



# ClimateSmart™ Program 2007 Annual Report

2007

Pacific Gas and Electric Company  
ClimateSmart™ Program  
2007 Annual Report  
March 17, 2008



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# PACIFIC GAS AND ELECTRIC COMPANY 2007 CLIMATE SMART™ ANNUAL REPORT

## 1. Executive Summary

Pacific Gas and Electric Company (PG&E or the Company) is pleased to provide the California Public Utilities Commission (CPUC or Commission) and interested parties with this first annual report highlighting the key activities and accomplishments of the ClimateSmart™<sup>1</sup> program. This report covers the calendar year 2007. However, for this first report, PG&E is also including statistical data through January 31, 2008 as well as highlights on significant events that have occurred in January and February 2008.

PG&E has achieved many milestones during the start-up phase of this demonstration program, which was approved by the CPUC on December 14, 2006. Immediately hailed as another CPUC “first” for California, this voluntary greenhouse gas (GHG) emission reduction offsetting program is the first of its kind in the nation.

Under the program, participants are charged an extra \$0.06528 per therm of natural gas and \$0.00254 per kilowatt-hour (kWh) of electricity, which are the amounts that the CPUC found would be needed to make the GHG emissions associated with their home or business’ energy use “climate neutral.” The revenues from the program are solely used to support GHG emission reduction projects based in California that would not otherwise have happened.

While the program offers customers another way to reduce their personal impact on climate change, it also encourages them to first reduce their energy use and increase their energy efficiency whenever possible. Accordingly, this program helps to round out the CPUC’s and PG&E’s other leading efforts on energy efficiency and is an important element in California’s multifaceted fight against climate change.

### *Enrollment*

- PG&E began offering pre-enrollment to its employees in May 2007, then launched the program for enrollment by all eligible PG&E customers on June 28, 2007.
- By January 31, 2008, just seven months after its public launch, the program had over 16,000 actively-enrolled participants from 558 cities across PG&E’s service territory, including numerous significant commercial customers. PG&E was the first commercial customer to join ClimateSmart (at shareholder expense).

### *Program Contributions*

- The cumulative contributions made by ClimateSmart customers (including PG&E) totaled over \$860,000 by January 31, 2008. The program appears to be on track to achieve the CPUC’s performance standard of collecting sufficient revenue from

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<sup>1</sup> ClimateSmart™ is the trademarked name for PG&E’s Climate Protection Tariff approved by the CPUC In Decision (D.) 06-12-032.

participating customers to fund at least 1.5 million tons<sup>2</sup> of GHG emission reduction commitments—the equivalent of taking at least 270,000 cars off the road for an entire year.

- PG&E's commitment to ClimateSmart making its own buildings' energy use climate neutral, totals approximately \$1.5 million in shareholder funding through the end of 2009. PG&E hopes to inspire other businesses to take similar environmental leadership.

#### *GHG Emission Reduction Projects*

- In 2007, PG&E developed a Request for Offers (RFO) process, developed a contract, issued the RFO, evaluated the results, short-listed the most promising projects, selected winning projects, and negotiated with the winning bidders. This process selected independent, competitively bid forest conservation GHG emission reduction projects. Between 2007 and 2021, these two initial projects will remove approximately 236,000 tons of carbon dioxide (CO<sub>2</sub>) from the atmosphere. These results will be measured under the verification protocols of the California Climate Action Registry (CCAR) a nonprofit organization which monitors and tracks GHG emission reductions that are verified by third-party organizations approved by CCAR and the California Energy Commission (CEC). PG&E executed contracts with these projects in February 2008. This purchase represents the largest investment in verifiable GHG emission reductions to date under California's rigorous forest carbon sequestration project protocols.
- Under the first agreement, PG&E is purchasing GHG emission reductions from the Garcia River Forest in Mendocino County. There, on a 23,780 acre project owned by The Conservation Fund and co-managed by the Nature Conservancy, the GHG emission reductions in which the ClimateSmart program is investing will result in the preservation of trees that otherwise would have been harvested. These trees will capture significant amounts of CO<sub>2</sub> from the atmosphere and the project will also preserve habitat for many important species that inhabit or depend on the forest, including northern spotted owls, mountain lions, Coho salmon and steelhead trout.
- The second agreement purchases GHG emission reductions from land that was planned for commercial logging in the Santa Cruz Mountains. There, on 425 acres, the Lompico Headwaters Forest Project, owned by the Sempervirens Fund, will permanently protect and prevent the logging of trees in 202 acres of redwood forest. By helping protect these trees this project will not only provide GHG emission reductions but, at the same time will also safeguard habitat for rare and endangered species, protect watersheds to support the supply of clean and safe drinking water, and deliver valuable aesthetic and recreational benefits.

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<sup>2</sup> Note: All units in this report are in U.S. short tons, consistent with the ClimateSmart Decision. The California Climate Action Registry (CCAR) requires reporting in metric tons. All of the bidders provided their contracts in metric tons. To convert from U.S. short tons to metric tons, divide the number of U.S. short tons by 1.1023.

### *Customer Outreach and Communications*

- PG&E conducted outreach to customers to raise awareness about climate change, introduce the new ClimateSmart program, and promote program enrollments. For example, PG&E sent a September 2007 bill insert to approximately 6 million customers, a direct mailing to 516,000 targeted customers, and a January 2008 bill insert to approximately 6 million customers. Using shareholder funding, PG&E also ran numerous newspaper and radio advertisements that reached many millions in Northern California. Finally, PG&E developed a web site for the ClimateSmart program as well as launched a Carbon Calculator on PG&E's web site (<http://www.pge.com>) to allow all customers to calculate their energy and transportation carbon footprint.
- PG&E's outreach included key fact-based educational information on climate change, for example, the typical home on PG&E's system emits approximately 5.3 tons of CO<sub>2</sub> per year, and that 68 percent of the carbon footprint of such homes comes from natural gas primarily used for space and water heating,
- As a special incentive for employees and customers who signed up during the initial launch of the ClimateSmart program, PG&E donated shareholder-funded charitable contributions to selected climate change-related charities of the employee's or customer's choice. For the customer's 2007 initial enrollment campaign, customers could choose to donate to The Nature Conservancy,<sup>3</sup> CalCars.org,<sup>4</sup> or EarthTeam's Cool Schools program.<sup>5</sup> Approximately \$60,000 was donated by PG&E's shareholders to these organizations to support their efforts to educate the public about the impacts of climate change and to raise awareness of various potential actions that can help reduce an individual's carbon footprint.
- PG&E attended over 75 events and reached over 500,000 attendees with climate change education and promotion of the ClimateSmart program as one way to take action against climate change. These events included multicultural, environmental, business, municipal, interfaith and other diverse community events that reached many customers, including lower income customers.
- PG&E purchased print and online advertisements and supported various media with stories throughout the year. The latter resulted in more than 29 print media stories, six television segments, and one radio story. The print advertising campaign covered a circulation of more than 8.2 million and the online ad campaign delivered nearly 39 million impressions or page views. The earned, pitched, or print media coverage represented a circulation of more than 4 million. The radio stations carrying the PG&E shareholder-funded 30-second ClimateSmart advertisement have reached more than 2 million listeners, combined.

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<sup>3</sup> The Nature Conservancy supports habitat conservation and protection. <http://www.nature.org>

<sup>4</sup> CalCars.org promotes the adoption of efficient, non-polluting automotive technologies, such as encouraging automotive makers to produce 100+ mpg, high performance, clean Plug-In Hybrid Electric Vehicles. <http://www.calcars.org>

<sup>5</sup> Cool Schools is a student global warming campaign aimed to equip middle and high school students in the Bay Area and beyond with the knowledge and tools to take productive action against global warming in their schools and communities. Cool Schools is a program of the local nonprofit EarthTeam Environmental Network. <http://www.earthteam.net>

- PG&E developed and issued Membership Kits for ClimateSmart participants. These kits explain details about the program, thank customers for their participation, and include promotional items such as wall certificates, window clings and refrigerator magnets.
- PG&E developed an e-Newsletter for ClimateSmart participants, which was e-mailed to over 6,000 of the then-enrolled participants in December 2007. The e-Newsletter provided program updates and tips on how these customers could take further action to fight climate change, such as switching to more efficient light-emitting diode (LED) holiday lights, shifting to e-bills, installing energy efficiency products that qualify for rebates, and encouraging customers to consider on-site solar, among other things. Customer feedback to the e-newsletter was very positive.
- The CPUC authorized PG&E to spend \$16.3 million over three years to support the administration and marketing of ClimateSmart. About \$3.4 million of these funds were expended in initial program start-up period between January 1, 2007, and December 31, 2007. These expenditures supported market research, initial promotion of the program, administration, pre- and post- public launch activities, and marketing and events for the roll-out period.
- PG&E mailed all ClimateSmart program customers a summary version of this Annual Report in early March 2008 (see Appendix A Customer Annual Report).

#### *Tax Deductibility*

- PG&E requested and received a determination from the Internal Revenue Service that ClimateSmart contributions may be tax deductible charitable contributions. To enable this result, PG&E created the ClimateSmart Charity, a California Nonprofit Public Benefit Corporation. In December 2007, the Charity was granted 501(c)(3) status effective back to March 2007, meaning that all customer contributions to the program since its inception are eligible for the tax deduction. On January 31, 2008, PG&E sent letters to all of the program's 2007 participants with this tax information for use in their preparation of 2007 tax returns.

#### *Program Guidance and Oversight*

- To provide expert guidance to the program, PG&E established an External Advisory Group made up of respected community, environmental, business and governmental leaders. The group met quarterly in 2007. The meetings included routine briefings on program results and future plans, discussions to guide specific marketing and messaging approaches, feedback on what EAG members have heard people saying about the program, as well as detailed discussions about GHG emission reduction project solicitations, resulting bids, and proposed terms of the contracts. PG&E provided the EAG members with summaries of the bids, blinded as to the identity of the bidders.
- During 2007, CPUC oversight was maintained through rulings on various PG&E compliance Advice Filings, as well as through CPUC data requests and several follow-up meetings with CPUC representatives.

- All ClimateSmart GHG emission reduction projects are governed by the protocols and independent verification requirements of the CCAR, a nonprofit organization which monitors and tracks GHG emission reductions that are verified by third-party organizations approved by the CCAR and the CEC. The CCAR's Forest Project Protocol was approved in October 2007 by the California Air Resources Board (CARB) for use as an early action measure under Assembly Bill (AB) 32.

