Decision **PROPOSED DECISION OF ALJ THOMAS** **(Mailed 10/31/2006)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Establish a Demonstration Climate Protection Program and Tariff Option. (U 39 M)	Application 06-01-012 (Filed January 24, 2006)

DECISION GRANTING APPLICATION WITH MODIFICATIONS

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DECISION GRANTING APPLICATION WITH MODIFICATIONS

I. Summary

Pacific Gas and Electric (PG&E) demonstrates strong environmental leadership by being the first utility in the nation to offer its customers a means to offset their greenhouse gas (GHG) emissions. This proposal is a very important step in developing awareness of the causes of global warming and creating a sustainable and credible emissions offset program.

This decision grants, in part, PG&E's application for approval of a voluntary program, the Climate Protection Tariff (CPT). PG&E customers can elect to pay a monthly premium to offset the GHG emissions associated with their electricity usage through the CPT. This program will also allow PG&E to gain valuable experience in contracting for offsets on behalf of its customers, experience that is particularly relevant given the recent adoption of the California Global Warming Solutions Act of 2006 (Assembly Bill [AB] 32). We approve PG&E's application, subject to the following modifications:

- **Administrative and Marketing (A&M) Costs Borne in Part by Program Participants.** Customers who subscribe to the CPT shall pay half of the A&M costs associated with the programs.
- **Performance Guarantee.** PG&E's shareholders shall guarantee that the program results in 75% of the GHG emissions reductions estimated in the application. Thus, if the funds collected from customers who participate in the CPT are insufficient to purchase 75% of the emissions reductions PG&E estimates, PG&E's shareholders shall make up the difference.
- **Ratemaking changes.** We adopt some of the ratemaking changes suggested by parties to this proceeding other than PG&E.

- **Tax deductibility of CPT premiums.** We require PG&E to take specific steps to determine whether CPT customers may deduct their CPT premiums as charitable contributions on taxes returns, report on what it finds out, and, if PG&E receives positive information, implement tax deductibility.

We also adopt several proposals PG&E made in its application, at hearing, or in post-hearing briefs:

- **Retirement of GHG reductions.** GHG reductions attained through the CPT program shall be "retired," – *i.e.*, not used to meet other emissions reduction obligations or commitments, be they mandatory or voluntary.
- **Marketing Content.** PG&E shall coordinate with the Commission and the External Advisory Group (EAG; *see* below) on marketing its program to ensure that California consumers are educated about the risks of global warming and how they can make a difference.
- **Reporting and Information Sharing.** PG&E shall report program results to the Commission and be available to share information with other stakeholders interested in similar programs.
- **Membership and Role of the EAG.** The EAG, which will advise PG&E on aspects of the CPT program, shall include slots for additional members. We do not give the EAG decision making authority over the CPT program, but PG&E shall respond to EAG input and give it a role in marketing the program.
- **Role of California Climate Action Registry (CCAR or Registry).** PG&E may use $900,000 of its A&M budget to fund further protocol development by CCAR. PG&E shall ensure this funding is refundable if CCAR ceases to operate or have responsibility for certifying GHG reductions.
- **Types of Projects Funded.** PG&E shall start with forestry projects, but may fund other CCAR-certified GHG

reductions projects (with conditions) as the CPT program matures.

II. Procedural History

PG&E filed its application on January 24, 2006. Aglet Consumer Alliance (Aglet), the City and County of San Francisco (CCSF), the Commission's Division of Ratepayer Advocates (DRA), and The Utility Reform Network (TURN) each filed protests or responses to the application and participated actively in the proceeding. The Agricultural Energy Consumers' Association (AECA) also filed testimony and participated in the hearings. This case is categorized as ratesetting and hearings were necessary. The case went to hearing during June 2006, and parties submitted post-hearing briefs in July 2006.

III. The Application

PG&E asks the Commission to adopt the CPT, a voluntary program available initially over a three-year period to interested PG&E customers. Customers choosing to purchase service from the tariff will pay an extra amount – approximately $4.31 a month ($51.72 per year) for the typical residential customer – on their monthly energy bill. PG&E will use the funds it collects in CPT premiums to contract for new California-based projects that mitigate GHG emissions in an amount roughly similar the GHG emissions associated with the average consumer's electricity use. The program will not mitigate GHG emissions associated with other activities in an average customer's life, such as driving or flying. PG&E's initial program is an offset program and will fund projects that counterbalance the emissions of GHGs by other sources. The program does not involve direct emission reductions by PG&E or its customers, but rather reductions that can occur through planting, conserving or managing forests. These efforts can increase the amount of GHG emissions absorbed from the atmosphere.

At first, PG&E intends to use customer premiums to fund contracts for projects in the forestry sector. This is because CCAR, established by California statute as a non-profit voluntary registry for GHG emissions, has already developed a "protocol" – essentially, rules of the game – for certifying forestry offset projects intended to reduce GHG emissions. The CCAR forest protocol, available at http://www.climateregistry.org/PROTOCOLS/, explains how forests can have an impact on global warming:

> Forests have the capacity to both emit and sequester carbon dioxide, a lead [GHG] that contributes to climate change. Trees, through the process of photosynthesis, naturally absorb CO2 [carbon dioxide] from the atmosphere and store the gas as carbon in its biomass, *i.e.,* trunk (bole), leaves, branches, and roots. Carbon is also stored in the soils that support the forest . . ., as well as the understory plants and litter on the forest floor. When trees are disturbed, through events like fire, disease or harvest, they emit their stored carbon as CO2 into the atmosphere.[1]

Forests absorb carbon dioxide (CO2) from the air, a process referred to as "forest sequestration."

In an attempt to conserve and increase forest cover, and reduce GHG emissions, CCAR's forest protocol facilitates three types of projects:

- **Conservation-based Forest Management Projects:** Forest projects that are based on the commercial or noncommercial harvest and regeneration of native trees and that employ natural forest management practices,
- **Reforestation Projects:** Forest projects that are based on the restoration of native tree cover on lands that were previously forested, but have been out of tree cover for a minimum of ten years, and

[1] CCAR's Forest Sector Protocol is Exhibit 7 in the hearing record of this proceeding.

- **Conservation Projects:** Forest projects that are based on specific actions to prevent the conversion of native forests to a non-forest use, such as agriculture or other commercial development.

Under PG&E's proposal, it will use the premiums it collects to pay for forest management, reforestation and/or forest conservation projects certified by CCAR. All contracts PG&E will enter into will be for new, California-based projects. In the future, PG&E may diversify its program to fund additional (non-forest-based) projects that reduce GHG emissions, as CCAR develops protocols for such projects.

PG&E plans to use 100 percent of the CPT premiums to invest in GHG reduction projects, and to purchase enough GHG reductions to make enrolled customers' electricity and gas consumption "climate neutral" or better. PG&E also plans to permanently retire all certified GHG emission reductions procured by the CPT. Thus, no retired reduction could be sold or used by PG&E to meet an existing or future mandated emission standard or emission reduction requirement. PG&E expects the CPT program will cumulatively result in GHG reductions of about 2 million tons of CO_2 by the end of the three–year pilot, which is equivalent to taking about 350,000 cars off the road for one year.

