

Decision 06-12-032      December 14, 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**

## TABLE OF CONTENTS

Title	Page
DECISION GRANTING APPLICATION WITH MODIFICATIONS.....	2
I. Summary .....	2
II. Procedural History.....	3
III. The Application .....	4
IV. Protests.....	7
V. A&M Costs.....	9
1. Parties' Positions - A&M Costs .....	9
2. Discussion - A&M Costs .....	12
A. Demonstration Project .....	12
B. Allocation of A&M Expenses .....	13
C. Shareholder Contribution Not Required, But Strongly Encouraged.....	18
VI. Performance Guarantees .....	21
1. Parties' Positions.....	21
A. PG&E's Backstop Funding Proposal.....	22
B. Parties' Minimum GHG Reduction Proposal .....	23
2. Discussion.....	23
A. PG&E's Backstop Funding Proposal.....	24
B. Parties' Minimum GHG Reduction Proposal .....	25
VII. Ratemaking Changes.....	27
1. Interest Rate on Funds Collected from the CPT .....	27
A. Parties' Positions .....	27
B. Discussion .....	28
2. Credit to Ratepayers for Tax Benefits from GHG Retirements .....	28
A. Parties' Positions .....	28
B. Discussion .....	29
3. Basis for Allocation of A&M Costs to Non-Participating Ratepayers....	29
A. Parties' Positions .....	29
B. Discussion .....	30
VIII. Retirement of GHG Reductions.....	31
IX. Marketing Content .....	31
1. Parties' Positions .....	31
2. Discussion.....	32
X. Tax Deductibility of CPT Premiums.....	32
1. Parties' Positions .....	32
2. Discussion.....	33

XI. Reporting and Information Sharing ..... 34

    1. Reporting ..... 34

    2. Information Sharing ..... 36

XII. Membership and Role of the EAG..... 36

    1. Parties' Positions ..... 36

    2. Discussion..... 37

XIII. Role of CCAR..... 38

    1. Parties' Positions ..... 38

    2. Discussion..... 38

XIV. Types of Projects Funded ..... 39

    1. Forestry ..... 39

    2. Other Sectors ..... 40

        A. Parties' Positions ..... 40

        B. Discussion ..... 41

XV. TURN's Offset-Only Proposal..... 42

    1. Parties' Comments ..... 42

    2. Discussion..... 43

XVI. Comments on Proposed Alternate Decision ..... 43

    1. A&M Expense ..... 43

        A. Allocation to PG&E Ratepayers as a Whole..... 43

        B. Rate Design ..... 44

    2. Guarantee of Minimum GHG Reductions..... 46

    3. Contract Commitments ..... 46

    4. Reporting ..... 47

XVII. Assignment of Proceeding ..... 47

Findings of Fact..... 47

Conclusions of Law ..... 49

ORDER ..... 50

APPENDIX A      Service List

## 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:

- **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 (or other sources discussed herein) 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 residential CPT customers may deduct their CPT premiums as charitable contributions on taxes returns.

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. Participating customers will pay a premium which will be charged volumetrically (\$0.00254 per kWh and \$0.06528 per therm exclusive of A&M cost). For the typical participating residential customer the increase on their monthly energy bill will be approximately \$4.31 a month (\$51.72 per year). PG&E will use the funds it collects in CPT premiums to contract for new California-based projects that, over their life, will yield sufficient emissions reductions or sequester enough GHGs to offset participating customers' gas and electricity footprint. The program will not mitigate GHG emissions associated with other activities in an average customer's life, such as driving or flying.

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 forestry 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 CO<sub>2</sub> [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 CO<sub>2</sub> into the atmosphere.<sup>1</sup>

Forests absorb carbon dioxide (CO<sub>2</sub>) 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
- **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

---

<sup>1</sup> CCAR's Forest Sector Protocol is Exhibit 7 in the hearing record of this proceeding.

(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 commitments to GHG reductions of about 2 million tons of CO<sub>2</sub> 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 Administrative & Marketing (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:

<b>Cost Category</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
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,<sup>3</sup> it must achieve a 4-5% participation rate 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.

---

<sup>2</sup> The difference between this total and \$16.4 million is attributable to franchise fees and uncollectibles.

<sup>3</sup> 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.

PG&E's assumptions about the costs to acquire customers are as follows:<sup>4</sup>

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
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 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

---

<sup>4</sup> PG&E Exhibit 1, at 3-21.

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."<sup>5</sup> Aglet proposes assigning one half of A&M costs to PG&E's shareholders.

## **2. Discussion – A&M Costs**

### **A. Demonstration Project**

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

---

<sup>5</sup> Aglet amended opening brief at 2.

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. Allocation of A&M Expenses**

A number of parties argued against PG&E's proposal to allocate the A&M costs across all PG&E ratepayers. TURN argues that program participants and/or shareholders should bear the A&M costs, on the grounds that the benefits that accrue to non-participants in the form of GHG emission reduction benefits, environmental co-benefits and educational benefits are diffuse and/or uncertain compared to the tangible benefits that they believe will accrue to shareholders.<sup>6</sup> Furthermore, TURN suggests that provided the program's premiums are tax deductible, the increased costs resulting from assigning some or all of the A&M costs to program participants will not unduly impact program participation.<sup>7</sup> Aglet shares TURN's views that the benefits accruing to all ratepayers in the form of GHG emission reduction benefits are of relatively limited value.<sup>8</sup> In light of this and the "good will [sic] benefits that will reach

---

<sup>6</sup> TURN opening brief, at 28-37.