These are but a few of the accomplishments and activities for this new, demonstration program during its very busy first year that are described in additional detail in the remainder of this Annual Report.

## 2. Introduction

### a. The History of the Program

In January 2006, PG&E filed Application 06-01-012 with the CPUC to establish a 3-year demonstration program offering customers a means to offset the GHG emissions associated with their usage of natural gas and electricity. PG&E proposed the program as part of its overall climate protection and environmental leadership programs.

On December 14, 2006, in Decision 06-12-032 (the ClimateSmart Decision or Decision), the CPUC approved the proposed program with minor modifications.<sup>6</sup> The ClimateSmart program enables PG&E customers to neutralize the GHG emissions associated with their own natural gas and electric energy use by paying a small volumetric monthly premium on their PG&E bill. The premium is an extra charge of \$0.06528 per therm of natural gas and \$0.00254 per kWh of electricity on the customer's bill.<sup>7</sup> The additional amount for the typical residential customer to become climate neutral through ClimateSmart is, on average, less than \$5.00 a month. Exact premiums are determined monthly based upon each participating customer's actual energy usage and vary by month.

Administrative and marketing costs to support the program are funded by PG&E's customers. Covering the administrative and marketing costs of the ClimateSmart program benefits all customers by educating them on the risks posed by climate change and the actions everyone can take to reduce their impact, as well as by developing California's climate change infrastructure. PG&E is then able to invest 100 percent of participants' contributions in new, independent, competitively bid GHG emission reduction projects in California. These projects generate additional environmental benefits, such as preserving and restoring California's forest ecosystems. As authorized by the CPUC, all projects in which the ClimateSmart

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<sup>6</sup> The program, which was originally referred to as the "Climate Protection Tariff," has since been renamed the "ClimateSmart™ program."

<sup>7</sup> These rate levels were adopted by the CPUC for use during the ClimateSmart program's 2007-2009 demonstration period. The CCAR has independently verified the entity-wide CO<sub>2</sub>-equivalent emissions levels associated with the natural gas and electricity PG&E delivers to its customers. Those values were used to determine the pounds of GHG emissions resulting from each kWh of electricity and therm of natural gas consumed by PG&E's customers and the resulting rate necessary to achieve climate-neutrality assuming an average project cost of \$9.71 per ton for the 2007-2009 period. (D.06-12-032, mimeo p. 47.)

program invests must comply with rigorous protocols established by CCAR and these protocols must be approved by the CPUC for use by the ClimateSmart program.

Among the features that set the ClimateSmart program apart are:

- All GHG emission reduction projects supported by ClimateSmart contributions follow the rigorous standards-based protocols from CCAR which require that projects are verifiable, quantifiable, additional, and permanent;
- Projects are selected through a formal, competitive process based on established practices and standards used to govern the company's purchase of renewable and conventional energy supplies;
- All GHG emission reductions purchased by the ClimateSmart program are retired and cannot be used for any other purpose;
- 100 percent of participants' contributions go to support GHG emission reduction projects;
- The program makes customers energy carbon neutral, based on the GHG emissions associated with their own natural gas and electric energy use;
- Monthly premiums paid by enrolled customers are considered charitable contributions and are eligible for a tax deduction; and
- This program is subject to CPUC oversight and receives advice on a quarterly basis from a diverse External Advisory Group made up of respected community, environmental, business, and government leaders.

The program's demonstration period is set to end on December 31, 2009, unless extended by the Commission. By that date, PG&E anticipates that the ClimateSmart program will raise at least \$14.6 million from premiums and result in contractual commitments, entered into by December 31, 2009, that will over time cumulatively reduce at least 1.5 million tons of CO<sub>2</sub>—the equivalent of taking at least 270,000 cars off the road for one year.<sup>8</sup>

## **b. The Contents of This Annual Report**

In the Climate Smart Decision, the CPUC ordered PG&E to issue an annual report for each of the three program years, 2007 through 2009. The first report for 2007 is due by March 15, 2008.<sup>9</sup> The ClimateSmart Decision requires that certain information be included in the report for the previous calendar year, in this case January 1, 2007, through December 31, 2007. For this first report, PG&E is also including statistical data through January 31, 2008 as well as highlights of significant events that have occurred in January and February 2008. The 2008 events touched upon in this report will be addressed more completely in next year's report.

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<sup>8</sup> <http://www.epa.gov/cleanenergy/energy-resources/calculator.html>.

<sup>9</sup> Since March 15 falls on a Saturday, PG&E is submitting its first report on March 17, 2008.

The ClimateSmart Decision orders the Commission's Energy Division to review the reports in order to determine: (1) whether the program meets the requirements of the Decision; (2) whether projected program participation levels are being achieved; and (3) the degree of success in GHG contracting and amount of GHG reductions. For the Energy Division's convenience, PG&E has included in Appendix B a summary of the required contents for this Annual Report and a cross reference to the sections in this report where these requirements are addressed. The Decision also directs PG&E to meet a number of other requirements that are addressed in this Annual Report.

For example, the annual report that PG&E sent to participating customers is provided in Appendix A. The standard form Verified Emission Reduction Purchase and Sale Agreement (VERPA) for PG&E's GHG emission reduction projects is provided in Appendix C.

The major sections of the remainder of this Annual Report are:

- Section 3 – Program Implementation and Administration;
- Section 4 – 2007 Marketing, Customer Education and Communications;
- Section 5 – ClimateSmart Contracts and GHG Impact;
- Section 6 – ClimateSmart Premiums Are Tax Deductible;
- Section 7 – Financial Results;
- Section 8 – Challenges and Lessons Learned; and
- Section 9 – Conclusion

### **c. Other Regulatory Developments and Submittals**

During 2007 and early 2008, PG&E submitted a number of advice letters with the CPUC and made other regulatory filings to advance the program. These submittals addressed the tariffs and accounting, PG&E's administrative and marketing costs and plans, GHG emission reduction project protocols, and tax deductibility. A complete list of these submittals, with advice filing numbers, is provided in Appendix D, the main effects of which are summarized below.

PG&E filed with the CPUC proposed tariff language and accounting rules for balancing accounts to track administrative and marketing costs, as well as customer contributions to the program. PG&E also sought and received approval from the CPUC to transfer the administrative and marketing budget from 2006 to 2007 due to the fact that the program was not approved until December 14, 2006.

Similarly, in February 2008, PG&E filed an advice letter seeking the CPUC's approval to transfer unspent ClimateSmart program administrative and marketing funds from the 2007 budget to the 2008 budget. In addition, the advice letter seeks redefinition of a small portion of the transferred unspent 2007 funds from the administrative to the marketing budget category, to further support the intensified ramp-up of outreach activities in 2008 needed to achieve program goals.

In June 2007, PG&E submitted an advice letter to the CPUC requesting approval of its Marketing Plan. Also in June 2007, PG&E submitted a request to the CPUC to allow PG&E to solicit GHG emission reduction contracts under the Livestock Methane Capture Project Protocol approved by the CCAR in June 2007. This request is still pending.

On the issue of tax deductibility (described in detail in Section 6 below), in the ClimateSmart Decision, the Commission ordered PG&E to investigate what could be done to make residential customers' ClimateSmart premiums tax deductible. To that end, PG&E created the ClimateSmart Charity ("Charity") as an independent, California Nonprofit Public Benefit Corporation on March 1, 2007, to receive customer contributions and to pay for the GHG emission reductions. On December 19, 2007, the Internal Revenue Service granted the Charity 501(c)(3) status, retroactive to its March 1, 2007, date of incorporation. In January 2008, under a provision of state law that gives state effect to the federal determination, the Charity applied for similar charitable status with the California Franchise Tax Board. The request for affirmation from the Franchise Tax Board is pending.

### **3. Program Implementation and Administration**

This section presents an overview of the program's (a) administrative efforts to prepare for, and launch, the program; (b) customer participation through January 31, 2008 (including enrollments, attrition and contributions); and (c) work with the CCAR and the program's External Advisory Group.

#### **a. Administrative Efforts**

##### **i. *Preparation for the Launch (January 2007 – June 28, 2007)***

Immediately after the CPUC issued the ClimateSmart Decision, PG&E began preparing for program launch. A cross-departmental team of over 20 PG&E employees responsible for various ClimateSmart tasks began meeting regularly in early January 2007. The ClimateSmart program hired a product manager, a program manager (largely focused environmental issues including GHG emission reduction project solicitation and contracting), a communications manager (to oversee marketing, events and other outreach), and an administrative assistant to support the team's overall efforts.

Administrative preparations for the launch of the program required a number of major administrative efforts, including the following: (See also Section 4 regarding marketing efforts.)

- Developed web-based information for PG&E's web site for <http://theClimateSmart.com>.<sup>10</sup>

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<sup>10</sup> Go to <http://www.pge.com/climatesmart> to see current web pages. Snapshots of earlier web pages are included in the CD accompanying delivered hard copies of this Annual Report or available upon request for those receiving the Report via electronic service.

- Launched a Carbon Calculator on the PG&E web site<sup>11</sup> to allow all customers to calculate their energy and transportation carbon footprint, compare their results to the carbon emissions of the average American, the average Californian and the average world citizen, as well as estimate their cost to join the ClimateSmart program to offset their own carbon emissions from energy usage.
- Developed user-friendly enrollment procedures to make it easy for customers to sign-up, including alerts to advise PG&E's customer service representatives which accounts are enrolled in the ClimateSmart program.
- Established and quarterly convened an External Advisory Group to help guide the program, pursuant to the CPUC's ClimateSmart Decision. (See Section 3.c.iii below.)
- Developed billing and payment processing procedures, redesigned the bill to present the ClimateSmart premiums, and thoroughly tested the program code and algorithms to ensure the accuracy of the bill calculation before launching program.
- Conducted external focus groups to further test initial outreach messaging and materials before the launch. Prudent practices required all of the above functionality and marketing preparation to be completed and in place before going live with the program to PG&E's approximately 6 million customers.
- Conducted initial outreach to affinity groups (i.e., environmental, business, faith communities, low income and ethnic groups, community groups, nonprofits as well as local governments) whose leadership and/or constituents were believed likely to have potential interest in ClimateSmart or climate change in general. The ClimateSmart team planned such outreach events in coordination with other PG&E events sponsorship, coverage and support to leverage mutual outreach possibilities as much as possible. For example ClimateSmart coordinated with other PG&E departments such as Customer Energy Efficiency (CEE), Government Relations, Environmental Policy, Service and Sales, and with the California Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) program outreach efforts. Wherever possible, integrated marketing utilizing cross-program multifaceted messaging encompassing PG&E's holistic portfolio of climate change solutions was emphasized in the ClimateSmart program's outreach efforts and materials. (See Appendix F for a complete list of events in 2007 that included ClimateSmart outreach.)
- Test marketed ClimateSmart program promotions on its own employees in a pre-enrollment campaign during May 2007.