In order to invest 100 percent of the CPT premiums in GHG reductions, PG&E proposes to allocate the program's A&M costs – $16.4 million over four years (the first year start-up in 2006, plus three years of program operation for 2007-2009) – across all PG&E customers (and not only those who sign up for the voluntary CPT program). PG&E estimates that this will raise each typical residential customer's bill by 2 to 4 cents a month.

A portion of these administrative costs will fund a $900,000 payment by PG&E to CCAR, to cover costs associated with its assistance with the

CPT program and help support the development of additional GHG reduction protocols. According to PG&E, the Registry has committed to developing a total of four new protocols over the next three years. Future CPT projects could include: manure management projects to reduce methane emissions, port and truck-stop electrification projects, cement production process improvement projects, landfill methane capture projects, aggregation of small projects in low-income communities (*e.g.*, replacing school buses or boilers), municipal projects such as urban forestry, and possibly an alternative fuels protocol. As new protocols are developed, PG&E plans to invest some of the CPT premiums it collects in projects outside the forestry sector.

PG&E proposes to form an EAG that includes representatives from various stakeholder communities. The EAG will advise PG&E on the criteria for selecting forestry projects and marketing of the program. PG&E envisions the EAG's membership to include such representatives as: residential customers, large businesses, small businesses, non-profits, environmental groups, environmental justice groups, local governments and state environmental agencies. During the hearings, PG&E was asked to add seats for representatives of agriculture and the Commission, and PG&E agreed.

IV. Protests

The key areas of parties' disagreement with PG&E's application are the following:

- **A&M costs.** Whether the $16.4 million in A&M costs that PG&E wishes to allocate to all ratepayers should instead be borne by PG&E shareholders and/or the participants in the program.
- **Performance targets.** Whether PG&E shareholders should be required to guarantee a certain level of emission reductions.

- **Tax deductibility.** Whether PG&E should pursue tax deductibility of premiums.
- **Composition and authority of the EAG.** Whether the EAG should have decision making authority over the program, or, as PG&E has agreed, include new member slots representing new viewpoints (*e.g.*, agriculture).
- **Types of emission reductions purchased.** Whether the program should include only forestry programs (in which PG&E would use program premiums to contract with third parties to plant, conserve or manage forests, which sequester GHGs), or be expanded to other GHG reduction methods, such as manure management.
- **Role of and funding to CCAR.** Whether PG&E should allocate more than its proposed $900,000 in ratepayer dollars to CCAR to develop new emissions reduction protocols, and whether this expenditure gives PG&E undue influence in CCAR's processes.
- **Marketing content and materials.** Whether the Commission and others should have input into the marketing of the program to customers, and whether the marketing campaign should use recycled materials.
- **Miscellaneous ratemaking issues.**
  - Disposition of the interest rate on amounts collected from customers and not yet spent on emission reduction projects.
  - Credit to ratepayers of tax benefits created by retirement of GHG reductions.
  - How A&M costs should be allocated to retail rate classes.
- **Overall program structure.** Finally, TURN advocates a different program structure altogether. It asserts that PG&E's application is lacking in detail, and that the market for forest projects is too uncertain at this time. Thus, TURN proposes that the Commission allocate PG&E a certain amount of ratepayer funding to directly purchase

> emissions reductions. In this way, PG&E would avoid incurring A&M costs because it would not need to sign up customers for its program. It would simply buy the reductions itself.

We discuss – and where appropriate, adopt – these proposed modifications below.

V. A&M Costs

1. Parties' Positions – A&M Costs

PG&E proposes to spend $16.4 million in A&M over 4 years, while PG&E projects program revenues of $20.3 million (lower end) to $29.8 million (high end). PG&E's A&M budget breaks down as follows:

Cost Category	2006	2007	2008	2009	Total
Program administration	$700,000	$1,370,000	$1,120,000	$1,070,000	$4,260,000
Marketing	$600,000	$2,400,000	$4,000,000	$5,000,000	$12,000,000
Total Budget	$1,300,000	$3,770,000	$5,120,000	$6,070,000	$16,260,000[2]

PG&E arrived at its $12 million marketing budget by calculating how many customers it believes it can attract to the program, and assigning a dollar value to acquire each customer. PG&E terms this its "acquisition cost methodology." PG&E decided that for its program to be in the "Top Ten" of "green power" programs across the United States, as reported by National Renewable Energy Laboratory studies,[3] it must achieve a 4-5% participation rate

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[2] The difference between this total and $16.4 million is attributable to franchise fees and uncollectibles.

[3] PG&E's program is not technically a "green power" program. CPT premiums will purchase emissions reductions from reforestation, not clean/green power such as wind or solar.

among its customers. It then assumes that it will cost a certain amount to acquire each new customer, based on the experience of other programs, and multiplies the two numbers together to come up with its marketing budget.

PG&E's assumptions about the costs to acquire customers are as follows:[4]

	Year 1	**Year 2**	**Year 3**
Low	$35	$35	$35
Medium	$60	$54	$48
High	$85	$75	$65

Parties principally challenge the amount of A&M costs, the "acquisition cost" methodology, and PG&E's proposal to have all ratepayers pay the costs, rather than charging them to program participants or PG&E shareholders. DRA, for example, questions whether PG&E can truly call its program voluntary if ratepayers as a whole are bearing – without choosing to – the A&M costs of the program. DRA contends that PG&E's shareholders are benefiting from the program, and therefore should bear some of the costs. DRA notes that PG&E's goal of signing up 4.4% of its customers is a "stretch goal" according to PG&E's own testimony, and that if only 3.2% sign up, PG&E will incur more in A&M costs ($16.4 million) than premiums/emissions reductions ($14.5 million).

TURN believes the methodology PG&E uses to develop the revenue requirements for marketing ($12 million) is inconsistent with the traditional budgeting approach used for other general rate case (GRC) revenue requirements. Second, TURN claims, the total budget is excessive relative to

[4] PG&E Exhibit 1, at 3-21.

other comparable voluntary programs. Third, the level of the total budget is excessive relative to the level of CPT premium revenues and GHG reduction commitments expected during the relevant timeframe. Thus, TURN agrees with DRA that CPT program participants should pay any A&M costs not covered by PG&E shareholders. It also contends PG&E's marketing costs are too high.

CCSF asserts that the portion of PG&E's A&M budget devoted to marketing – $12 million – is too high. CCSF questions the credentials of PG&E's marketing expert and asserts that the budget therefore lacks detail. CCSF also asks that PG&E redirect some of its A&M budget to CCAR. Rather than contributing $900,000 to CCAR's budget, CCSF asks that PG&E devote additional CPT revenue to CCAR. CCSF is concerned that without additional funding, CCAR's efforts to develop new protocols – including protocols in areas the CCSF favors – will be "derailed."

Aglet asserts that "paying $16.4 million of administrative and marketing costs to achieve $20.3 million to $29.8 million of voluntary revenues seems to be a high price. Charitable organizations and professional fundraisers have lower administrative and marketing costs, relative to net income."[5] Aglet proposes assigning one half of A&M costs to PG&E's shareholders.