<sup>7</sup> Id. at 29-30; TURN reply brief at 16-17.

<sup>8</sup> Aglet reply brief, at 7

[PG&E] shareholders”, Aglet advocates splitting the A&M costs between program participants and PG&E shareholders.<sup>9</sup> DRA takes issue with the characterization of this program as voluntary if non-participating ratepayers bear the A&M costs of the program, since, unlike those that elect to subscribe to the CPT tariff, they would have no choice regarding their participation in terms of paying for the A&M component of the program.<sup>10</sup> Although CCSF does not assert that some portion of the funding for the CPT should come from PG&E shareholders, it does take the position that PG&E shareholders will benefit from the program by virtue of improvements to PG&E’s corporate image as well as from the institutional knowledge PG&E will acquire in implementing an offset program.<sup>11</sup>

While we agree that many, if not most of the benefits of the CPT are widely dispersed, contrary to parties, we believe this serves to reinforce PG&E’s suggestion that the A&M costs be allocated more broadly, to all PG&E ratepayers, rather than more narrowly, to program participants and/or PG&E shareholders. The CPT program offers a variety of distinct benefits; direct GHG benefits, in the form of actual GHG emission reductions achieved via offsets procured on behalf of program participants, co-benefits derived from the offset projects themselves, and educational benefits associated with informing customers of the dangers of global warming and what actions will be necessary in a carbon constrained world. In addition, as California implements a statewide

---

<sup>9</sup> Id.

<sup>10</sup> DRA opening brief at 11.

<sup>11</sup> CCSF opening brief at 28-30.

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. None of the parties dispute these specific benefits per se, rather they characterize them as diffuse and uncertain and question whether it is appropriate that ratepayers should bear any program costs.

A costs to all PG&E ratepayers is consistent with how we have assigned costs in the context of other programs that offer substantial public benefits, including energy efficiency, the Self Generation Incentive Program (SGIP), and the California Solar Initiative (CSI). One of the core rationales for ratepayer support in the context of these programs is that the public benefits derived from the deployment of energy efficiency and distributed generation exceed the private benefits. Absent public support, the market would, from a societal standpoint, under-invest in these technologies. Public support is intended to drive more socially optimal levels of investment by internalizing the public benefits and/or by reducing the transaction costs participants may face. The disconnect between public and private benefits is particularly acute in the case of the CPT, where the benefits received by program participants do not significantly differ from the benefits received by all ratepayers, even though the participants will bear the majority of the costs of the benefits for a longer period. Thus there is a strong case from a public policy perspective for offsetting at least some of the costs participants would otherwise incur in order to neutralize their GHG emissions. By covering the A&M costs of the program, ratepayers will be facilitating voluntary actions by others that result in significant public benefits. We expect that the A&M costs will decline significantly after the first years of the program, but participants will continue to pay the offset premium.

It is worth noting that the argument that GHG emission reduction benefits are diffuse and/or uncertain and therefore should not receive ratepayer support also conflicts with other policies implemented by this Commission, inasmuch as many of these policies have used ratepayer dollars to reduce the carbon footprint of the energy sector. The Commission has recognized that it is in the long term interests of ratepayers to require the utilities to factor in the significant risk of future carbon regulation in their procurement decisions. For example the carbon cost adder, adopted in 2004, incorporated the price of carbon into the bid evaluation process for resource procurement. This policy could increase ratepayer costs by compelling the utilities to select less carbon intensive generation over more carbon intensive generation, even if the more carbon intensive resource offers lower prices in the short term. The exclusive purpose of this policy is to reduce GHG emissions.

DRA's argument that a voluntary program cannot, by definition, assign the A&M cost to all ratepayers regardless of whether they have signed up for the program, ignores the practical realities of such an approach. Whereas assigning all of the A&M costs to program participants will significantly boost the monthly premiums of program participants, from \$4.31 to \$7.33<sup>12</sup>, the monthly bill impacts associated with assigning these same costs to non-participants are negligible, on the order of \$.02 to \$.04.<sup>13</sup> We expect this amount to significantly decrease over time, while the emissions reductions will be permanent. While it is true that non-participants would not have a choice

---

<sup>12</sup> Ex. 3 at 1-8.

<sup>13</sup> PG&E opening brief at 59.

regarding paying this amount, on an individual ratepayer basis the impact is *de minimus* in comparison to the \$4.31 in monthly premiums that program participants would voluntarily pay to secure environmental benefits that accrue to everyone. Thus, from a material standpoint, the program remains very much voluntary with non-participants facing negligible monthly bill increases while program participants voluntarily expose themselves to substantially larger increases.

It is also important to recognize that at this point, it is unclear how sensitive prospective participants are likely to be to program costs. The point of departure on this issue is the Hiner study that PG&E submitted in its rebuttal testimony. The study's results indicate that there is a marked decrease in customers' stated willingness to participate in the CPT if doing so will cause their bills to rise by more than 4 percent. The study thus recommends that PG&E set the premium such that the typical bill will not increase by more than this amount.<sup>14</sup> TURN specifically cites to this when it proposes that premiums could be increased from the \$4.31 per month that PG&E proposes to \$5.75 or \$8.00 per month (depending on the whether the premiums are tax deductible) without violating the 4 percent threshold identified in the study. According to TURN this would allow at least some of the A&M costs to be born by program participants without adversely affecting program participation.<sup>15</sup> While TURN's argument is not without merit, the study itself indicates that the 4 percent threshold should

---

<sup>14</sup> PG&E rebuttal testimony A-1, "Pacific Gas & Electric Company: 2005 Climate Protection Survey", at 12, 15.