**ii. Initial Outreach Period (June 28, 2007 – January 31, 2008)**

After test marketing the program to its employees and conducting customer focus groups, PG&E launched the program to all PG&E customers on June 28,

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<sup>11</sup> Go to [http://www.pge.com/about\\_us/environment/calculator/](http://www.pge.com/about_us/environment/calculator/).

2007. During this initial roll-out period, the ClimateSmart program hired an environmental specialist to assist the program manager by providing additional support for GHG emission reduction project contracting and tracking as well as other post-launch program needs. In January 2008, the program hired an events and marketing coordinator to provide further support for stepped-up public outreach in 2008. Major post-launch ClimateSmart program administrative efforts between July 1, 2007, and January 31, 2008 included the following:

- Developed detailed program tracking metrics and recalibrated as necessary to adapt to actual results. These metrics include monthly revenue collection and enrollment goals for different customer classes in order to meet or exceed the CPUC performance standard by end of 2009.
- Developed the Request for Offers (RFO) and contract, issued the first solicitation of independent bids for GHG emission reduction projects and negotiated the first contracts thereunder. (See Section 5 below for details.)
- Routinely met with the CCAR to monitor its progress on developing new project protocols and development of the systems to track the GHG emission reductions.
- Developed a “tiered offerings” template, as well as co-marketing guidelines and event selection criteria, going forward for 2008, to better focus efforts and foster greater consistency of customer outreach and messaging.
- Conducted training for PG&E’s Sales and Service employees as well as Government Relations representatives in the field on ClimateSmart and held meetings with them to share lessons learned from outreach they conducted through January 31, 2008.
- Applied for, received and announced to all participants the Internal Revenue Service (IRS) determination of 501(c)(3) status for the ClimateSmart Charity. (See Section 6 below for details.)
- Coordinated with CEE, and other internal teams to conduct outreach on complementary products to maximize coordination on outreach and leverage available information as much as possible, and began to convey integrated marketing messages as part of ClimateSmart outreach.
- Conducted low income outreach, including climate change education and ClimateSmart promotion at numerous multicultural events and in ethnic faith communities. (See list in Appendix F.) Began coordinating outreach with PG&E’s Low Income Energy Efficiency (LIEE) program. Developed a flier geared to low income customers containing educational messages about climate change to be distributed through LIEE channels including Community Based Organizations. PG&E’s ClimateSmart bill inserts, sent to approximately 6 million customers in each of September 2007 and January 2008, reached low income customers as well and included messaging about reducing energy usage to fight climate change in addition to joining ClimateSmart. Finally, the External Advisory Group has seen active participation during its five meetings since spring 2007 by its low income and

community representative; and ClimateSmart input was sought from the CPUC-created Low Income Oversight Board.

- Filed public comments with the Federal Trade Commission (FTC) after its January 8, 2008, public workshop on voluntary offsets, renewable energy credits and various advertising claims about them (supporting the FTC's regulatory review and update of its Guides for the Use of Environmental Marketing Claims, otherwise known as "Green Guides").<sup>12</sup> Through this workshop and comments, the FTC sought to leverage knowledge developed by stakeholders in the voluntary offset market in the U.S. and abroad, such as PG&E, to bring a higher sense of quality to the voluntary offset market. The offset workshop was covered in several news articles including by the New York Times.<sup>13</sup>

## **b. Customer Participation**

By January 31, 2008, seven months after public launch, over 16,000 residential, commercial and agricultural customers had joined this innovative program.<sup>14</sup> Combined, these customers have contributed over \$860,000, to make their energy usage "climate neutral." These enrollment and contribution figures are discussed in more detail below.

### **i. Program Enrollments**

Table 3-1 below shows the breakdown of the 16,000 PG&E customers who were actively enrolled in the ClimateSmart at the end of 2007 and through January 2008:

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<sup>12</sup> PG&E's January 25, 2008, publicly-filed comments to the FTC can be found at [http://www.pge.com/regulation/ClimateProtectionTariff/Pleadings/PGE/2008/ClimateProtectionTariff\\_Plea\\_PGE\\_20080125-01.doc](http://www.pge.com/regulation/ClimateProtectionTariff/Pleadings/PGE/2008/ClimateProtectionTariff_Plea_PGE_20080125-01.doc).

<sup>13</sup> [http://www.nytimes.com/2008/01/09/business/09offsets.html?\\_r=1&oref=slogin](http://www.nytimes.com/2008/01/09/business/09offsets.html?_r=1&oref=slogin).

<sup>14</sup> The program's enrollees included over 800 PG&E utility employee participants as of January 31, 2008.

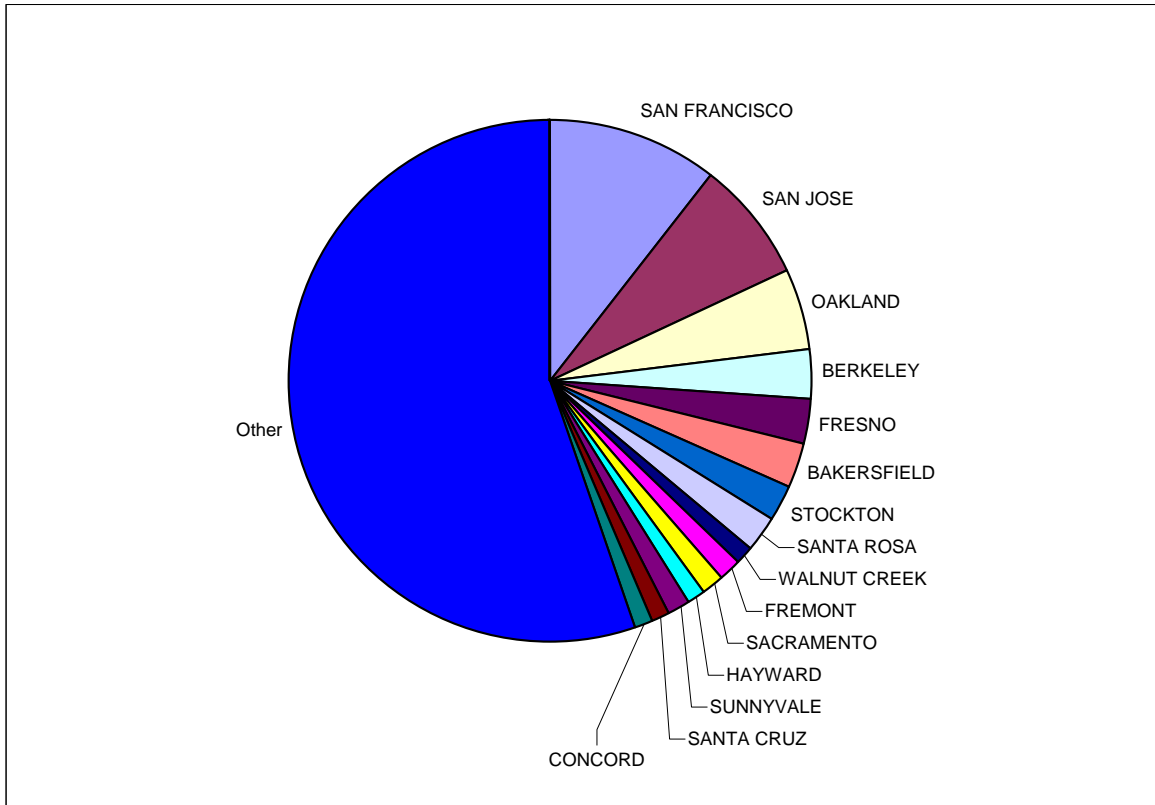
**TABLE 3-1  
PACIFIC GAS AND ELECTRIC COMPANY  
NUMBER OF ACTIVE CLIMATESMART PROGRAM PARTICIPANTS  
(AS OF DECEMBER 31, 2007 AND JANUARY 31, 2008)**

Customer Type	Number (cumulative, as of 12/31/07)	Number (cumulative, as of 1/31/08)
Residential	14,378	15,940
Commercial/Agricultural/Government/ Nonprofits/Faith Communities	176	201
PG&E (Buildings Systemwide, Using Shareholder Funds)	18	18
<b>Total</b>	<b>14,572</b>	<b>16,159</b>

PG&E's January 2006 testimony in Application 06-01-012 had projected that, after one full year of operations, under PG&E's stretch goals, estimated program enrollments might range between 28,000 – 69,000, with a projected medium level of 40,000. Based upon the first seven months' worth of enrollment data, it appears that the one-year enrollment figure (as of June 28, 2008, after a full year of post-launch operations) will be within this range.

**Customers From Wide Geographic Area:** Residential, commercial and agricultural customers enrolled in the program from all across PG&E's service area, including 558 different cities stretching from Eureka to Bakersfield with the cities having the highest number of participant accounts as of January 1, 2008, shown in Figure 3-1, below:

**FIGURE 3-1  
PACIFIC GAS AND ELECTRIC COMPANY  
TOP CITIES FOR CLIMATESMART PARTICIPANT ACCOUNTS THROUGH 1/31/08**



**Non-Residential Customer Participation:** Participation by commercial customers has been significant. This is particularly important to the program's effectiveness in the fight against climate change because of the commercial sector's larger energy use and associated carbon footprint. As of January 31, 2008, in addition to PG&E which signed up for its own buildings, 201 commercial and agricultural customers had joined the ClimateSmart program.

Participating organizations with commercial accounts include:<sup>15</sup>

- **Larger Businesses:** Cisco Systems, eBay, IKEA of West Sacramento, Longs Drugs, Paul Hobbs Winery, Bear Valley Ski Resort, New Resource Bank, South Bayside Waste Management Authority, NRG Energy Center San Francisco, Sierra Nevada Brewing Company, and County Bank's 36 Branches, and PG&E;

<sup>15</sup> Please note that this list includes only those larger businesses and nonprofit organizations that, as of late February, had agreed to have their names listed in this report. Under CPUC customer confidentiality rules, PG&E seeks customer authorization before it discloses a customer's participation in the ClimateSmart program.