2. Discussion – A&M Costs

A. Demonstration Project

We agree that PG&E's A&M expenses are out of proportion to the revenues it will generate from customers who opt for the CPT. PG&E's customer acquisition methodology is lacking in detail and contains many assumptions that may not come to pass.

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[5] Aglet amended opening brief at 2.

However, we also agree with PG&E that this program is a demonstration program, intended to test the waters and determine the availability of forestry and other GHG reduction contracts, and customer willingness to pay extra for climate neutrality. Thus, it may not be possible to hold this project to strict cost-effectiveness rules, to determine how much of PG&E's budget is reasonable, or to predict how many customers PG&E will attract until PG&E has some experience with the program. Furthermore, expertise in the area of GHG reductions will be necessary and useful for all utilities in the near future given the adoption of AB 32.

We agree, therefore, with PG&E's basic concept that as a demonstration project, the CPT should be small in scope and utilize regular reporting as a check on how the program is working and the reasonableness of its expenses. We also condition our approval of the application on several "accountability" measures to ensure funding is spent wisely.

B. CPT Customers to Pay Half of A&M Expenses

There must be a limit, however, on how much ratepayer funding PG&E can use to test its assumptions and demonstrate the viability of its strategy. It is therefore appropriate for customers who subscribe to the CPT to pay a portion of the expenses of the program. As voluntary and mandatory efforts to reduce global warming become more prevalent in California, we believe it is important that customers receive accurate information about how much these programs cost. Customers who purchase the CPT should understand that it costs more for them to make themselves climate neutral than the $4.71 that they are paying in CPT premiums. We believe the success of future programs in this area requires full disclosure to customers and other ratepayers of the actual cost of reducing global warming. If future programs cost more than

$4.71 per customer, for example, customers may be upset that the programs seem too expensive compared to the CPT.

At the same time, we acknowledge that the program will provide benefits to all ratepayers. As California implements a statewide load based cap on greenhouse gas emissions as mandated by AB 32, the CPT will allow PG&E to gain valuable information and experience in understanding the market for offsets and the costs and benefits of using offsets as a risk mitigation tool. In addition, if structured properly, marketing of the CPT will educate ratepayers about global warming and changes necessary in a carbon-constrained future.

The increase in cost to CPT customers of bearing the program's A&M costs will be mitigated somewhat if PG&E achieves tax deductible status for the program, as we discuss below. Assuming, as PG&E does, that most CPT participants will be high income persons who itemize their deductions, the reduction in premium cost due to tax deductibility could be 30-40%. This reduction will help offset the increase in premiums attributable to CPT customers bearing A&M costs.

Further, having CPT customers bear more of the costs of the program sends the right cost signals to PG&E. PG&E is very excited about the CPT, and wants to see it succeed as a "top performing program." Such motivation, while laudable, could cause marketing costs to be very high. PG&E's knowledge that it must conduct its marketing in a way that controls expenses – and thus reduces the monthly amount CPT customers pay in A&M costs – will serve as an incentive for the utility to control marketing costs. Charging all program expenses to ratepayers as a whole, on the other hand, could eliminate any incentive by PG&E to control its marketing costs. In a new program such as the CPT, with a budget lacking in detail and few precedents for the "acquisition cost" marketing strategy, we believe it is important for PG&E to have an incentive to control its expenses.

C. Shareholder Contribution Not Required, But Strongly Encouraged

We are not prepared to require PG&E at this juncture to have its shareholders bear the A&M costs. We do agree with several of the parties that a successful anti-global warming program would bring PG&E goodwill, especially in the current environment where such programs are front page news.[6] PG&E also provided precedent for shareholder funding of other programs, such as its

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[6] Aglet cites a number of reasons it contends shareholders will benefit from the CPT. PG&E highlights its leadership role in energy efficiency programs and procurement of renewable energy; leadership leads to goodwill benefits. PG&E is proud of its contributions to environmental causes. In a customer survey about the CPT, more customers than not said their opinions of PG&E would improve as a result of the program. PG&E states that "the utility will be known for supporting preferred public policies" and "perhaps there is some difficult to quantify shareholder benefit from early action by pro-active companies such as PG&E." PG&E has an "ambitious vision … to be the leading utility in the United States." Achievement of that vision includes commitment to the environment and "funding for a number of 'beyond compliance' activities, chief among them [being] those efforts intended to address the very serious global issue of climate change." (Citations omitted; *see* Aglet amended opening brief at 11.)

Solar Schools and REACH programs.[7] However, we believe the program should in large part fund itself, and therefore that it is appropriate for its customers to pay its costs.

By the same token, there are certain educational benefits to ratepayers as a whole from learning about global warming and efforts to curtail its ill effects. For that reason we allocate half the expenses to ratepayers at large, with the understanding – already agreed to by PG&E – that the Commission will have input into the program's marketing plan to ensure the marketing achieve this ratepayer-oriented goal.

Of course, nothing in this decision prohibits PG&E from using shareholder funding to bear costs of the program, and we strongly encourage PG&E to consider such funding here. We do not find that PG&E's arguments

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[7] PG&E's Solar Schools program funds solar energy installations in underfunded schools, as well as teacher science training and grants for solar science projects. Under the REACH program, PG&E partners with the Salvation Army to provide financial assistance to low-income customers. PG&E's shareholders fund the A&M costs, while PG&E's customers make tax deductible donations to the program on their utility bills. TURN cited several other shareholder-funded utility projects:

> PG&E has also provided shareholder contributions to support conferences held by CCAR. Additionally, PG&E shareholders pay for a variety of company activities including political donations and all costs associated with fighting municipalization efforts. Other utilities in California have made shareholder contributions to support demonstration programs. For example, San Diego Gas & Electric spent "several million dollars of shareholder money" on a pilot project to test broadband over power lines. (TURN opening brief at 36.)

Aglet notes another shareholder-funded PG&E program. In D.00-02-046, 4 CPUC3d 315, 473-75, the Commission denied PG&E's request for rate recovery of business retention and attraction expenses. PG&E continued program activities despite lack of rate support. Ratepayers have not paid for PG&E's customer retention efforts since before 1999, if at all. (Aglet amended opening brief at 13.)

against shareholder funding have merit. PG&E states that shareholders never pay the costs of its public purpose programs, such as its energy efficiency program or its low income programs such as California Alternative Rates for Energy (CARE) and Low Income Energy Efficiency (LIEE). However, the public purpose programs are not voluntary programs such as PG&E's proposed CPT. Rather, we require PG&E to spend hundreds of millions of ratepayer dollars on energy efficiency and CARE, and give PG&E significant financial incentives to compensate it for lost revenue from lower energy use attributable from energy efficiency. These mandatory programs are far different from a voluntary program where PG&E makes the rules. If PG&E wants to design its own program, it is reasonable for PG&E to make a contribution to the program's success.

Indeed, as Aglet points out, PG&E's own marketing study conducted to test customer willingness to buy the CPT found that more than 60% of PG&E customers say they would be more likely to sign up for the voluntary rate premium if "PG&E would contribute some of its own shareholders' profits to the fund."[8] PG&E may have greater success with the program and gain a great deal of public goodwill if it demonstrates its commitment to its own program by making this shareholder contribution.