<sup>15</sup> TURN opening brief at 29-30.

be used with caution noting that, “Many other factors will determine actual marketplace acceptance, such as actual tariff design, marketing and communications and changes in base rates. The [results] should be considered an optimistic ‘best case’.”<sup>16</sup> Elsewhere the study indicates that the results should be used as “best case maximums”<sup>17</sup> and that “actual sign-ups might not approach these estimates.”<sup>18</sup> The study also notes that the business sample, at only 100, is “relatively small”.<sup>19</sup> In light of this uncertainty and the relatively minimal bill impacts of allocating the A&M costs across all ratepayers, we conclude that it is reasonable to assign these costs accordingly, rather than risk program failure by forcing program participants to bear a large share of the A&M costs. As we gain more experience with the costs involved with implementing this program and the level of consumer interest in the program, we can revisit the allocation issue.

**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

---

<sup>16</sup> PG&E rebuttal testimony A-1, “Pacific Gas & Electric Company: 2005 Climate Protection Survey”, at 42.

<sup>17</sup> Id. at 12.

<sup>18</sup> Id. at 28.

<sup>19</sup> Id. at 42.

current environment where such programs are front page news.<sup>20</sup> PG&E also provided precedent for shareholder funding of other programs, such as its

---

<sup>20</sup> 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.<sup>21</sup>

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 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

---

<sup>21</sup> 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.)

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."<sup>22</sup> 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 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.

---

<sup>22</sup> Exhibit 3, Appendix A-1, p. 23.

### **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."<sup>23</sup>

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.<sup>24</sup> Ratepayers would essentially guarantee PG&E against any program losses.

---

<sup>23</sup> PG&E opening brief at 47.

<sup>24</sup> PG&E Exhibit 1, at 5-3.

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 CO<sub>2</sub> 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 prices, the risk of that failure should fall on PG&E shareholders and program participants."<sup>25</sup>

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

---

<sup>25</sup> TURN opening brief at 21.

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.<sup>26</sup> 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 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.<sup>27</sup>

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

---

<sup>26</sup> PG&E opening brief at 46.

<sup>27</sup> DRA reply brief at 10.

Commission's "Avoided Cost" proceeding, Rulemaking 04-04-025. However, that report adopts an \$8 per ton figure in 2005. 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.<sup>28</sup> 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.

#### **B. Parties' Minimum GHG Reduction Proposal**

We adopt CCSF's minimum GHG reduction proposal in part.

Ratepayers 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 CO<sub>2</sub> emission reduction of 2 million tons. This number assumes growing rates of participation over the three years of program operation.<sup>29</sup>

---

<sup>28</sup> 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.

<sup>29</sup> 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

*Footnote continued on next page*

A fair guarantee is 75% of PG&E's proposed reductions. Thus, we find that PG&E should guarantee that it has contracted for 1.5 million (75% of 2 million) tons of CO<sub>2</sub> equivalent reductions<sup>30</sup> 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.

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.

---

available for the CPT to invest in forest sequestration projects. At \$9.71 per ton of CO<sub>2</sub>, the program would achieve CO<sub>2</sub> 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).

<sup>30</sup> Some greenhouse gases create far more global warming than CO<sub>2</sub>. However, to calculate the impact of emissions reductions of the other gases (methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride), one uses CO<sub>2</sub> as a baseline. Thus, reductions in methane and the other greenhouse gases can be translated to CO<sub>2</sub> equivalent so that reductions in the different gases can be compared.

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.<sup>31</sup> 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

---

<sup>31</sup> 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.

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.<sup>32</sup> 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 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 use of the funds between the time they are collected and the 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

---

<sup>32</sup> 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).

tax benefits.<sup>33</sup> 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[.]<sup>34</sup>

## **B. Discussion**

We agree that because ratepayers are bearing the A&M costs of the program, they should receive the tax benefits, if any, that PG&E claims on its tax returns for GHG reductions.

### **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, the California Solar Initiative, or demand response 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

---

<sup>33</sup> RT Vol. 3, page 481, Luboff.

<sup>34</sup> PG&E reply brief at vii.

formula drawn from PG&E's GRC. TURN challenges PG&E's claim, stating that equal cents allocation is used in several public purpose program contexts.