- **Cities:** Millbrae (near San Francisco), Rocklin (near Sacramento), and Riverbank (in the Central Valley);
- **Schools:** Julia Morgan School for Girls and the Marin Country Day School;
- **Faith Communities:** Methodist Church of Newcastle, the United Methodist Church of Santa Cruz, the Christian Science Church of Fort Bragg, and Temple Bethesda in Stockton; and
- **Non-Profits:** The Climate Protection Campaign, Communication Workers of America, Mendocino Coast Chamber of Commerce, and the Sempervirens Fund.

**PG&E – The First ClimateSmart Customer:** PG&E is proud to have been the first participant to sign up for the ClimateSmart program, making its buildings' energy use climate neutral starting January 1, 2007, through a commitment of approximately \$1.5 million in shareholder funds to the program's GHG emission reduction projects through the end of 2009. As a ClimateSmart customer, PG&E will be charged the same rate based on monthly gas and electricity use as all other customers.

**Example of a Residential Customer Participant: A “Mother Making a Difference”** (as featured in the program's E-Newsletter): Santa Rosa's Sarah Abramson is a working mother with two small children who wants to lead by example when it comes to protecting the environment and fighting climate change. In addition to living an environmentally conscious lifestyle, Sarah signed up her home, as well as her small business, Halls Executive Gifts & Awards, in ClimateSmart. Her motivation is simple: “I love my kids,” she says “It's important to think about their future and to do what we can now to leave the world in a better place for them.”

**Example of a Business Customer Participant – “How Producing a Premium Product Does Not Have to Cost the Environment”** (as featured in the program's E-Newsletter): Chico-based Sierra Nevada Brewery is committed to the environment by setting its sights on achieving a “zero carbon footprint.” According to founder and owner Ken Grossman, “While our brewery requires reliable power 24/7, Sierra Nevada is committed to reducing our environmental impact on the Chico community.” To help them meet their goal, Sierra Nevada signed on as one of the first corporate customers of ClimateSmart.

In addition to joining the ClimateSmart program, Sierra Nevada has made significant reductions in its energy use through heat recovery systems and the installation of energy-efficient lights, motors and refrigeration systems. The company also began producing its own energy through two solar installations—503 kW currently up and running and one megawatt in the installation process—and an investment in cutting-edge fuel cell technology which utilizes captured methane (a greenhouse gas) waste as a fuel source. For the electricity that they do need to purchase through PG&E, Grossman replied, “Now the small portion of electricity that we still need is carbon neutral, bringing us one step closer to becoming a carbon neutral company.”

**ii. Program Attrition**

As of January 31, 2008, attrition from the program totaled 601 of those originally volunteering to sign up for the ClimateSmart program, amounting to an attrition rate of only 3.7 percent. Of this 601 attrition figure, only 238 ClimateSmart customers, or 1.5 percent, actively chose to de-enroll from the program but remained as PG&E customers; the remaining customers dropped off of PG&E service overall and did not transfer to another account on PG&E's system.

Available information from analogous (but not identical) utility green pricing programs nationwide indicates attrition rates elsewhere that can be as high as 10 percent per year. PG&E's planning has continued to conservatively assume an annualized 10 percent attrition rate. PG&E's attrition rate for the ClimateSmart program currently is significantly lower than the expected rate and is therefore not considered to be cause for concern at this time. Nonetheless, PG&E has initiated an ongoing effort to investigate the reasons customers are choosing to de-enroll in order to effect improvements and strengthen program retention.

In late January 2008, PG&E saw a small increase in de-enrollment rates perhaps due to higher winter bills, which have included ClimateSmart contributions that would have been higher than the annual average. Also, in February 2008, about 15 customers requested to be de-enrolled in response to the January 31, 2008, letter announcing tax deductibility of their 2007 contributions, with several indicating they had misunderstood the nature of this program.

The number of customers participating in the program (by month) including the numbers of new enrollments and customers ceasing participation are shown in Table 3-2 below:

**TABLE 3-2  
PACIFIC GAS AND ELECTRIC COMPANY  
CLIMATESMART ENROLLMENT**

	Jan- May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan '08
New Enrollments	17	1,360	544	1,409	3,433	6,465	1,241	629	1,662
Monthly Attrition	1	11	23	32	52	146	128	133	75
Attrition Percentage	6.3%	0.8%	1.2%	1.0%	0.8%	1.1%	0.9%	0.9%	0.5%
Cumulative Active Enrollments	16	1,365	1,886	3,263	6,644	12,963	14,076	14,572	16,159

**iii. Participants' Contributions**

As reflected in Table 3-3 below, participants' contributions to the ClimateSmart program through January 31, 2008, combined for a total of over \$860,000.

**TABLE 3-3  
PACIFIC GAS AND ELECTRIC COMPANY  
CONTRIBUTIONS TO THE CLIMATESMART PROGRAM  
(\$ THOUSANDS)**

Customer Type	Contributions (Cumulative, as of 12/31/07)	Contributions (Cumulative, as of 1/31/08)
Residential (including PG&E employees)	\$129	\$216
Commercial/Agricultural	73	93
PG&E Buildings (through shareholder funds)	502	554
<b>Total</b>	<b>\$704</b>	<b>\$863</b>

One hundred percent (100%) of all contributions go to funding new, independent GHG emission reduction projects. (See discussion of Projects in Section 5.) Pursuant to the ClimateSmart Decision, the cost to administer and promote the program come from an authorized budget that is funded by all PG&E customers through a small separate rate component. (See Section 7 for more details.)

**c. Program Partners**

**i. *The California Climate Action Registry***

The CPUC ordered PG&E to ensure that all GHG emission reductions contracted for through the ClimateSmart program meet the verification requirements of the project protocols established by CCAR.<sup>16</sup> The CCAR was established in 2001 by California statute as a non-profit voluntary registry for GHG emissions. The CCAR develops specific protocols (i.e., guidelines and rules) that define the process for measuring and monitoring GHG emission reductions from a project in a consistent and independently verifiable format. This standards-based approach is becoming the international standard for GHG emission reductions and will raise the quality and lower the verification cost for these types of projects. In addition to project protocols, the CCAR develops standards for qualified third-party organizations to verify projects.

The CPUC's decision approving the ClimateSmart program included funding from all ratepayers to support the CCAR's development of additional project protocols, beyond its current forest sequestration protocols. If approved by the CPUC for use in the ClimateSmart program, these new CCAR protocols would allow diversification of ClimateSmart projects as the program expands and progresses. The CCAR's development of a wider array of GHG emission reduction project protocols will allow more high quality projects to be undertaken, not only by the ClimateSmart program, but also by any other entity seeking GHG emission reduction projects. The ClimateSmart program's use of the CCAR's

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<sup>16</sup> See D.06-12-032, Ordering Paragraph 28.

project protocols allows these standards to be “road tested” and further helps develop and broaden California’s GHG fighting infrastructure.

Development of project protocols has proceeded somewhat more slowly than PG&E originally anticipated, with no new CCAR project protocols being developed in 2006 and two protocols developed in 2007. One of these 2007 protocols was developed with ClimateSmart funds: the Livestock Methane Capture Project Protocol. The CCAR also developed the Landfill Project Reporting Protocol in 2007 and the ClimateSmart program is investigating funding it as well. Another new CCAR project protocol, for urban forestry projects, is currently scheduled to be completed in third quarter-2008 which reflects a delay of 10 months from the CCAR’s original estimated completion date. PG&E is encouraging the CCAR to develop more protocols in 2008 and early 2009 using the CCAR’s independent selection and development processes. As other types of project protocols are developed and approved by CCAR, PG&E will seek approval by the CPUC to include them in the ClimateSmart program. Expanding the breadth of ClimateSmart projects, such as including appropriate livestock and landfill methane capture projects, is critical to the diversification of the project portfolio for the ClimateSmart program, as envisioned by the CPUC in its ClimateSmart Decision. Such diversification and “road testing” of a range of projects under the CCAR protocols also helps ensure the success of California’s overall efforts to fight climate change by developing a broad and proven infrastructure in our state.

## ii. ***The External Advisory Group***

The Commission approved formation of an External Advisory Group (or EAG)<sup>17</sup> to provide feedback and input on the ClimateSmart program. The EAG is comprised of representatives from a wide range of interests, including residential and business customers; environmental, agricultural and community groups, including those from the low income community; state and local government agencies; and the Commission staff. PG&E is honored to have such a talented and distinguished EAG. The distinguished members of the EAG are:

- Melissa Capria, Climate Coordinator, Department of the Environment, City and County of San Francisco;
- Linda Carlson, Residential Customer;
- Jamie Fordyce, Division of Strategic Planning, California Public Utilities Commission;
- Dan Geis, Assistant Executive Director, Agricultural Energy Consumers Association;
- Ann Hancock, Executive Director, Climate Protection Campaign;
- Ortensia Lopez, Executive Director, Low Income Oversight Board;

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<sup>17</sup> See D.06-12-032, Ordering Paragraphs 1 and 23.

- Peter Miller, Consultant, Natural Resources Defense Council;
- Y. Armando Nieto, Development Director, Redefining Progress;
- Elena Powers, Senior Manager, Energy Program Management, Genentech;
- Honorable Art Rosenfeld, Commissioner, California Energy Commission;
- Hank Ryan, Executive Director, Small Business California; and
- Nina Suetake, Staff Attorney, The Utility Reform Network.

In 2007, the EAG met on April 25, June 18, August 9, and October 11. During 2008, PG&E plans to hold quarterly EAG meetings, the first of which was held on January 17, 2008. To maximize the EAG's effectiveness and ensure that its meetings include the diverse and unbiased opinions of the members, the meetings are facilitated by a professional facilitator from SustainAbility. The meetings, which typically last about three hours, include routine briefings on program results and future plans, discussions to guide specific marketing and messaging approaches, feedback on what EAG members have heard about the program, as well as detailed discussions about GHG emission reduction project solicitations. Feedback from the EAG was very helpful in selecting the projects with which PG&E pursued negotiations and vet some of the challenging issues around project contracting, such as permanence and financial additionality.<sup>18</sup> In between meetings, the program manager communicates regularly with EAG members regarding significant developments.