VI. Performance Guarantees

1. Parties' Positions

PG&E proposes to use CPT premiums to purchase contracts for GHG reductions, first in the forestry sector and later in other areas. While PG&E projects that it will be able to purchase a certain number of tons of emissions

[8] Exhibit 3, Appendix A-1, p. 23.

reductions, and a certain dollar value of forestry contracts, these projections depend on PG&E obtaining projected numbers of CPT customers. The fewer customers PG&E attracts, the lower will be its program revenues, and the fewer the number of GHG emissions reductions for which PG&E can contract.

The parties ask for two competing performance guarantees if the program is not as successful as PG&E projects.

A. PG&E's Backstop Funding Proposal

First, PG&E seeks ratepayer guarantees in case its projections of how much it will have to pay per ton of GHG emission reductions changes. PG&E assumes that reductions will cost $9.71 per ton. Several parties challenge this number (as too high), and PG&E acknowledges that there are price risks inherent in procurement of GHG reductions in a relatively nascent market. While PG&E anticipates that the costs of sequestration projects are likely to remain stable throughout the program's demonstration period, unforeseen circumstances could change that situation, forcing PG&E to look for other, less costly, GHG reductions to meet the "climate neutral" pledge to its customers. There is an outside chance that the GHG marketplace could change so radically as to make meeting the pledge impossible at the specified premium (*i.e.*, program costs could outstrip the premiums for the program). PG&E therefore states that it "should be adequately protected, and not punished, for its willingness to assist in the development of the nascent GHG reduction market in the face of the above, admitted, uncertainties."[9]

Under PG&E's proposal, if the present value of the cost of commitments made or still required for "climate neutrality" under the GHG reduction contracts exceeds the revenues collected from CPT customers at the end of three years of program operation, PG&E will charge the difference between the cost of its contractual commitments and CPT revenues to existing balancing accounts.[10] Ratepayers would essentially guarantee PG&E against any program losses.

No party supports PG&E's proposed backstop mechanism.

B. Parties' Minimum GHG Reduction Proposal

The second proposed performance guarantee comes from parties seeking changes in PG&E's program. They ask for PG&E's shareholders to ensure that the program results in a certain threshold of GHG reductions, in order to justify the expense ratepayers will incur in A&M costs. CCSF, for example, proposes that PG&E's CPT program be required to purchase a minimum of 1.7 million tons of CO2 reductions by the end of the three-year demonstration period, and if CPT premiums are inadequate to meet this goal, that PG&E shareholders purchase the difference.

TURN supports CCSF's proposal, noting that "PG&E's failure to offer any accountability measures, combined with speculative GHG reduction cost estimates and aggressive participation rates, creates the real risk that nonparticipant ratepayers will be forced to pay for a program that does not achieve the advertised results." TURN states that, "If PG&E chooses to offer the promise of climate neutrality but fails to procure GHG reductions at expected

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[9] PG&E opening brief at 47.

[10] PG&E Exhibit 1, at 5-3.

prices, the risk of that failure should fall on PG&E shareholders and program participants."[11]

PG&E opposes the parties' minimum GHG reductions proposal.

2. Discussion

We reject PG&E's backstop funding proposal that would have ratepayers guarantee any shortfall resulting from PG&E's contracts for emissions reductions. We adopt, in part, the parties' proposal for a requirement that PG&E procure a minimum amount of GHG reductions as a result of the costs it will incur to run the program.

A. PG&E's Backstop Funding Proposal

PG&E's backstop funding proposal is inconsistent with its testimony elsewhere in the record. PG&E's witness San Martin stipulated that PG&E would enter into contracts only as revenues were collected from participants.[12] While PG&E attempts in briefs to explain why it still would incur contracting risk, we fail to see how this could happen if PG&E contracts only with revenue it has already collected.

DRA provides some insight into how PG&E could incur contract risk even if it did not sign GHG reduction contracts before collecting program premiums:

> DRA agrees with PG&E that risks remain even if PG&E funds contracts only as revenues are collected from participants, and even if the contracting party is paid every year based on that year's performance. For example, fire is an inherent and acknowledged risk of

[11] TURN opening brief at 21.

[12] PG&E opening brief at 46.

> forestry programs. If in the future a fire destroys a forest and the contractor is unable to perform under the agreement, it is possible that that cost of procuring offsets at that time will exceed available revenues.[13]

We do not believe PG&E has adequately justified why ratepayers should bear this risk, especially for a voluntary program. If anything, the evidence shows that PG&E's $9.71 per ton of GHG reductions is too high, rather than too low. PG&E based its $9.71 per ton value on a report used in the Commission's "Avoided Cost" proceeding, Rulemaking 04-04-025. However, that report adopts an $8 per ton figure. Thus, if anything, PG&E will be able to contract for greater GHG reductions than it assumes, since the per-ton cost will be lower than PG&E's $9.71 figure.

Further, as we discuss above, the program expenses are very high in relation to the revenues the CPT will generate ($16.4 million in costs as compared to $20-$30 million in revenues). We are not requiring PG&E to guarantee that its demonstration program is cost effective – and with the cost/revenue ratio PG&E proposes, it could never meet such a test.[14] Thus, it is unreasonable in addition to allowing PG&E to proceed with a very expensive – if meritorious – program, to make ratepayers liable for an unspecified amount in the future. Rather, PG&E should be prudent in contracting, and use the reporting mechanism to keep the Commission informed if the company encounters difficulties.

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[13] DRA reply brief at 10.

[14] Indeed, Aglet concedes that it "does not believe that rigorous cost effectiveness testing should be required for what PG&E admits is a demonstration program." (Aglet opening comments at 4.) At the same time, Aglet proposes some accountability in the program design, which we require elsewhere in this decision.

B. Parties' Minimum GHG Reduction Proposal

We adopt CCSF's minimum GHG reduction proposal in part. Ratepayers – whether they be the customers who voluntarily elect to purchase the CPT, or ratepayers in general, who will bear half the A&M costs – should be assured a minimum number of tons of GHG reductions in light of the cost of the program.

CCSF proposes that PG&E guarantee a minimum of 1.7 million tons of GHG reductions. PG&E projects a total three year CO2 emission reduction of 2 million tons. This number assumes growing rates of participation over the three years of program operation.[15]

A fair guarantee is 75% of PG&E's proposed reductions. Thus, we find that PG&E should guarantee 1.5 million (75% of 2 million) tons of CO2 equivalent reductions[16] over the three years of program operation. If PG&E is unable to procure this level of reductions from CPT premiums, it shall use other, non-ratepayer funding to purchase offsets to reach the 1.5 million ton level.

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[15] For example, PG&E projects that in the first year, assuming a weighted average customer enrollment of 0.4%, approximately $1.5 million in revenues would be available for the CPT to invest in forest sequestration projects. At $9.71 per ton of CO2, the program would achieve CO2 emission reductions in the first year of approximately 155,000 tons. In year three, PG&E projects 1.21 million tons of emissions reduction (assuming a 3.3% weighted average enrollment rate, revenues of $11.7 million from CPT premiums, and $9.71 per ton of reductions).

[16] Some greenhouse gases create far more global warming than CO2. However, to calculate the impact of emissions reductions of the other gases (methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride), one uses CO2 as a baseline. Thus, reductions in methane and the other greenhouse gases can be translated to CO2 equivalent so that reductions in the different gases can be compared.