## **B. Discussion**

PG&E is correct in its assertion that the cost allocation methodology used in the context of public purpose programs is determined within each utilities' respective GRC. It is not our intent to use this proceeding as a venue to institute piecemeal changes to the policies adopted therein. Instead we will defer to that process and apply the same cost allocation methodology to this program as that used for programs that are most analogous to the Climate Protection Tariff. While examples of public purpose programs that allocate costs on an equal cents per kilowatt hour basis exist, there are also examples where the costs are allocated on a percentage of revenue basis. TURN specifically observes that the costs of the CARE program, nuclear decommissioning, and DWR bond charges are allocated on an equal cents per kWh basis. TURN uses this as the basis for arguing that a similar allocation methodology should be applied in this case. By the same token, as PG&E notes, it is also true that energy efficiency programs, the California Solar Initiative, and demand response programs are funded on a percentage of revenue basis. We believe that the CPT is more akin to these latter public purpose programs than those identified by TURN. All of these programs seek to reduce barriers to voluntary actions by ratepayers that offer substantial environmental and therefore public benefits. Again, we are not seeking to delve into the specific rationale for why the approach adopted in PG&E's GRC for cost allocation in the context of these types of programs is appropriate. Rather we are deferring to that process and simply seeking to apply the same approach that based on what we know of this program would have been applied had the CPT existed when the GRC was being litigated.

### **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."<sup>35</sup>

We make the foregoing pledge a requirement of PG&E's program. We believe that the emissions reductions should not be double counted for any purpose. PG&E shall not use any 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

---

<sup>35</sup> PG&E Exhibit 1, at 1-6 (emphasis added).

in a manner that permits keeping the program on track for launch within the first quarter of 2007, and that approval of the application not be held up for this purpose.<sup>36</sup>

## **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. To the extent that GHG reductions are to be realized through long-term projects, PG&E should also disclose in its marketing materials that the time-frame of reductions does not match that of the emissions to be offset.

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

---

<sup>36</sup> PG&E reply brief at 28.

and TURN note that if PG&E is concerned about maintaining low CPT premiums, it makes sense to try to reduce the 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."<sup>37</sup> 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.<sup>38</sup>

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 deductibility to actual customers."<sup>39</sup>

## **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 for residential customers. 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 immediately 1) ask for guidance from the Internal Revenue Service and California Franchise Tax Board, 2) analyze whether it can accommodate deductibility through an existing

---

<sup>37</sup> PG&E reply brief at 57.

<sup>38</sup> *Id.* at 25-26.

<sup>39</sup> *Id.* at 27.

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. The Commission delegates to the Energy Division authority to issue a resolution requiring PG&E to implement a tax deductible program if such program is feasible and consistent with the goal of the CPT.

## **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 are 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."<sup>40</sup> 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 (and publicly) on program results, budget, what it has learned, problems, and customer satisfaction as follows:

- Marketing dollars spent (total and detail);
- Number of customers participating in the program (by month) including the numbers of new enrollments and customers ceasing participation;

---

<sup>40</sup> RT Vol. 1, page 100, Pulling, *cited in* PG&E opening brief at 50-51.

- CPT program revenues;
- Dollar and GHG reduction amounts under contract, with the timeframe during which the reductions are expected to be achieved;
- Description of GHG reduction contracts signed (with copies of each contract);
- Actual cost per ton of GHG reductions contracted for;
- A summary of the results of solicitations including number of bidders, range of bid prices, description of projects bid;
- Results of any customer surveys;
- Explanation of difficulties, challenges, and lessons learned;
- Copies of all marketing materials produced and used in the program; and
- Climate protection balancing account revenues, expenditures and interest accruals during the previous year, and end-of-year account balance.

Each report shall be due by March 15 (with the first due March 15, 2008) and shall contain the required information for the previous calendar year (with the March 15, 2008 report containing data for January 1, 2007-December 31, 2007). These reports shall be publicly filed, without redaction, and served as set out in the ordering paragraphs below. PG&E shall also make the reports available on its website.

The Commission's Energy Division should review the reports in order to determine 1) whether the program meets the requirements of this decision, 2) whether projected program participation levels are being achieved, and 3) the degree of success in GHG contracting and amount of GHG reductions. If the Energy Division discovers serious problems with the program, it should make recommendations to the Commission on appropriate next steps.

PG&E should also make annual reports to participating customers summarizing program results, including the amount of GHG emissions reductions realized to date, projected future reductions from projects for which it

has contracted and the timeframe in which those reductions are expected to occur. PG&E should provide these reports to the Commission with its annual reports, as discussed above.

## **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."<sup>41</sup> Therefore, DRA

---

<sup>41</sup> DRA opening comments at 6.

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, 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 <sup>42</sup> and the Commission staff.

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

---

<sup>42</sup> 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.

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 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 other appropriate entities and approved by the California Energy Commission or the California Air Resources Board, 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.<sup>43</sup> 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

---

<sup>43</sup> RT Vol. 1, p. 110-123, Wittenberg, *cited in* PG&E opening brief at 26.

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.

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.

#### **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 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.<sup>44</sup>

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 cow manure at dairies."<sup>45</sup> After hearings, PG&E stated that "PG&E and AECA

---

<sup>44</sup> PG&E opening brief at 57-58 (citations omitted).

<sup>45</sup> Application at 5.

now agree that 'manure management' methane projects should be eligible to apply for CPT funding."<sup>46</sup>

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.<sup>47</sup> Thus, TURN claims 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 CO<sub>2</sub>, and thus methane projects are potentially very cost-effective on a per ton CO<sub>2</sub> equivalent bases, because reducing one unit of methane is equivalent to reducing 23 units of CO<sub>2</sub>.

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 categorically preclude methane projects from consideration as part of the CPT, because there may be a way to make such projects work without double

---

<sup>46</sup> PG&E opening brief at 22.