#### **4. 2007 Marketing, Customer Education and Communications**

In 2007, the program's marketing and communication activities placed a concentrated focus on educating customers about climate change as well as introducing and creating awareness about the new ClimateSmart program. Whenever possible, the collateral developed for the program included information on what causes climate change and recommended a variety of activities individuals can take to reduce their carbon footprint, including installing compact fluorescent lights and replacing inefficient appliances. Key activities in 2007 included an internal and external launch campaign, followed by other outreach activities such as direct mail campaigns to residential customers, print and radio advertising, events and conferences and outreach activities to businesses and affinity groups. To the extent possible, the communication materials were printed on either post consumer recycled paper or 100% recycled paper using soy-based ink.

As a special incentive for employees and customers who signed up during the initial launch of the ClimateSmart program, PG&E donated shareholder-funded charitable contributions to selected climate change-related charities of the employee's or customer's

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<sup>18</sup> Financial additionality demonstrates that the activity of a given project achieves the GHG emission reductions that exceed business as usual by showing that the revenues received by the seller are necessary to complete the financing of the project. To prove financial additionality the project proponent must provide evidence that shows that "but for" funds provided by a buyer of verified GHG emissions reductions, the project that generates the verified emission reductions would not have occurred. (See Section 5 for additional discussion on these terms.)

choice. For the employee's 2007 initial enrollment campaign, employees could choose to donate to The Nature Conservancy or CalCars.org. For the customer's 2007 initial enrollment campaign, customers could choose to donate to The Nature Conservancy, CalCars.org, or EarthTeam's Cool Schools program. Approximately \$60,000 was donated by PG&E's shareholders to these organizations to support their efforts to educate the public about the impacts of climate change and to raise awareness of various potential actions that can help reduce an individual's carbon footprint.

Furthermore, PG&E donated additional shareholder-funded charitable contributions to selected climate change-related charities whose focus was educating the public about the impacts of climate change. These organizations included:

- Sustainable Silicon Valley (SSV) for their annual report to members. SSV is a collaboration of more than 75 businesses, governments, and non-governmental organizations that are identifying and addressing environmental and resource pressures in the Valley.
- The Climate Project for a workshop for their volunteers. The Climate Project is a nonprofit organization with the mission of increasing public awareness of climate change at a grassroots level.
- California Interfaith Power and Light for two conferences encouraging faith communities to educate their members about climate change. California Interfaith Power and Light is working to mobilize a religious response to climate change and has more 460 congregations of many diverse faith traditions as members.

In addition to implementing these outreach activities, the ClimateSmart team also leveraged key learnings in 2007 to continue to refine and build an integrated and robust marketing and communication plan in 2008. With 2007 being the year that the ClimateSmart program was initially launched to the general public, the program experienced both successes and challenges with its marketing and communications results. The biggest challenge in 2007 was generating awareness and comprehension of the ClimateSmart program, which can be a complicated program to explain to customers. As the program progresses and gains increased momentum and traction, a concerted effort is being made to begin to transition the program from its introductory phase into a more mainstream phase.

Toward these ends, communication plans are being developed based upon key learnings gathered in 2007 to build a robust, integrated 2008 marketing and communication plan. This integrated plan will address the most effective messaging, targeting, and communication channels to reach residential and business customers.

The remainder of this section is divided into two subsections. The first subsection (a) provides a quarter-by-quarter summary of key marketing and communication activities in 2007. The second subsection (b) summarizes key findings from the customer research conducted in 2007. A listing of all ClimateSmart marketing and communications materials produced in 2007 is provided in Appendix E. A Compact Disc (CD) that includes the actual items referenced in Appendix E has been provided to the CPUC and is also available to other parties upon request.

## **a. Summary of Activities by Quarter**

### **i. Q1: January – February – March**

The majority of the marketing and communications focus during the first quarter of 2007 was on developing initial messaging, and logo, print advertisement and brochure concepts to introduce and explain the program. A second focus in the first quarter was conducting market research to determine the messaging and creative concepts that might be most likely to drive potential participants to respond to initial program outreach.

#### **Initial Messaging**

##### **ClimateSmart Logo and Initial Print Advertisement Concept**

Logo and print advertisement concepts were developed during the first quarter of 2007 and tested favorably in March 2007 focus groups. The initial “sprout” logo concept—the current ClimateSmart logo (see cover of this Annual Report)—was executed during the first quarter of 2007. Based on focus group findings, the print advertisement concept and messaging continued to be revised in anticipation of the June external launch of the program.

##### **Initial Media Coverage**

After the Commission approved the program in mid-December 2006, PG&E issued a December 2006 press release, which garnered significant initial press coverage during the last quarter of 2006 and the first quarter of 2007. This coverage included such top tier media as *The New York Times*, as well as local top tier dailies such as the *Oakland Tribune*, *East Bay Business Times*, *San Francisco Chronicle*, and the *Contra Costa Times*. No press releases were distributed during the first quarter of 2007.

#### **Market Research**

##### **Focus Groups With Residential Customers**

Focus groups were conducted in March 2007 with residential customers in Fresno, Sacramento and San Francisco to determine the level of interest in the ClimateSmart program, test the initial messaging, print ad and logo concept, and evaluate whether the initial messaging was effective in driving participants to the web site. (See Section 4.b. Key Findings From Market Research.)

##### **Survey Among Residential and Small Business Customers**

Work began with Hiner & Partners, Inc. in March 2007 to develop a telephone survey among PG&E’s residential and small business customers to gather additional information to guide the messaging, sign-up strategy and program features. The survey was conducted in April 2007. (See Section 4.b. Key Findings From Market Research.)

## **Affinity Group Outreach**

Pre-launch, the ClimateSmart team was already identifying outreach opportunities which included a concentrated focus on various affinity groups believed to be particularly interested in climate change. These groups included ethnic and religious community groups, as well as lower income customers. Education and outreach focused on avenues to educate customers about their carbon footprint as one cause of global warming, as well as about ways to reduce their impact through not only ClimateSmart program but also energy efficiency, on site renewables and other actions. At the ClimateSmart launch event, PG&E was interviewed by Chinese news stations New Tang Dynasty TV, KMTP Channel 32, and KTSF Channel 26, and Chinese newspapers *Ming Pao Daily* and *The China Press*. In addition, on the day of the ClimateSmart launch in San Francisco, an ethnic media roundtable was hosted by PG&E and New American Media in Fresno where the launch of ClimateSmart was announced. Media outlets represented at this event included Radio Campesina, TV Azteca, Vida en el Valle, Univision Fresno, El Reportero and Radio Bilingue.

### **ii. Q2: April – May – June**

During the second quarter, the emphasis was on the rollout strategy for the program. The rollout was made up of two key phases. The first phase of the marketing communications began in May 2007 with an internal campaign to sign-up customers from PG&E's 20,000 employee base. This phase represented an opportunity to refine the program's messaging and processes before general rollout across PG&E's service territory. The kickoff to the second phase of the program—general rollout—was denoted by a launch event on June 28, 2007. (See "Symposium on Voluntary Carbon Offset Program" discussed below.)

## **Internal Communications**

### **Internal Launch of ClimateSmart to PG&E Employees**

One month prior to the public launch of the ClimateSmart program, PG&E piloted the systems and messages with employees across the company's service area through a series of events and internal communications. The goal of the internal launch was to raise awareness on climate change, provide an introduction to the ClimateSmart program among PG&E employees and test the systems put in place for external customer enrollment. Central to the internal launch was an Environmental Event Series that offered a variety of environmentally-focused topics and speakers. The Event Series was held at PG&E's 77 Beale and 245 Market Street offices in San Francisco. Speakers included: Dr. Stephen Schneider, Professor and Climatologist, Stanford University; Zem Joaquin, *House & Garden* Eco-Editor and Eco-consultant; Annabelle Malins, Consul, *Science and Technology*, British Consulate-General; and William McDonough, FAIA, Architect. Live audio conferences of each event were made available for employees across PG&E's entire service territory.

## **Market Research**

### **Pre-Launch Survey**

In preparation for the program to be launched to external customers starting on June 28, 2007, PG&E worked with Kelton Research to gain insight from 1,000 nationally representative Americans, ages 18 and older, on the topic of climate change. An online survey was conducted from June 21-25, 2007. Survey data was used in future marketing communications in the second, third and fourth quarters of 2007, including fact sheets for business and government customers, and press releases and media discussions about the program. (See Section 4.b. Key Findings From Market Research.)

### **Focus Groups With Residential Customers**

A second round of focus groups was conducted in June 2007 to gauge feedback on final messaging for the print ad, the overall call to action and early brochure concepts for the launch. Response to a series of quotes from partners and community and government leaders was also tested for potential use in marketing communications. (See Section 4.b., Key Findings From Market Research.)

### **External Launch of ClimateSmart Program to Customers**

Following the internal launch, the ClimateSmart program was launched publicly to customers on June 28, with an emphasis on the greater San Francisco Bay Area. The greater San Francisco Bay Area was chosen based on initial research, surveys and focus groups conducted during the first quarter, as well as the large number northern California cities (including many cities in the Bay Area) that have signed the U.S. Mayors Climate Protection Agreement—a voluntary commitment by U.S. cities to set targets for reducing GHG emissions and global warming pollution in their communities. The launch activities included a press conference to announce the debut of the program, followed immediately by a PG&E-hosted symposium on voluntary carbon offset programs. A print and online advertising campaign kicked off the same day.

### **Press Conference and Symposium**

Media, governmental and environmental partners were invited to a morning press conference and symposium hosted at the Golden Gate Club in San Francisco's Presidio. The venue offered a perfect stage to announce the launch of this environmental program. Guests were provided a beautiful view of the Presidio forests, the San Francisco Bay and the Golden Gate Bridge. The event was 100 percent "climate neutral." PG&E made arrangements to purchase GHG emission reductions to offset the climate impact of the event, including energy usage at the facility and transportation to and from the event by attendees.

The press conference attracted local and environmental reporters. The press release announcing the launch of the program, along with targeted pitches to media contacts, added to the attention and media coverage. After PG&E announced the launch of the program, the two-hour symposium began.