PG&E need not use shareholder funding for these reductions. For example, PG&E may ensure a significant level of GHG reductions by signing its own facilities up for the CPT program, making itself climate neutral (under the terms of the CPT) and contributing large GHG reductions, and revenues, to the program. In addition, TURN proposes a modification of PG&E's program (which we reject in this decision for lack of a record) that may provide a method for PG&E to procure GHG reductions with less expense than PG&E assumes. TURN's program is essentially an offset-only program, in which PG&E would use ratepayer dollars to procure the same 2 million tons of GHG reductions, but would purchase them directly. PG&E would not incur the expense of acquiring customers, reducing the program's overhead.

If PG&E were to find during the three year demonstration program that acquiring customers was far more expensive or difficult than projected, it might seek, by application, a modification of its program. We would allow PG&E at that time to propose other means of meeting the 1.5 million tons of GHG reduction targets in its application or the minimum we require here. One such means would be through direct purchase of reductions. We would have to know the specifics of PG&E's proposal at that time, and it could not duplicate other, mandated programs. However, PG&E may be able to meet the minimum by redirecting unspent A&M dollars.

VII. Ratemaking Changes

The parties suggest several ratemaking changes. They involve 1) the interest rate on funds collected from the CPT, 2) credit to ratepayers for any tax benefits created by the retirement of GHG reductions, and 3) allocation of A&M

costs to non-participating ratepayers on an equal cents per unit of energy basis.[17] We adopt the first two proposed changes.

1. Interest Rate on Funds Collected from the CPT

A. Parties' Positions

DRA, TURN and Aglet propose that CPT premiums collected but not yet spent earn interest not at the three-month commercial paper rate, as is Commission practice for balancing accounts, but at PG&E's cost of capital, a higher rate. The reasoning for this proposal is that the "Climate Protection Balancing Account" (CPBA) in which PG&E proposes to hold CPT revenues collected but not yet spent will be overcollected for most of its life, at a projected balance of approximately $20 million.

PG&E opposes cost of capital treatment because PG&E does not receive that same, higher, interest rate in accounts that are undercollected.[18] PG&E believes this lack of reciprocity renders the proposal unfair.

B. Discussion

This program is unique in that revenues collected may be spent far into the future on long-term contractual commitments. Under this scenario, millions of dollars collected today might not be spent for 10 or 20 years, as

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[17] We reject certain ratemaking adjustments proposed by the parties because PG&E never proposed the ratemaking steps the parties oppose. *See, e.g.,* PG&E reply brief at 33 (PG&E does not propose debt equivalence for GHG contracts, so TURN's concern is unfounded); *see id*. at 35 (PG&E commits that it will not seek attrition adjustments during the 2007 GRC test years, as Aglet has suggested). We therefore adopt these commitments by PG&E in this decision.

[18] *See, e.g.,* D.05-09-007, *mimeo.,* p. 15 (Overcollections owed to ratepayers for multiple years should have interest at the three-month commercial paper rate).

long-term contractual obligations come due. Using a short-term (3 month) interest rate for such funds undercompensates ratepayers for PG&E's use of money in the interim period. Thus, we agree that it is more appropriate to use a long-term interest rate such as the cost of capital as a means of reimbursing ratepayers for PG&E's of the funds between the time they are collected and they time they are used to meet contractual commitments.

2. Credit to Ratepayers for Tax Benefits from GHG Retirements

A. Parties' Positions

TURN surmises that GHG reductions could be treated as a deductible expense on PG&E's returns under federal and state tax rules. PG&E's witness was unsure whether the reductions would generate deductions, but agreed that it would be appropriate for PG&E to credit ratepayers with any tax benefits.[19] PG&E agrees in its brief with TURN's recommendation, as long as ratepayers are paying for the A&M costs of the program:

> PG&E recommends … that the Commission also: … Include an ordering paragraph that if there are any tax benefits to PG&E as a result of the CPT's retired certified emissions or other benefits, that the value of these will be allocated to all customers if all customers are funding the CPT's administrative and marketing costs[.][20]

B. Discussion

We agree that to the extent ratepayers are bearing the A&M costs of the program, they should receive the tax benefits, if any, that PG&E claims on its

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[19] RT Vol. 3, page 481, Luboff.

[20] PG&E reply brief at vii.

tax returns for GHG reductions. This rule should apply whether it is CPT customers, or ratepayers at large, or both, that bear the A&M costs. The credit should be proportional to the amount of A&M costs each group bears. If ratepayers as a whole pay 50% of the A&M costs, and CPT customers pay 50%, PG&E should allocate tax savings to both groups equally.

3. Basis for Allocation of A&M Costs to Non-Participating Ratepayers

A. Parties' Positions

TURN, DRA and Aglet propose that to the extent ratepayers as a whole pay A&M costs, these costs be charged to ratepayers on an equal cents per unit of energy basis (rather than billing the costs to ratepayers based on the percentages of PG&E's revenues they pay). PG&E objects, explaining that how costs are allocated across ratepayer groups is a complicated formula litigated in GRCs. PG&E notes that "equal cents allocation" is not used for energy efficiency costs, and asserts it should not be used here either. PG&E also anticipates that 90% of CPT customers will be residential, but will bear only 48% of A&M costs based on a revenue allocation formula drawn from PG&E's GRC.

B. Discussion

PG&E's program is primarily designed as a residential program. Therefore, we are satisfied that residential ratepayers will not bear a disproportional cost burden under the revenue allocation formula from PG&E's GRC (which will allocate 48% of A&M costs to residential ratepayers).

VIII. Retirement of GHG Reductions

PG&E pledges to "permanently retire all certified GHG reductions procured by the CPT. No retired reduction will be used to meet an existing or future *mandated* emission standard or emission reduction requirement. Neither

PG&E nor its enrolled customers will sell certified CPT-funded GHG reductions."[21]

We make the foregoing pledge a requirement of PG&E's program. However, we do not believe emissions reductions should be double counted for any purpose. Thus, whether PG&E or its customers (via a PG&E program) obtain GHG emissions reductions from a mandatory or voluntary program, all reductions shall be retired. PG&E may use no reduction from the CPT program to meet any mandatory GHG reduction requirements or voluntary GHG reduction commitments.

IX. Marketing Content

1. Parties' Positions

CCSF is concerned about PG&E's marketing plan and the qualifications of its marketing expert, seeks more Commission and/or EAG involvement in marketing the CPT, and asks that marketing materials be printed using recycled products. CCSF asks that the Commission make a fully detailed marketing plan a requirement for approval of the application.

PG&E intends to develop a very detailed marketing plan after Commission approval of the CPT and prior to launching the marketing campaign. PG&E has no objection to an ordering paragraph that provides a means for Commission staff to review the detailed marketing plan before the program is rolled out to customers. That marketing plan will also be shared with the EAG for its advice and input. PG&E requests that the review be coordinated in a manner that permits keeping the program on track for launch within the first

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[21] PG&E Exhibit 1, at 1-6 (emphasis added).

quarter of 2007, and that approval of the application not be held up for this purpose.[22]

[22] PG&E reply brief at 28.