<sup>47</sup> D.04-06-014, Appendix A, page 2.

counting. The concerns parties have raised about potential double-counting are not unique to manure management, but pervade the design of offset projects, although they manifest themselves in different ways for different types of projects. Indeed the "additionality" principle, which is a bedrock principle in the design of the CCAR protocols that PG&E intends to use as the basis for certifying projects, is specifically aimed at preventing any form of double-counting of emissions reductions.

We will require that any additional type of project PG&E funds under the CPT - including methane projects - guarantee "additionality." PG&E to enter into contracts for projects other than forestry projects only as protocols are developed and approved for that class of projects by CCAR or some other appropriate entity, as discussed in the previous section. As approved protocols become available --for methane and other types of projects-- PG&E may by advice letter seek blanket permission to enter into contracts for that class of projects. In its advice letter filing PG&E shall document that any new protocol provides rigorous safeguards to assure that projects undertaken under it shall be "additional" and pose no double counting problem. We delegate to the Energy Division authority to issue a resolution addressing PG&E's advice letter.

## **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 notes that there is no record regarding TURN's proposal 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 Alternate Decision**

The proposed alternate decision of Commissioner Michael R. Peevey 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 December 4, 2006 by PG&E, TURN, Aglet and DRA. Reply comments were filed on December 11, 2006 by PG&E, TURN and Aglet. In addition, a November 29, 2006 letter from the Natural Resources Defense Council (NRDC) addressed to all five Commissioners supported adoption of the CPT and noted its broad educational benefits to all ratepayers.

### **1. A&M Expense**

#### **A. Allocation to PG&E Ratepayers as a Whole**

PG&E supports the proposed alternate decision's allocation of A&M expense to ratepayers as a whole. The ratepayer groups ask that a share of these costs be assigned to shareholders or program participants. The proposed alternate decision already addresses these views, and we make no changes.

TURN challenges the logic of the proposed alternate decision, contending that the analogy it draws to public purpose programs is unfounded. TURN implies that only programs that yield "tangible economic benefits to all customers" and that "are properly understood as alternatives to generation

related investments” are truly analogous to public purpose programs. This view represents an inaccurate over-simplification of the Commission’s multifaceted motivations for adopting public purpose programs, which range from reducing conventional air pollution to aiding low income customers. It also denies the very real impacts of climate change, by characterizing reductions in greenhouse gas emissions as intangible benefits. Moreover, this line of reasoning is inconsistent with the entire rationale for the State’s and the Commission’s manifold efforts to combat climate change.

TURN also revisits the issue of the program’s cost-effectiveness. This matter is already addressed in the proposed alternate decision, which explains that the program is not being held to a strict-cost effectiveness standard because it is a demonstration project.

### **B. Rate Design**

The proposed alternate decision allocates A&M costs across all of PG&E’s ratepayers based upon PG&E’s proposed formulas (billing the costs to ratepayers based on the percentages of PG&E’s revenues they pay) rather than on an "equal cents per unit of energy basis" as the ratepayer advocates urge. The decision does this on the assumption that most of PG&E’s CPT participants will be residential. However, PG&E points out in its comments on the proposed alternate that, in fact, the program should not be construed as primarily a residential program given that “the CPT’s success also depends on significant participation by business customers, whose premiums, because of these customers’ higher total usage, are expected to comprise almost half of the CPT’s

funding for GHG reduction projects”<sup>48</sup> This would appear to undermine the original rationale for accepting PG&E’s approach.

In its comments, TURN also notes that an equal cents per kWh approach is used in the context of other public purpose programs, specifically citing the CARE program, nuclear decommissioning, and DWR bond charges. In response, PG&E observes that there are other public purposes programs in which costs are allocated on a percent of revenue basis, including energy efficiency, the California Solar Initiative, and demand response. PG&E further observes that the specific rate treatment for these types of programs is developed through the utility’s General Rate Case.

Although, based on PG&E’s comments, this program cannot be appropriately characterized as primarily residential, we are not convinced that this fact alone is sufficient to adopt TURN’s approach. Many different factors play a role in determining the cost allocation methodology used in the context of public purpose programs. Given that the specific methodology is developed through a stakeholder process in the context of the utility’s GRC, we believe it is better to defer to that process and apply the methodology here that is consistent with that used in the case of other public purpose programs that are similar to the CPT. We believe the CPT is more akin to energy efficiency, demand response and the California Solar Initiative than it is to nuclear decommissioning, DWR bond repayment, or the CARE program. Because the former programs allocate costs on a percent of revenue basis, we believe the same approach is appropriate in the case of the CPT. We therefore adopt PG&E’s recommended approach.

---

<sup>48</sup> PG&E reply comments on Proposed Alternate at iii.

## **2. Guarantee of Minimum GHG Reductions**

PG&E opposes the minimum GHG reductions the proposed alternate decision requires. We believe that given the program's expense and the spreading of A&M costs across all ratepayers, it should achieve a minimum amount of GHG emissions reductions in addition to the anticipated educational benefits. The results we require are 75% of PG&E's own projections. We make no change in this general requirement.

## **3. Contract Commitments**

The proposed alternate decision provides that "PG&E shall only enter into contract commitments under the CPT as the dollar amount of the payment obligation is collected from enrolled customers." PG&E contends that in light of the shareholder performance guarantee, this requirement is overly restrictive. Although PG&E stipulated to this provision during hearing, as Aglet points out<sup>49</sup>, this commitment was made in the context of discussing PG&E's proposed program, which did not require a shareholder guarantee. We find that the effect of the shareholder guarantee is to shift much of the price and performance risk of realizing GHG reductions through the program onto PG&E's shareholders. PG&E should therefore be provided with greater flexibility in managing these risks. This decision has been modified accordingly.