## **Symposium on Voluntary Carbon Offset Programs**

A Symposium on Voluntary Carbon Offset Programs was organized by PG&E on June 28, 2007, and held in San Francisco as part of the launch of the ClimateSmart program to the public. Symposium topics included a discussion of voluntary carbon offset markets, development of global standards and protocols, carbon offset project selection, the value of carbon storage in trees and forests, and program verification and accounting practices. Moderator Ricardo Bayon (Ecosystem Marketplace) led the discussion with distinguished panelists that included Cheri Chastain (Sierra Nevada Brewing Company); Eric Holst (Environmental Defense), Dan Kammen (University of California, Berkeley); Peter Liu (New Resource Bank); Wendy Pulling (PG&E); Laurie Wayburn (Pacific Forest Trust); and Diane Wittenberg (California Climate Action Registry). Invited guests at the launch included environmental thought leaders with expertise in climate change. Attendees received packets with various informative and promotional items concerning the ClimateSmart program. An audio recording of the Symposium was placed on PG&E's ClimateSmart web pages along with photos and key quotes from the event in order to educate all interested customers about climate change, carbon offsets and the ClimateSmart program's approach.

## **Press Release**

During launch week, English and Spanish versions of the launch press release were developed and sent to targeted media outlets. Media pitches for the launch resulted in coverage from local dailies, online publications and wire services. Media coverage included *San Francisco Chronicle*, *The Oakland Tribune*, *Reuters*, New Tang Dynasty TV, KMTP Channel 32, KTSF Channel 26, California Energy Circuit, Greenbiz.com, and Greenwire.

## **Print and Online Advertising**

The morning of the launch event, a ClimateSmart print advertisement ran in daily newspapers across PG&E's service area. Newspaper advertising continued throughout June and July. The print ad also ran throughout July in the weekly edition of the *San Francisco* magazine, with select insertions in August, September, October and November. *San Jose Magazine*, a monthly publication, ran the ad from August through November.

Online banners were a key component in the advertising campaign, served up by ad networks to various properties with a green focus such as Weatherbug.com, Treehugger.com, NationalGeographic.com, as well as SanFranMag.com, SFGate.com, MSN.com and CNN.com. The online media buy was largely based on a pay-per-click model which allowed placement to be adjusted based upon performance. Banners drove interested customers to <http://www.pge.com/climatesmart> for more information, to use the carbon footprint calculator, and to sign up.

## **Local Events**

During launch week, the ClimateSmart team established a presence at selected local events and distributed the fact sheet and enrollment forms. For example, ClimateSmart sponsored a booth at the Giants versus Yankees game at AT&T Park on June 24, and PG&E sponsored a June 16 Eco-Fair with educational exhibits and interactive activities highlighted by an outdoor screening (biodiesel-

powered) of the climate-change themed movie “Happy Feet” at Dolores Park in San Francisco. The ClimateSmart team recruited and trained PG&E employees as volunteers to act as program ambassadors at local events and to be prepared to discuss the program, answer questions and manage enrollments. Training materials were also developed. In addition, PG&E was present at events where PG&E could network with opinion leaders as well as key experts including land trust personnel or those involved with methane capture projects, in order to better understand potential future projects as well as to educate those leaders about CCAR protocols and the independent bid solicitation processes for the ClimateSmart program. For example, the program manager attended the CDM Gold Standard Napa Valley Summit workshop to network with offset providers and verifiers.

## **Internet**

### **ClimateSmart Web Site**

A dedicated ClimateSmart web site (<http://www.pge.com/climatesmart>) was created, tested and publicly launched to provide educational materials on climate change generally, information about a customer’s carbon footprint and actions they can take to reduce their footprint. The site also provides key aspects of the program and provides an easy, effective method for sign-up. Information on the site included: what it is; how it works; how much it costs; background about the External Advisory Group; background about climate change; background about carbon footprints; a tool to calculate your carbon footprint; what people are saying (third-party endorser quotes); and what more you can do to make an impact.

The web site also provides a fast and easy link to “sign-up” information, with options to sign-up directly from the web site or download, complete and fax or mail an enrollment form.

A ClimateSmart web page was added to PG&E’s Chinese language web site and the company’s Spanish language web site. This showcased the ClimateSmart program’s effort to reach out to the ethnic communities to educate them about climate change and what we can all do to reduce our impact.

## **Collateral**

### **Fact Sheet and Enrollment Form**

With the combined goals of education, increased awareness and enrollments, a fact sheet was developed for use with customers. The initial fact sheet provided an overview of the program and included information addressing basic questions about the program. Enrollment forms were developed for use at events and as downloadable documents from the ClimateSmart web site.

### **iii. Q3: *July – August – September***

During the third quarter, marketing and communications activities focused on driving initial external response rates through focused communications to targeted customers. Activities also centered on developing messaging and concepts for

the first direct mail and brochure, and ensuring internal teams were trained to manage enrollment for every type of customer and service account.

### **ClimateSmart Targeting**

While the responses from a telephone survey conducted by Hiner & Partners, Inc. in April 2007 represented a good indicator of customers' interests to participate in the ClimateSmart program and helped guide the ClimateSmart messaging, it was important that PG&E had a comprehensive marketing approach to target the right customer segments. Therefore, an analytics-driven targeting approach was developed to proactively identify those customers who had a higher propensity to be environmentally conscious. This approach was used to develop the targeted list for the direct mail campaign.

### **Event Outreach**

#### **Local Events**

Throughout the third quarter, the ClimateSmart team continued to participate at a wide range of local events across PG&E's service territory. (See complete listing of 2007 events on accompanying CD, available upon request to those receiving electronic service of this Annual Report.) The outreach goals were in line with the overall program goals, with an emphasis on continuing to gather feedback on customer's response to the program to enhance marketing communications going forward as PG&E continued to educate customers on climate change. The team participated at more than 30 events during the third quarter 2007.

### **Advertising**

#### **Let's Green This City Print Advertisement**

Complementing the print and online ClimateSmart advertising campaign, the team responsible for the company's environmental marketing campaign—Let's Green This City—created a ClimateSmart-focused ad that ran in the *San Francisco Chronicle* using shareholder funding. ClimateSmart enrollment information was also added to the Let's Green This City web site (<http://www.letsgreenthiscity.com>).<sup>19</sup>

#### **Collateral**

A variety of collateral materials were developed to support the program's marketing and communication activities. As required by the CPUC, collateral was developed using environmentally-friendly methods. Examples included using recycled-content materials, soy-based ink, and paper-less communication channels.

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<sup>19</sup> The Let's Green This City Campaign was shareholder funded.

**Bill and On-Hold Messages**

General marketing messages were developed for the envelope of PG&E bills to all customers and the on-hold message on PG&E's 1-800-PGE-5000 phone line.

**Fact Sheets**

During the third quarter, marketing approaches for business customers and government partners were developed. Fact sheets, customized to businesses, local governments and faith communities, were developed, produced and distributed at appropriate events.

**Direct Mail and Brochure**

A direct mail campaign was launched in September 2007 to 516,000 targeted ClimateSmart residential customers in the San Francisco Bay Area. The intent of the direct mail was to educate customers about climate change and sign them up for the ClimateSmart program.

The direct mail campaign was targeted to residential customers identified as most likely to sign up according to the ClimateSmart predictive model as well as to solar customers, who were deemed "green-minded" for having already participated in a renewable energy program.

The same direct mail piece, without the pre-paid business reply card, was also produced for use as a brochure at various events.

**Bill Inserts**

A bill insert was mailed to PG&E's approximately 6 million residential and business customers in late August 2007. The intent was to educate customers about climate change and to introduce the ClimateSmart program and encourage sign-ups.

The bill insert was a very cost-effective way to reach all PG&E's customers and served as a vehicle to educate low-income and ethnic communities about climate change and the ClimateSmart program.

**Outreach to Low Income Customers**

ClimateSmart Q3 and Q4 events outreach included the Verde te Quiera Verde festival on August 22, 2007, in San Francisco and on October 18, 2007, in Oakland, and the Dia de los Muertos event on October 28, 2008, in Oakland, as part of PG&E's efforts to reach Bay Area Latinos and Latino opinion leaders. The program also provided CARE/FERA outreach personnel with ClimateSmart brochures that included general climate change-related information.

## **Public Relations**

### **Momentum From the June Launch Event**

Public relations momentum from the launch event was still resulting in media coverage during the third quarter. Notable coverage included *The Wall Street Journal*, *Santa Cruz Sentinel*, *The (Santa Rosa) Press Democrat*, *California Voice*, and the *Richmond Metro Reporter*.

### **Training**

Another highlight of the third quarter was the training of PG&E's customer-facing teams, specifically contact center representatives who were working with residential and business customers. Training materials were developed to ensure phone representatives could effectively manage enrollments, de-enrollments, literature requests, and explanations of ClimateSmart charges on PG&E bills, among other related items.

### **Affinity Group Activities**

Through the ClimateSmart team's outreach at local events, as well as promotion by the PG&E Environmental Policy, Service & Sales and Government Relations teams, the program was gaining awareness in communities throughout PG&E's service territory. Evidence of this momentum was the growing support received from community and government partners. As a result, city and county as well as environmental, community and interfaith organizations are promoting the ClimateSmart program, either through articles or brief mentions in their publications, on their web sites, and during their presentations.

Events in Q3 included: reaching over 12,000 people at West Coast Green in San Francisco, the nation's largest Green Building conference; literature distribution at screenings of Leonardo diCaprio's film, "The 11<sup>th</sup> Hour" in San Francisco and the East Bay; a booth at the California League of Cities convention in Sacramento; the Solano Stroll reaching over 200,000 people in the West Berkeley/Albany area; the Silicon Valley Leadership Group's "Clean and Green" event in Santa Clara; the San Francisco Chamber of Commerce's City Summit conference on Climate Change; and sponsorship of the Climate Protection Campaign's Climate All Stars Conference in San Francisco attracting local government leaders from all over northern California.

#### **iv. Q4: October – November – December**

During the fourth quarter, marketing and communications activities focused on continued outreach through events, sales, and mass market advertising (via PG&E's corporate advertising campaigns). Retention efforts were begun, including the development of the premier issue of the ClimateSmart e-Newsletter to all participants, as well as the residential and business Membership Kits. At the same time, key learnings from previous quarters were continually leveraged to refine and build the 2008 integrated marketing plan.

## **Market Research**

### **Focus Groups**

The first Small/Medium Business (SMB) focus groups were conducted in December 2007 to gauge feedback from PG&E's SMB customers in the San Francisco Bay Area on core marketing and communications being developed for the program's SMB direct mail and targeted advertising campaigns. (See Section 4.b. Key Findings From Market Research.)