2. Discussion

We are satisfied with PG&E's commitment to develop a detailed marketing plan, share it with the Commission staff and members of the EAG before the program gets underway, and take input from staff and the EAG on positive changes to the plan. The Commission is most interested that the marketing plan communicate the problem of global warming to customers in a fact-based way, and educate customers on how to reduce global warming.

We also agree with CCSF that PG&E should to the maximum extent possible use recycled materials in its marketing campaign.

X. Tax Deductibility of CPT Premiums

1. Parties' Positions

Several parties, including DRA and TURN, propose that PG&E explore whether customers buying the CPT may deduct the premiums they pay as charitable contributions on their federal or state tax returns. DRA and TURN furnish many examples of green energy programs that allow deductibility. Because charitable contributions must be made via a tax exempt, 501(c)(3) organization, they also note that PG&E has experience partnering with such organizations, and that it should do so here to facilitate tax deductibility. DRA and TURN note that if PG&E is concerned about maintaining low CPT premiums, it makes sense to try to reduce to real price paid by customers by offering tax deductibility to those who itemize deductions.

PG&E agrees that "tax deductibility, if instituted for residential ratepayers, would reduce the net cost to participants, assuming they itemize their income taxes."[23] PG&E is also willing to partner with other organizations to facilitate deductibility, noting that it partners with existing long-established entities such as the Salvation Army to promote low-income programs and with municipalities to promote energy efficiency programs.[24]

PG&E's concern is that exploring deductibility will delay implementation of its program. Nonetheless, it is willing to investigate tax deductibility for residential customers "once actual customers have enrolled in the program in order to determine the value of tax deducibility to actual customers."[25]

2. Discussion

Since PG&E does not object to partnering with a 501(c)(3) organization or to investigating tax deductibility, we adopt a requirement that it investigate the feasibility of both. We believe PG&E should commence the investigation immediately, rather than waiting until it has customers and can survey them. At a minimum, it should 1) ask for guidance from the Internal Revenue Service and California Franchise Tax Board, 2) analyze whether it can accommodate deductibility through an existing charitable foundation within PG&E, and 3) if it prefers an outside partnership, discuss such a partnership with a number of third party charitable organizations. PG&E shall report to the Commission on the results of its efforts no later than March 1, 2007.

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[23] PG&E reply brief at 57.

[24] *Id*. at 25-26.

[25] *Id*. at 27.

XI. Reporting and Information Sharing

PG&E proposes to report on its progress periodically. No party disagrees with the proposed reporting, and we adopt PG&E's approach, as set forth below. We also aware of other utilities that may be planning GHG reduction programs, and there may be other persons or entities that wish to learn from PG&E's experience.

1. Reporting

PG&E's chief witness, Wendy Pulling, committed that the CPT program would be "transparent, with regular reporting to our customers, [and] regular reporting to the CPUC."[26] We agree that reporting is important, especially this is a new program with a number of uncertainties.

We will require PG&E to report annually on program results, budget, what it has learned, problems, and customer satisfaction as follows:

- Marketing dollars spent (total and detail)
- Number of customers
- CPT program revenues and amounts under contract
- Description of GHG reduction contracts signed (with copies of each contract)
- Actual cost per ton of GHG reductions contracted for
- Evaluation of comparative value of contracts with high and low cost per ton of GHG emissions reductions
- Results of customer survey
- Explanation of difficulties, challenges, and lessons learned.

Each report shall be due by January 15 (with the first due January 15, 2008) and shall contain the required information for the previous calendar year (with the January 15, 2008 report containing data for

[26] RT Vol. 1, page 100, Pulling, *cited in* PG&E opening brief at 50-51.

January 1, 2007-December 31, 2007). These reports shall be publicly filed, without redaction.

2. Information Sharing

We are at an important moment in California, as new mandatory GHG reduction legislation is implemented and new charitable and other voluntary initiatives begin. PG&E's program is one small part of a much bigger picture. Third parties, as well as this Commission, may be interested in learning from PG&E's experiences. We therefore expect PG&E to make information about its program available to third parties (and Commission staff) who seek it, even outside the normal reporting period.

XII. Membership and Role of the EAG

1. Parties' Positions

PG&E proposes that the EAG be available as an advisory body to give input into the CPT program. Several parties suggest that PG&E create additional EAG member slots beyond those PG&E lists, and PG&E agrees to these changes. CCSF also proposes that the EAG be given some decision making authority over the CPT. CCSF also asks that EAG members be appointed by an independent entity (CCSF suggests DRA), because it is concerned a PG&E-dominated EAG will direct which protocols CCAR develops next. CCSF has its own priorities for which protocols are most needed, and they may not jibe with PG&E's preferences.

DRA states that its "experience with advisory groups in the context of energy efficiency has been that they are of questionable value."[27] Therefore, DRA suggests other changes to the CPT to make it more accountable, without focusing on EAG.

2. Discussion

We adopt the parties' proposed changes in membership of the EAG (to which PG&E has agreed), but reject the other suggestions. We believe we have built sufficient accountability into the program by requiring PG&E to meet a minimum GHG reduction target, allocate half of program expenses to CPT customers, preview its marketing plan with the Commission, and engage in regular reporting of program results. We do not believe giving the EAG a decision making role in the program is appropriate, but we will require PG&E to address recommendations it receives from the EAG.

Therefore, as PG&E agrees, the EAG shall include a representative of each of the following interests, with a representative trade or consumer group an adequate substitute for direct representation: residential customers, large business, small business, non-profits, environmental groups, environmental justice groups, local governments and state environmental agencies, agriculture, low income groups [28] and the Commission staff.

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27 DRA opening comments at 6.

28 We understand that low-income customers are less likely to enroll in the CPT due to the cost premium. However, we encourage PG&E to consider creative alternatives to enable their low income customers to also participate in reducing GHG emissions. In addition, to the extent that there is an educational component to the marketing campaign, it is appropriate to consider outreach to all customers regardless of income level.

PG&E shall also have a conflict of interest screen for any member of the EAG. No person or group may serve on the EAG that has a direct financial interest in the CPT program. Thus, potential GHG contracting parties, marketing firms, or others that may receive direct funding from the CPT program budget may not serve on the EAG.

XIII. Role of CCAR

1. Parties' Positions

No party objects to PG&E's proposal to require that GHG reductions for which it which contracts meet CCAR protocols, or devote $900,000 in program funding to additional CCAR protocol development. However, CCSF suggests that a greater portion of the A&M budget go to fund protocol development; parties express a desire for CCAR to remain independent from PG&E despite the financial contribution; and parties raise concerns about what to do if CCAR's role in certifying GHG reductions changes or is eliminated.

2. Discussion

We agree that CCAR's involvement in PG&E's program is appropriate. All parties were complimentary of CCAR's work to date. We agree with PG&E that it may file an advice letter to propose use of other high quality project protocols developed by independent certifiers approved by the California Energy Commission, should CCAR become unable to develop project protocols at any time during the three-year CPT program.