It is worth noting that we are not requiring that the GHG reductions occur simultaneously with PG&E's collection of premiums. We recognize that reductions may occur well into the future, given, for example, that new forests

---

<sup>49</sup> Aglet reply comments on proposed decision at 4-5, citing hearing Exhibit 3: "[T]he contract commitments are only entered into as the dollar amount of the payment obligation is collected from enrolled customers."

take time to sequester carbon. We will require PG&E to make the lag between collection and premiums and GHG reductions clear in marketing materials so customers are aware that they may not be purchasing immediate GHG reductions.

#### **4. Reporting**

We have clarified the reporting requirements and the Energy Division's tasks in response, and changed the report due dates as PG&E requests. If the reporting shows serious problems with the program, the Energy Division should recommend remedies to the Commission.

#### **XVII. 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 (CO<sub>2</sub>).
2. The average residential customer will pay a CPT premium of approximately \$4.31 a month (\$51.72 per year), based upon a premium of \$0.00254 per kWh and \$0.006528 per therm) exclusive of 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 residential 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. The benefits of GHG emission reductions resulting from the offsets procured on behalf of program participants accrue to all ratepayers.

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 unless project protocols include rigorous safeguards to assure the "additionality" of reductions.

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

13. 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.

14. Assigning the A&M costs of the CPT to all PG&E ratepayers is consistent with ratepayer support in the context of other utility programs characterized by substantial public benefits including energy efficiency, the SGIP, and the CSI.

15. Assigning the A&M costs to all ratepayers would have negligible bill impacts.

16. Assigning the A&M costs to program participants would substantially increase the costs of participation.

17. As the costs of program participation increase, participation rates will likely decline.

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

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

20. 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.

21. 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.

22. Development of new protocols for non-forestry offsets will benefit the CPT program by mitigating the risks associated with an all-forestry offset program.

### **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. The Commission has required that all ratepayers bear the costs of innovative programs such as the California Solar Initiative and the energy efficiency program.

4. Given the program's expense and the allocation of A&M costs across all ratepayers, 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:

<b>Cost Category</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
----------------------	-------------	-------------	-------------	-------------	--------------

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. By advice letter filing, PG&E shall submit a detailed budget for the A&M costs concurrently with its detailed marketing plan.

5. The A&M costs shall be spread out among all PG&E ratepayers.

6. 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 A&M funds.

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

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

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

10. 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.

11. PG&E shall permanently retire all certified GHG reductions procured by the CPT. PG&E may not use any retired reduction to meet an existing or future voluntary or mandatory emission standard or emission reduction requirement. Neither PG&E nor its enrolled customers may sell certified CPT-funded GHG reductions.

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 cycle, 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. If PG&E files no such application, the program shall sunset on December 31, 2009.

14. PG&E shall make annual reports, due March 15, 2008, 2009 and 2010, which shall contain the information required in this decision for the previous calendar year (with the March 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 and all parties listed as "Appearances" in A.06-01-012.

PG&E shall also make the reports available on its website. The Commission's Energy Division should review the reports in order to determine 1) whether the program meets the requirements of this decision, 2) whether projected program participation levels are being achieved, and 3) the degree of success in GHG contracting and amount of GHG reductions. If the Energy Division discovers serious problems with the program, it should make recommendations to the Commission on appropriate next steps.

15. PG&E shall make annual reports to participating customers summarizing program results, including the amount of GHG emissions reductions realized to date, projected future reductions from projects for which it has contracted and the timeframe in which those reductions are expected to occur. PG&E should provide these reports to the Commission with its annual reports, as discussed above.

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

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

18. PG&E shall immediately investigate the feasibility of residential CPT customers deducting their premiums on their tax returns. 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 issue a resolution addressing PG&E's advice letter filing, including an order that PG&E institute deductibility, if such program is feasible and consistent with the goals of the CPT.

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

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. This funding shall only be used for protocol development. 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. 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. To the extent that GHG reductions are to be realized through long-term projects, PG&E shall disclose in its marketing materials that the time-frame of reductions does not match that of the emissions to be offset.

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

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

26. 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.

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

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

29. 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 shall demonstrate that these projects meet stringent standards to prevent double counting.

30. As additional project protocols are developed by CCAR or some other appropriate entity PG&E shall file an advice letter with the Executive Director (copy to Director, Energy Division) seeking blanket permission to enter into contracts for that class of projects. In its advice letter filing PG&E shall

demonstrate that any new protocol provides rigorous safeguards to assure that projects undertaken under it shall be "additional" and pose no double counting problem.

31. Application 06-01-012 is closed.

This order is effective today.

Dated December 14, 2006, at San Francisco, California.