### **PG&E Program Awareness Study**

The ClimateSmart program was included in a post-advertising study conducted in the fourth quarter assessing customers' awareness and perception of PG&E and its programs. This awareness study was funded outside of ClimateSmart and included other PG&E programs. Awareness and familiarity with the ClimateSmart program did increase after the advertising. This awareness study will continue in 2008. (See Section 4.b., Key Findings From Market Research.)

## **E-Marketing**

The premier issue of the ClimateSmart e-Newsletter was e-mailed in mid-December 2007 to all then-enrolled ClimateSmart participants with e-mail addresses (approximately 6,000 as of late November 2007). The intent of the e-Newsletter was to retain customers and keep them engaged and involved with the program. The e-Newsletter thanked them for being a ClimateSmart customer. It included various articles ranging from current customers' participation to energy efficiency tips and other ideas for how to fight climate change. The e-Newsletter also included an option for customers to share their opinions about and suggestions for the ClimateSmart program. Overall, customers who responded shared their enthusiasm and positive experience with the program.

This e-Newsletter is part of the program's strategy to keep customers engaged and educated about ClimateSmart, while at the same time, staying true to ClimateSmart's positioning as an environmentally-friendly program. Postcards were also mailed out to those participants without e-mail addresses on file (over 5,000 of the then-enrolled customers) providing a web link to the e-Newsletter and requesting that they submit their e-mail addresses for future program updates via upcoming 2008 e-Newsletters.

### **Collateral**

PG&E produced and mailed a "For Your Business" newsletter which went out to all 330,000 PG&E commercial customers and an e-newsletter version that was e-mailed to an estimated 3,000 large, assigned business customers in late October 2007. This newsletter mailing included a ClimateSmart article that appeared alongside energy efficiency information and featured the Sierra Nevada Brewing Company, one of the first business participants of the ClimateSmart program.

## **Membership Kits**

During the last quarter of 2007, processes were prepared to ensure ongoing distribution of residential and business membership kits as key customer retention tools.

### **Residential Membership Kit**

During the fourth quarter of 2007, PG&E developed the ClimateSmart Residential Membership Kit as one of the program's retention tools to help residential customers appreciate their value to the ClimateSmart program. The Kit goes out to all ClimateSmart residential customers and contains: (1) a membership letter describing features of the program; (2) a window cling that shows a customer's participation in the ClimateSmart program; and (3) a magnet. In the Membership Letter, customers are encouraged to provide their e-mail address so they may electronically receive in the future the periodic, free ClimateSmart e-Newsletters.

The initial mailing of the program's Residential Membership Kits took place in January 2008 to residential customers enrolled in the program as of January 24, 2008. Membership Kits will be sent to newly enrolling program participants on an ongoing basis.

### **Business Membership Kit**

Similarly, PG&E developed the ClimateSmart Business Membership Kit for business customers. The Kit goes out to all ClimateSmart business customers and contains: (1) a membership letter describing features of the program; (2) a personalized certificate that a business can display to show its environmental leadership to its constituencies; (3) a link to the Business Toolkit web site; and (4) a window cling that shows the business customer's premise participation in the ClimateSmart program. In the Membership Letter, business customers are informed about the ClimateSmart Business Toolkit web site (<http://www.pge.com/csbusiness>) where they can obtain more information and promotional items regarding the program.

The initial mailing of the program's Business Membership Kits took place during the last week of January 2008 to 188 business customers, with 383 service addresses, enrolled in the program as of January 24, 2008. (Business customers often have multiple gas and electric service accounts at one address.)

Prior to the first mailing membership certificates were personally delivered by PG&E account representatives to four major participants accounting for almost 200 service addresses (Long's Drugs, eBay, City of Rocklin and Sierra Nevada Brewing). Membership Kits will be sent to newly enrolling program participants on an ongoing basis.

## **Advertising**

### **Print and Online Advertising – “Save Them, So They Can Save Us”**

In the fourth quarter, PG&E continued to run the print and online “Save Them, So They Can Save Us” ads, featuring a large photo of redwood trees in a native California forest. The ads were created and originally launched in June. Print advertising continued through October and November 2007. Specifically, the print ad ran in the Sunday edition of the *San Francisco Chronicle Magazine* on October 21 and November 4. *San Jose Magazine*, a monthly publication, ran the ad in its October edition. The print ad campaign represented a total circulation of 8.2 million.

Online banners continued to be a key component in the advertising campaign in October and November, served up by ad networks to various properties with a green focus such as Weatherbug.com, Treehugger.com, National Geographic.com, as well as SanFranMag.com, SFGate.com, MSN.com and CNN.com. The online media buy was largely based on a pay-per-click model which allowed placement to be adjusted based upon performance. Banners drove to <http://www.pge.com/climatesmart>. The online campaign delivered nearly 39 million impressions, or page views.

### **Print and Radio Advertising – We Can Do This**

New ClimateSmart print and radio ads (as well as a web-video) were created by PG&E’s Corporate Advertising personnel, at shareholder expense, for the new PG&E “We Can Do This” corporate brand campaign, which was launched in the fourth quarter of 2007 and will continue in 2008. The ClimateSmart program is one of several programs promoted through the “We Can Do This” campaign.

A color print ad was scheduled in 13 papers throughout PG&E’s service territory for a total of approximately 1.9 million paid copies. On average, the newspaper component had the opportunity to reach approximately 35 percent of households within a market. (Actual reach by market varies based on how many people read their paper within any given market.) Paid copies have multiple/additional readers and ads were published in several additional smaller sister publications not included in the 1.9 million estimate.

As part of the PG&E brand ad campaign, a 60-second ClimateSmart radio ad was rotated in the campaign mix for five weeks in 16+ markets that included Bakersfield, Chico, Eureka, Fresno, Merced, Modesto, Monterey-Salinas, Redding, Sacramento, San Francisco, San Jose, San Luis Obispo, Santa Maria-Lompoc, Santa Rosa, Stockton, Visalia-Tulare-Hanford, with additional support in sub-markets: Yuba City/Marysville, Grass Valley and Sonora. The radio ads ran for the following five weeks in 2007: weeks of November 5, November 12, November 19, December 7, and December 20 and had a grand total of approximately 22.9 million impressions. The radio ads resumed in mid-January 2008 and will continue to be rotated through various commercial radio stations across PG&E’s service territory through early 2008.

## **Multicultural Advertising**

During the fourth quarter, ClimateSmart articles were included in the Spanish newspaper *El Mensajero*. They ran on October 8, November 5, and December 3 in the Oakland edition and on November 5, and December 3 in the San Francisco edition. The article, "Special publication about the environment," included various headline stories that explain what climate change is and what can be done about it; where PG&E customers' energy comes from; and tips to save money and energy while helping save the environment.

## **Event Outreach**

### **Continued Local Presence**

Throughout October, November and December, the ClimateSmart team continued to participate at a broad range of events across PG&E's service territory. The outreach goals were in line with the overall program goals, with an emphasis on continuing to gather feedback on customer's response to the program to enhance marketing communications going forward, as well continue educating customers about climate change and ways they can reduce their impact.

The team participated at more than 30 events during the fourth quarter 2007, including numerous October 2007 "Change-a-Light' Change-the-World" events that combined Customer Energy Efficiency (CEE) free Compact Fluorescent Light (CFL) outreach with climate change information inside of ClimateSmart promotional materials. PG&E sponsored and spoke at the Sustainable Silicon Valley Annual Event reaching hundreds of Bay Area business leaders on climate change. In addition, ClimateSmart coordinated with the Sierra Club's Loma Prieta Chapter to distribute ClimateSmart brochures with free CFLs for three Al Gore speeches to a total audience of 2,500 each at De Anza Community College in Cupertino. ClimateSmart materials were also provided with other CEE information to eBay's employees at their eco-day festival, and ClimateSmart was featured before 800 Bay Area leaders at the Association of Bay Area Governments' General Assembly with a climate change theme in October 2007. ClimateSmart was the lead sponsor of the first ever Mid-Peninsula Interfaith Convocation of over 300 faith leaders in Los Altos, at which PG&E had a booth, a PG&E representative spoke and PG&E's Plug-In Hybrid Electric Vehicle and compressed natural gas fleet vehicles were also displayed for viewing. PG&E also spoke and distributed information at several "Step it Up" climate action events in Mountain View and on college campuses in Palo Alto, San Francisco, San Luis Obispo, Davis, and Arcata in November. ClimateSmart was featured in a speech to over 800 people at the opening plenary of the American Council for an Energy Efficient Economy's Behavior Energy and Climate Change event in Sacramento in November 7, 2007. ClimateSmart materials were distributed at the San Joaquin Valley Clean Energy and Fuels Conference in December as well as at a Christian Environmental Event "How Many Lightbulbs does it take to Change a Christian" before 135 faith community leaders in Orinda in December 2007. (See full listing of events that included ClimateSmart outreach in Appendix F.)

## **Public Relations**

### **Media Event for the Program's First Municipality**

A press conference was staged on November 15, 2007, to publicize the City of Rocklin's participation in the program. The City of Rocklin in Placer County was the first municipality to join to the program. By joining the program, the city will offset more than 1.6 million pounds of carbon dioxide each year or more than 4,600 pounds every day. The City of Rocklin signed up all of its 218 electric and natural gas metered accounts, which include the fire and police departments, the city's community center and all city parks and sports fields. The City's ClimateSmart participation rounds out its energy efficiency efforts and its installation of rooftop solar panels to provide on-site renewable energy for its police station. PG&E worked with city staff and the city's public relations firm to organize an event to celebrate the city's participation.

### **Press Conference**

Media, governmental and environmental partners were invited to a morning press conference hosted just outside Rocklin City Hall. The event was set against a giant backdrop of more than 1,000 green balloons, representing the 192 pounds of GHGs the city would offset during the one-hour press conference (Immediately following the event, the 1,000 green balloons were transported from the event by the balloon vendor for appropriate environmental disposal). PG&E presented the Mayor of Rocklin with a ClimateSmart plaque (made from recycled glass and Forest Stewardship Council certified sustainably grown wood) which will be displayed in City Hall, as well as framed ClimateSmart certificates to be hung inside each of the city's buildings declaring their energy use to be "climate neutral." In addition to providing information about the program, PG&E also gave away seedlings and educated attendees on the importance of planting trees in the right place (e.g., for shade to improve a building's energy efficiency) and how critical trees are to the environment including for absorbing carbon dioxide from the air.