The Registry's witness testified that the CPT's provision of funding would not cause PG&E to have undue influence over the Registry, given its governance structure and its established, open methodology for creating and

adopting new protocols.[29] PG&E does not sit on the Registry's board and is but one of a growing number of Registry members. Further, the CPT's average annual funding
for Registry support would amount to no more than $300,000 a year. Given that the Registry testified that its budget in coming years is likely to be about $1.7 million per year, the CPT would represent only about 17%, and the Registry has larger funding sources.

We caution PG&E that it shall let the CCAR develop its protocols independently, without regard to where the $900,000 in PG&E's proposal comes from.

XIV. Types of Projects Funded

1. Forestry

We are satisfied that forestry is an adequate sector on which to focus initial CPT program efforts, given that the CCAR has already developed a protocol for forest-based projects. Moreover, no party objects to PG&E contracting for GHG reductions in the forestry sector.

Our key concern is whether there is an adequate market for forest projects in California. According to PG&E, achieving the CPT program's expected 2 million tons can be accomplished with roughly 3,000 to 14,000 acres of reforestation projects. One of the CCAR witnesses, Sam Hitz, testified that "the Registry currently has two forestry members … both of which have signaled their interest in undertaking projects and certifying reductions with the Registry." PG&E states that one of those members, the Van Eck Foundation, has

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[29] RT Vol. 1, p. 110-123, Wittenberg, *cited in* PG&E opening brief at 26.

already “expressed a direct interest in trying to provide certified reductions into the CPT program.” Hitz also indicated there has been significant interest outside these two members, and that multiple studies have been done demonstrating the potential for forest sector projects to work out economically in California, at projected CPT funding levels.[30]

PG&E is new to this endeavor, however, and we are not certain that it will achieve success if focused solely on the forestry sector. We will examine PG&E's annual reporting for an indication of how this focus is working, and expect candor from PG&E if it is encountering a lack of contracting opportunities or other obstacles. However, we agree with PG&E and other parties that conserving forests has positive environmental benefits beyond GHG emissions reductions, in the areas of water quality, habitat conservation, and prevention of stream erosion. Thus, we accept forestry as the first focus of PG&E's CPT project.

As discussed above, a portion of the administrative expenses for the CPT will go to development of new, non-forestry protocols by the CCAR. These protocols will enable PG&E to mitigate the risks involved with limiting its purchase of offsets to a single source. As these protocols are developed, we expect PG&E to expand its portfolio of projects.

2. Other Sectors

A. Parties' Positions

AECA is particularly interested in having PG&E expand its program to include manure management programs. PG&E's application states that future projects for the CPT could include "processes to capture methane released from

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[30] PG&E opening brief at 57-58 (citations omitted).

cow manure at dairies."[31] After hearings, PG&E stated that "PG&E and AECA now agree that 'manure management' methane projects should be eligible to apply for CPT funding."[32]

TURN has concerns about the potential for double counting the value of biogas (manure) electricity generation if the same environmental attributes are being sold to two distinct buyers. TURN notes that under the Commission's Renewables Portfolio Standard (RPS) program, a biogas seller that sells its output to a buyer also transfers avoided methane emissions to that buyer.[33] Thus, TURN notes that it is unclear whether any emissions reductions would be available to a second buyer, such as PG&E, that wanted to contract for a methane project. PG&E states in reply that TURN misinterprets the relevant RPS decision.

B. Discussion

We agree with PG&E and AECA that reducing methane output provides significant environmental benefits. Methane is 23 times more potent a GHG than CO2, and thus methane projects are potentially very cost-effective on a per ton CO2 equivalent bases, because reducing one unit of methane is equivalent to reducing 23 units of CO2.

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31 Application at 5.

32 PG&E opening brief at 22.

33 D.04-06-014, Appendix A, page 2.

However, it is not clear based on the language both parties cite in the RPS decision, Decision 04-06-014, whether or not there is potential for double counting of emissions reductions if PG&E enters into contracts with methane producers that are also selling methane as part of the RPS program. We will not preclude methane projects from consideration as part of the CPT, because there may be a way to make such projects work without double counting, but we will need further information if and when PG&E proposes to enter into a methane contract as part of the CPT. At that time, PG&E shall document in an advice letter filing that the contract at issue poses no double counting problem.

We likewise do not preclude PG&E from entering into other types of GHG reduction projects, as long as a CCAR (or other reputable) protocol exists, projects are certified under those protocols, and projects otherwise meet the standards PG&E enumerates.

XV. TURN's Offset-Only Proposal

1. Parties' Comments

TURN proposes an alternative program that would not require PG&E to acquire customers. PG&E would instead use funding – presumably the same A&M funding PG&E seeks here – to directly contract for emissions reductions. TURN notes that PG&E would gain experience in the market for offsets without the added expense of marketing to customers. PG&E could return to the Commission to expand its program to include customers once it gained such expertise.

DRA supports TURN's proposal, but notes that there is no record regarding it since TURN first raised it in post-hearing briefs. PG&E continues to support the proposal in its application.

2. Discussion

TURN's proposal requires further input and record development, and we are not prepared to adopt it here.

XVI. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311 of the Pub. Util. Code and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. Comments were filed on _____________, and reply comments were filed on ______________ by ___________.

XVI. Assignment of Proceeding

Dian M. Grueneich is the Assigned Commissioner and Sarah R. Thomas is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Forests can emit and sequester carbon dioxide (CO2).

2. The average residential customer will pay a CPT premium of approximately $4.31 a month ($51.72 per year), before A&M costs.

3. CCAR has already developed a forestry protocol, which focuses on forest management, conservation, and reforestation projects.

4. PG&E is one of a large number of members of CCAR.

5. PG&E arrived at its $12 million marketing budget by calculating how many customers it believes it can attract to the program, and assigning a dollar value to acquire each customer. PG&E terms this its "acquisition cost methodology."

6. PG&E's $9.71 per ton GHG reduction cost figure is contradicted by other evidence in the record. The true cost per ton could differ.

7. If CPT premiums are tax deductible, this fact will reduce the real premium paid by customers who itemize deductions on their tax returns.

8. PG&E's A&M expenses are out of proportion to the revenues it will generate from customers who opt for the CPT.

9. PG&E has not demonstrated that its CPT program is cost effective.

10. Education to PG&E customers about the risks of global warming and means to reduce these risks is a benefit of the CPT program.

11. PG&E will learn about how to procure GHG reductions and offsets as part of its CPT. Such experience should assist PG&E in complying with AB 32, the California Global Warming Solutions Act of 2006.

12. PG&E's shareholders will benefit from the CPT, at the very least through enhanced goodwill for the company.

13. PG&E already works with charitable groups on shareholder-funded programs.

14. More than 60% of customers PG&E surveyed said they would be more likely to sign up for the voluntary rate premium if PG&E would contribute some of its own shareholders' profits to the fund.

15. Under the CPT, revenues collected may be spent far into the future on long-term contractual commitments. Under this scenario, millions of dollars collected today might not be spent for 10 or 20 years, as long-term contractual obligations come due.

Conclusions of Law

1. We should condition our approval of PG&E's application on several "accountability" measures to ensure funding is spent wisely.