MICHAEL R. PEEVEY  
President

GEOFFREY F. BROWN  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners

## APPENDIX A

James Weil  
Director  
AGLET CONSUMER ALLIANCE  
PO BOX 37  
COOL CA 95614  
(530) 885-5252  
jweil@aglet.org  
For: Aglet Consumer Alliance

Dan Geis  
AGRICULTURAL ENERGY CONSUMERS ASSO.  
925 L STREET, SUITE 800  
SACRAMENTO CA 95814  
(916) 447-6206  
dgeis@dolphingroup.org

Richard H. Counihan  
Managing Director-California  
ECOS CONSULTING  
433 CALIFORNIA STREET, SUITE 630  
SAN FRANCISCO CA 94104  
(415) 399-9399  
rcounihan@ecosconsulting.com

Diana L. Lee  
Legal Division  
RM. 4300  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-4342  
dil@cpuc.ca.gov

Gail L. Slocum  
Attorney At Law  
PACIFIC GAS AND ELECTRIC COMPANY  
77 BEALE STREET  
SAN FRANCISCO CA 94105  
(415) 973-6583  
glsg@pge.com  
For: Pacific Gas and Electric

Hayley Goodson  
Attorney At Law  
THE UTILITY REFORM NETWORK  
711 VAN NESS AVENUE, SUITE 350  
SAN FRANCISCO CA 94102  
(415) 929-8876  
hayley@turn.org  
For: TURN

Matthew Freedman  
Attorney At Law  
THE UTILITY REFORM NETWORK  
711 VAN NESS AVENUE, SUITE 350  
SAN FRANCISCO CA 94102  
(415) 929-8876  
freedman@turn.org  
For: TURN

\*\*\*\*\* STATE EMPLOYEE \*\*\*\*\*

Pierre H. Duvair  
CALIFORNIA ENERGY COMMISSION  
1516 NINTH STREET, MS-41  
SACRAMENTO CA 95814  
(916) 653-8685  
pduvair@energy.state.ca.us

Matthew Deal  
Energy Division  
AREA 4-A  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-5649  
mjd@cpuc.ca.gov

Jacqueline Greig  
Division of Ratepayer Advocates  
RM. 4102  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-1079  
jnm@cpuc.ca.gov

Lainie Motamedi  
Division of Strategic Planning  
RM. 5119  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-1764  
lrm@cpuc.ca.gov

Merideth Sterkel  
Energy Division  
AREA 4-A  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-1873  
mts@cpuc.ca.gov

Sarah R. Thomas  
Administrative Law Judge Division  
RM. 5105  
505 VAN NESS AVE  
San Francisco CA 94102 3298  
(415) 703-2310  
srt@cpuc.ca.gov

\*\*\*\*\* INFORMATION ONLY \*\*\*\*\*

Marc D. Joseph  
Attorney At Law  
ADAMS, BROADWELL, JOSEPH & CARDOZO  
601 GATEWAY BLVD., STE. 1000  
SOUTH SAN FRANCISCO CA 94080  
(650) 589-1660  
mdjoseph@adamsbroadwell.com

Curt Barry  
717 K STREET, SUITE 503  
SACRAMENTO CA 95814  
(916) 449-6171  
curt.barry@iwpnews.com

Bruce Mclaughlin  
Attorney At Law  
BRAUN & BLAISING P.C.  
915 L STREET, SUITE 1420  
SACRAMENTO CA 95814  
(916) 326-5812  
mclaughlin@braunlegal.com

Sam Hitz  
CALIFORNIA CLIMATE ACTION REGISTRY  
515 S. FLOWER STREET, STE 1640  
LOS ANGELES CA 90071  
(213) 891-6921  
sam@climateregistry.org

CALIFORNIA ENERGY MARKETS  
517-B POTRERO AVENUE  
SAN FRANCISCO CA 94110  
(415) 552-1764  
cem@newsdata.com  
For: CALIFORNIA ENERGY MARKETS

Ronald Liebert  
Attorney At Law  
CALIFORNIA FARM BUREAU FEDERATION  
2300 RIVER PLAZA DRIVE  
SACRAMENTO CA 95833  
(916) 561-5657  
rliebert@cfbf.com

Jeanne M. Sole  
Deputy City Attorney  
CITY AND COUNTY OF SAN FRANCISCO  
1 DR. CARLTON B. GOODLETT PLACE, RM. 234  
SAN FRANCISCO CA 94102  
(415) 554-4619  
jeanne.sole@sfgov.org  
For: City and County of San Francisco

Melissa Capria  
CITY AND COUNTY OF SAN FRANCISCO  
DEPARTMENT OF ENVIRONMENT  
11 GROVE STREET  
SAN FRANCISCO CA 94102  
(415) 355-3725  
melissa.capria@sfgov.org

Alexander Rau  
CLIMATE WEDGE LTD.  
19 BROMELY PL.  
SAN FRANCISCO CA 94115  
(415) 215-3476  
alexander.rau@climatewedge.com

Eric Yussman  
Regulatory Analyst  
FELLON-MCCORD & ASSOCIATES  
9960 CORPORATE CAMPUS DRIVE  
LOUISVILLE KY 40223  
(502) 214-6331  
eyussman@knowledgeinenergy.com

Ralph Dennis  
Director, Regulatory Affairs  
FELLON-MCCORD & ASSOCIATES  
9960 CORPORATE CAMPUS DRIVE, SUITE 2000  
LOUISVILLE KY 40223  
(502) 214-6378  
ralph.dennis@constellation.com

Diane I. Fellman  
Attorney At Law  
FPL ENERGY, LLC  
234 VAN NESS AVENUE  
SAN FRANCISCO CA 94102  
(415) 703-6000  
diane\_fellman@fpl.com

