to this solicitation and \$5 million would support a diverse portfolio of project opportunities.

Commitments can be spread over 5 years and a minimum commitment will be a total of \$50,000. A commitment of \$100,000 will assure your company a seat on the Board of Directors. We encourage all companies to participate at the Board of Directors level, which is only \$20,000 per year for 5 years.

Attached is a commitment form for your company to complete to support UtiliTree II. We request a response by September 30. This timing will allow the initiative to be solidified before rollout of Power Partners with the President. This timing allows companies to incorporate financial commitments in 2003 budgeting and considers the fact that exclusive rights to specific projects being considered expire at the end of October.

In closing, your support for this initiative is crucial to enable a positive rollout of Power Partners; allow the industry to gain some positive media exposure; and support the President's call to action.

If you have any questions or comments, please contact UtiliTree's Administrator, John Kinsman of the Edison Electric Institute (202/508-5711 or jkinsman@eei.org).

Sincerely yours,

Gary Kaster

Eric Kuhn

Irene Norris

Chairman
American Electric Power

Vice-chair
Cinergy

Chair, Project Management Team
Cleco Corporation

Attachments (4)

cc: UtiliTree Carbon Company Representatives
EEI Environmental Executive Advisory Committee
EEI Global Climate Change Subcommittee
EEI Washington Representatives