2. PG&E should make regular reports to the Commission so we can determine how the program is working.

3. PG&E should only charge half of the A&M costs to ratepayers as a whole.

4. Given the program's expense, PG&E should guarantee that the program achieves a certain minimum of GHG reductions.

5. PG&E should explore tax deductibility of CPT premiums.

6. PG&E should work with the Commission and the EAG on how best to market the program.

7. PG&E should to the maximum extent possible use recycled products for its marketing materials.

8. Any GHG reduction used in the CPT program should be retired to avoid double counting. The reductions from PG&E's program may not be used to meet any other emissions reduction obligation, voluntary or mandatory.

9. PG&E should share key learnings from the CPT program with other interested parties.

10. PG&E should allow the CCAR to develop new protocols independently.

11. Use of manure management programs that are part of the Commission's RPS program in the CPT may result in double counting of emissions reductions.

12. Given the lag between collection of program revenues and payment under long-term GHG reduction contracts, it does not make sense for program revenues to earn a short-term interest rate.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric's (PG&E's) application is granted with modification. PG&E may only operate the Climate Protection Tariff (CPT) program if it abides by the modifications in this decision.

2. We approve PG&E's administrative and marketing (A&M budget), as follows:

Cost Category	2006	2007	2008	2009	Total
Program administration	$700,000	$1,370,000	$1,120,000	$1,070,000	$4,260,000
Marketing	$600,000	$2,400,000	$4,000,000	$5,000,000	$12,000,000
Total Budget	$1,300,000	$3,770,000	$5,120,000	$6,070,000	$16,260,000

3. PG&E may not transfer funds among budget categories nor spend budgeted funds in different years than those indicated without making an advice letter filing seeking such change.

4. The customers who purchase the CPT shall bear half of the administrative and marketing (A&M) costs set forth in the budget above.

5. PG&E shall guarantee that the CPT program produces 1.5 million (75% of 2 million) tons of carbon dioxide equivalent reductions. The funding to meet this guarantee may come from any source except ratepayers as a whole, unless such ratepayer funding comes from the unused half of A&M funding attributable to ratepayers as a whole.

6. PG&E shall pay interest at the same rate as its cost of capital percentage on funds collected from CPT customers but not yet paid out on contractual commitments.

7. PG&E shall credit to ratepayers any tax benefits created by retirement of GHG reductions from the CPT program.

8. PG&E may allocate half the program A&M costs to ratepayers on a percentage of revenue (rather than an equal cents per unit of energy) basis.

9. We reject PG&E's backstop funding proposal. If revenues from the CPT program are insufficient to meet contractual commitments, PG&E may not

charge the balance to ratepayers, either through a balancing account or any other mechanism.

10. PG&E shall permanently retire all certified GHG reductions procured by the CPT. No retired reduction will be used to meet an existing or future voluntary or mandatory emission standard or emission reduction requirement. Neither PG&E nor its enrolled customers may certified CPT-funded GHG reductions.

11. PG&E shall only enter into contract commitments under the CPT as the dollar amount of the payment obligation is collected from enrolled customers.

12. PG&E shall be bound by all program commitments it made in testimony at hearing or in its post-hearing brief, unless otherwise stated in this decision. Those commitments are as follows:

- To assist local governments in meeting their own GHG reduction targets, we require PG&E to provide, upon request, an annual accounting of all the GHG reductions for customers in their jurisdictions.
- PG&E commits that it will not seek attrition adjustments during the 2007 GRC test years, as Aglet has suggested. No attrition is needed is because the CPT proposal specified a revenue requirement for each program year, 2006-2009.
- Because PG&E never proposed that GHG contracts should be granted debt equivalence treatment, PG&E may not seek such treatment as part of the CPT.
- PG&E's may not use the CPT to argue against proposals for mandatory regulatory structures to address climate change in the future.

13. PG&E may operate its program during calendar years 2007, 2008 and 2009. If it wishes to continue the program past that date, or discontinue the program early, it shall do so by application.

14. PG&E shall make annual reports, due January 15, 2008, 2009 and 2010, which shall contain the information required in this decision for the previous calendar year (with the January 15, 2008 report containing data for January 1, 2007-December 31, 2007). These reports shall be publicly filed, without redaction, with the Commission's Executive Director, with a copy to the Director of the Energy Division.

15. We reject TURN's offset only proposal, without prejudice.

16. PG&E shall start with forestry projects, but may fund other CCAR-certified GHG reductions projects (with conditions) as the CPT program matures.

17. PG&E shall immediately investigate the feasibility of CPT customers deducting their premiums. At a minimum, PG&E shall 1) ask for guidance from the Internal Revenue Service and California Franchise Tax Board, 2) analyze whether it can accommodate deductibility through an existing charitable foundation within PG&E, and 3) if it prefers an outside partnership, discuss such a partnership with a number of third party charitable organizations. PG&E shall report to the Commission on the results of its efforts no later than March 1, 2007 by making a compliance advice letter filing, served on the Commission's Executive Director and copied to the Director of the Energy Division. The Commission delegates to the Energy Division authority to recommend tax deductibility based on the advice letter filing.

18. PG&E need not demonstrate that its 3-year demonstration of the CPT project is cost-effective.

19. If PG&E wishes to extend its program after 2009, or discontinue it before December 2009, it shall return to the Commission and make application to do so.

20. Since PG&E will gain valuable experience about GHG reductions and offsets during its program, PG&E shall make information about its program available to third parties (and Commission staff) who seek it, even outside the normal reporting period.

21. PG&E may use $900,000 of its A&M budget to fund further protocol development by CCAR. PG&E shall ensure this funding is refundable if CCAR ceases to operate or have responsibility for certifying GHG reductions. If PG&E proposes to use a different entity to certify GHG reduction protocols or projects, it shall report such change by advice letter served on the Commission's Executive Director, with a copy to the Director of the Energy Division.

22. PG&E shall not attempt to influence CCAR's choice of future protocols for development as a result of the $900,000 in funding from the CPT. It may interact with CCAR in the same way other CCAR members do.

23. The External Advisory Group (EAG) shall include representatives of the following groups: residential customers, large business, small business, non-profits, environmental groups, environmental justice groups, local governments and state environmental agencies, agriculture, low income groups and the Commission staff.

24. PG&E shall coordinate with the Commission and the EAG on marketing its program to ensure that California consumers are educated about the risks of global warming and how they can make a difference.

25. To the maximum extent possible, PG&E shall used recycled products for the CPT marketing materials.

26. PG&E need not defer to the EAG on program decisions but shall respond to EAG input into the CPT.

27. We encourage PG&E to consider creative alternatives to enable their low income customers to participate in reducing GHG emissions. In addition, to the extent that there is an educational component to the marketing campaign, it is appropriate for PG&E to consider outreach to all customers regardless of income level.

28. We strongly encourage PG&E to contribute shareholder funding to the CPT program.

29. PG&E shall ensure that GHG reductions contracted for in the CPT meet the CCAR (or other approved) protocols.

30. PG&E shall file an advice letter with the Executive Director (copy to Director, Energy Division) if it wishes to contract for manure management programs as part of the CPT and use of manure programs that already participate in the Renewables Portfolio Standard (RPS) program will not result in double counting of GHG emissions reductions.

31. Application 06-01-012 is closed.

This order is effective today.

Dated ______________________, at San Francisco, California.