Jody S. London  
JODY LONDON CONSULTING  
PO BOX 3629  
OAKLAND CA 94609  
(510) 459-0667  
jody\_london\_consulting@earthlink.net

John W. Leslie  
Attorney At Law  
LUCE, FORWARD, HAMILTON & SCRIPPS, LLP  
11988 EL CAMINO REAL, SUITE 200  
SAN DIEGO CA 92130  
(858) 720-6352  
jleslie@luce.com

MRW & ASSOCIATES, INC.  
1999 HARRISON STREET, SUITE 1440  
OAKALND CA 94612  
(510) 834-1999  
mrw@mrwassoc.com

Bill Edmonds  
Director, Environ Policy & Sustainabilit  
NW NATURAL  
220 NW SECOND STREET  
PORTLAND OR 97209  
(503) 220-2351  
wre@nwnatural.com

Stephen A. S. Morrison  
Deputy City Attorney  
OFFICE OF CITY ATTORNEY DENNIS J. HERRER  
CITY HALL, SUITE 234  
SAN FRANCISCO CA 94102  
(415) 554-4637  
stephen.morrison@sfgov.org

John Nickerson  
PACIFIC FOREST TRUST  
3461 BURNETTE WAY  
UKIAH CA 95482  
(707) 489-2443  
jnickerson@pacificforest.org

PACIFIC GAS AND ELECTRIC COMPANY  
PO BOX 7442  
SAN FRANCISCO CA 94120-7442  
lawcpuccases@pge.com

Chenoa Thomas  
PACIFIC GAS AND ELECTRIC COMPANY  
77 BEALE STREET, B10A  
SAN FRANCISCO CA 94105  
(415) 973-5965  
cath@pge.com

Greg San Martin  
PACIFIC GAS AND ELECTRIC COMPANY  
77 BEALE STREET, MAIL CODE B24A  
SAN FRANCISCO CA 94105  
(415) 973-6905  
gjs8@pge.com

Gregory Backens  
PACIFIC GAS AND ELECTRIC COMPANY  
PO BOX 770000  
SAN FRANCISCO CA 94177  
(415) 973-4390  
GAB4@pge.com

James Turnure  
PACIFIC GAS AND ELECTRIC COMPANY  
PO BOX 770000, MAIL CODE B9A  
SAN FRANCISCO CA 94177  
(415) 973-4948

Jay Luboff  
PACIFIC GAS AND ELECTRIC COMPANY  
PO BOX 770000, MC B9A  
SAN FRANCISCO CA 94177  
(415) 973-5241  
J1Ly@pge.com

Larry Nixon  
PACIFIC GAS AND ELECTRIC COMPANY  
77 BEALE STREET, MC B10A  
SAN FRANCISCO CA 94105  
(415) 973-5450  
lrn3@pge.com

Shilpa Ramalya  
77 BEALE STREET, ROOM 981  
SAN FRANCISCO CA 94105  
(415) 973-3186  
srrd@pge.com

Rasha Prince  
SAN DIEGO GAS & ELECTRIC  
555 WEST 5TH STREET, GT14D6  
LOS ANGELES CA 90013  
(213) 244-5141  
rprince@semprautilities.com

Case Administration  
SOUTHERN CALIFORNIA EDISON COMPANY  
2244 WALNUT GROVE AVE., RM. 370  
ROSEMEAD CA 91770  
(626) 302-4875  
case.admin@sce.com

A.06-01-012 COM/MP1/ner/acb

Janet Combs  
SOUTHERN CALIFORNIA EDISON COMPANY  
2244 WALNUT GROVE AVENUE  
ROSEMEAD CA 91770  
(626) 302-1524  
Janet.Combs@sce.com

Laurie A. Wayburn  
THE PRESIDIO  
1001A OREILLY AVENUE  
SAN FRANCISCO CA 94129  
(415) 561-0700  
pft@pacificforest.org

Kevin Knauss  
SPRINKLER SERVICE & SUPPLY, INC.  
5733 MANZANITA AVE.  
CARMICHAEL CA 95608  
(916) 331-0240  
kknauss@surewest.net

Bjorn Fischer  
THE CLIMATE TRUST  
65 S.W. YAMHILL STREET, STE. 400  
PORTLAND OR 97204  
bfischer@climatetrust.org

Mike Burnett  
Executive Director  
THE CLIMATE TRUST  
65 S.W. YAMHILL STREET, SUITE 400  
PORTLAND OR 97204  
mburnett@climatetrust.org

Jonathan Changus  
THE PACIFIC FOREST TRUST  
1001A OREILLY AVENUE  
SAN FRANCISCO CA 94129  
(415) 561-0700  
jchangus@pacificforest.org

Michelle Passero  
THE PACIFIC FOREST TRUST  
1001A OREILLY AVENUE  
SAN FRANCISCO CA 94129  
(415) 561-0700  
mpassero@pacificforest.org

Mark C. Trexler  
TREXLER CLIMATE+ENERGY SERVICES, INC.  
529 SE GRAND AVE, M SUITE 300  
PORTLAND OR 97214-2232  
(503) 231-2727  
mtrexler@climateservices.com

Andrew J. Van Horn  
VAN HORN CONSULTING  
12 LIND COURT  
ORINDA CA 94563  
(925) 254-3358  
andy.vanhorn@vhcenergy.com