The press conference attracted local and international media, including coverage from three local TV stations, radio and several print outlets including *The Sacramento Bee*. The event was even covered by a financial paper in China. Media coverage in the fourth quarter, fueled by the positive response from the City of Rocklin media event, included KCRA-NBC TV, *The Placer Herald*, *The Sacramento Bee*, and the *Sacramento Business Journal*, among others.

### **Affinity Group Activities**

During the fourth quarter, as the ClimateSmart program continued to gain awareness and traction through various outreach activities, the program continued to receive growing support from community and government partners.

## **b. Key Findings From Market Research**

This section summarizes the key findings and results from PG&E's customer surveys and outreach efforts for the ClimateSmart program during 2007.

### **Focus Groups With Residential Customers**

In conducting focus groups during March 2007 with residential customers in Fresno, Sacramento and San Francisco, PG&E determined that the following elements were important in marketing this new program:

- Educating customers on what a carbon footprint means and how they can take personal responsibility;
- Giving customers a compelling reason to sign-up for ClimateSmart;
- Providing details about the program—benefits for customers, how PG&E’s investment will be used; and partnering with reputable businesses to add credibility;
- Using messages that included the phrase “climate change” instead of “global warming”;
- Making PG&E’s ClimateSmart web site an informative, educational destination where customers can gain information on the program without a lot of “propaganda or marketing messages”; and
- Understanding customers’ need to know where their money was going and their preference to give money directly to familiar environmental organizations.

### **Survey Among Residential and Small Business Customers**

In April 2007, Hiner & Partners, Inc. conducted a telephone survey among PG&E’s residential and small business customers. This survey showed that the following elements were important in marketing the program and gaining sign-ups:

- Messages that include familiar terms that resonate with customers—including “global warming,” “climate change,” “greenhouse gas emissions” and “emission reductions”—with less emphasis on messaging the somewhat unfamiliar terms such as “carbon offsets” and “climate neutral.”
- Messages that address customers’ questions about how the funds will be used and how this helps fight climate change.
- Messages about direct benefits to the customer such as tax deductible status of contributions and what customers will get for becoming a member, including regular updates about the program and information on other ways to fight climate change.
- Messages that evidence PG&E’s own commitment to ClimateSmart, such as shareholder contributions, as well as PG&E’s other actions to protect the environment and fight climate change.
- Development of mail-in as well as fax and online sign-up options in order to address residential customers’ preference for completing a hard copy enrollment form and sending it back to PG&E, as well as to address business customers’ desire to have both an online as well as mail-in or fax-in options.

### **Pre-Launch Survey With Kelton Research**

Prior to the June program launch, PG&E conducted a survey with Kelton Research to gain insight from a pool of 1,000 Americans on the topic of climate change. This survey showed the following elements were important in marketing the program:

- Educating customers about carbon offset programs and showing how ClimateSmart fits into this category; and
- Emphasizing the role energy efficiency plays and how it works with ClimateSmart to help fight global warming even more strongly than either action alone.

### **Focus Groups With Residential Customers**

In June 2007, PG&E conducted a second round of focus groups with residential customers. These focus groups showed that the following elements were important in marketing the program:

- The connection between personal home energy use and greenhouse gases was not clear for many customers;
- Customers emotionally connected to the print ad image and headline: “Save Them, So They Can Save Us” and were receptive to the call to action, going to the web site to learn more and sign up;
- Having a sense of “being in it together” with PG&E was important;
- The connection between energy efficiency and ClimateSmart should be more defined; and
- Endorser quotes that were personal and action-oriented were well-received, including those from knowledgeable, trusted experts.

### **Small/Medium Business Focus Groups**

In December 2007, PG&E conducted focus groups with PG&E’s small- and medium-sized business customers. There was very little understanding of the program itself but as understanding grew with more information, customers showed an increasing level of involvement around three key areas:

- Understanding the climate change problem;
- Believing in the solution; and
- Accepting/agreeing with the level of commitment.

For direct mail or other campaign elements to be successful, ClimateSmart marketing materials will need to effectively address the small/medium business customers’ decision making process.

In terms of determining what type of message and key points about the program will best resonate with small business customers, the focus groups showed the following:

- Emotional hooks showed some success at engaging the customer; and
- This will need to be quickly balanced by clear information on how the program works and a simple way to present what is in it for the customer.

In terms of determining what would move small businesses to enroll, the focus groups showed the following:

- Show a clear sense of how their money will be invested; and
- Show what is in it for them (i.e., the ability to show their customers and employees that they are doing more to “go green” in this way).

#### **PG&E Post-Advertising Study on Program Awareness**

In the fourth quarter of 2007, PG&E conducted a post-advertising study to assess customers’ awareness and perception of PG&E and its programs. This study revealed that awareness and familiarity did increase significantly for ClimateSmart, from 7 percent to 17 percent.

## **5. ClimateSmart Contracts and GHG Impact**

### **a. GHG Emission Reduction Project Solicitation Results**

On June 28, 2007, at the same time as the ClimateSmart program was officially launched to the public, PG&E also issued the first ClimateSmart RFO soliciting bids from independent providers of new California-based GHG emission reduction projects verifiable under the CCAR project protocols, and specifically seeking to purchase up to 250,000 tons of GHG emission reductions. PG&E’s ClimateSmart program publicized the RFO during the launch event as well as posting the solicitation on the PG&E web site and by sending out an announcement to more than 200 interested parties, including land trusts, environmental groups, and verifiers. The RFO requested bids to be submitted by July 30, 2007. PG&E selected bidders for the shortlist on August 17, 2007. A copy of the form contract is provided in Appendix C. The overall schedule for this solicitation is shown in Table 5-1, below.

**TABLE 5-1  
PACIFIC GAS AND ELECTRIC COMPANY  
SCHEDULE FOR PG&E'S 2007 RFO FOR CLIMATESMART GHG REDUCTION PROJECTS**

Event	Date
PG&E files "Advice Letter" regarding manure management projects with CPUC	June 27, 2007
PG&E Issues RFO Solicitation	June 28, 2007
Deadline for Participant to submit non-binding Notice of Intent to Bid and reservation for Participant's Conference	July 13, 2007
Participant's Conference	July 16, 2007: 9 a.m. – 12 p.m.
Deadline for Participant to submit offers	July 30, 2007: 10 a.m.
PG&E notifies Participants of Shortlist of Offers	August 17, 2007
Contract Negotiations between PG&E and selected participants	August 29, 2007 – Q1 2008
PG&E and Participants complete negotiations of and execute Agreements	Q1 2008

PG&E received a total of six bids for projects offering GHG emission reductions for sale in response to the RFO, with all of the projects located in California and within PG&E's service territory. Five of the bids to sell GHG emission reductions were from forestry projects and one was from a livestock methane capture project. Four of the projects were from non-governmental organizations; one was from a private business; and one was from a government entity. As shown in Table 5-2, below, the tons of GHG emission reductions offered for sale in the bids ranged from 13.12 to 220,462 and prices ranged from \$8.75 per ton to \$23,183 per ton.<sup>20</sup> The delivery terms for tons of GHG emission reductions in the bids ranged from 1 to 30 years. Excluding the one bid with the highest price, the tons of emission reductions offered in the bids ranged from 16,535 to 220,462 and initially bid prices ranged from \$8.75 per ton to \$9.98 per ton.

**TABLE 5-2  
PACIFIC GAS AND ELECTRIC COMPANY  
RANGE OF BIDDERS' OFFERS FOR TONNAGE, PRICE AND LENGTH OF CONTRACT**

	Low	High
Tons CO <sub>2</sub>	13.12	220,462
Price per ton CO <sub>2</sub>	\$8.75	\$23,183
Term (years)	1	30

The smallest volume of GHG emission reductions offered and highest price for such tons corresponded to a bid from one project. PG&E later came to understand that this bid was a result of a misunderstanding of the market by the bidder. After discussing the bid and current market conditions, this bidder clarified that it believed that it could offer GHG emission reductions from this project at a price of \$10.22 per

<sup>20</sup> The 13.12 tons and \$23,183 per ton figures turned out to be due to one bidder's misunderstanding of the market, as described below.

ton for 35,647 tons of GHG emission reductions. Unfortunately, PG&E did not receive this corrected information until after it had already selected its shortlisted projects for this solicitation. PG&E has encouraged this bidder to revise its bid and to submit the bid in the next solicitation which is scheduled for spring 2008.

There were two protocols issued by the CCAR that were considered in the initial solicitation—Forestry Projects and Livestock Methane Capture Projects.<sup>21</sup>

### **Forest Project Protocol**

Forests have the capacity to both emit and sequester (i.e., store) CO<sub>2</sub>. Trees naturally absorb CO<sub>2</sub> from the atmosphere and store the gas as carbon in their trunks, 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. The forest projects are required to meet the CCAR's rigorous forest conservation, management, restoration project protocols. These CCAR forest protocols were approved by CARB for use as an early action measure under AB 32 on October 25, 2007. These protocols not only reduce CO<sub>2</sub> to address climate change, but can also benefit wildlife and water quality by permanently protecting and restoring California's native forests in watershed areas.

The Forest Project Protocol provides for three different forest project types for verification: Conservation-based Forest Management, Reforestation, and Conservation. The definitions of these types of projects can be found on page 15 of the CCAR Forest Project Protocol<sup>22</sup> and are included here:

- **Conservation-based Forest Management:** Projects that are based on the commercial or noncommercial harvest and regeneration of native trees and employs natural forest management practices;
- **Reforestation:** 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 10 years; and
- **Conservation:** 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.

### **Livestock Methane Capture Project Protocol**

These projects capture the methane emissions associated with livestock operations, such as dairy cattle. California has over 1,800 dairies and the average cow produces approximately 100 pounds of manure a day. When treated and stored under anaerobic conditions (i.e., capped off from contact with the air) this manure decomposes to produce methane. If uncontrolled, this methane is emitted into the

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<sup>21</sup> As described in Section 2.c, PG&E submitted an advice letter on June 27, 2007, seeking CPUC approval of the CCAR's Livestock Methane Capture Project Protocol. As a result, PG&E included such projects in its 2007 bid solicitation package. However, the CPUC has not yet issued its approval of the advice letter; therefore, no such bids could be further pursued during the later phases of the 2007 solicitation process.

<sup>22</sup> CCAR's protocols are available on CCAR's web site at: <http://www.climateregistry.org/tools/protocols>.

atmosphere. Currently, fewer than 20 of the 1,800 dairies in California have any form of methane control system, which captures and combusts methane. The CCAR's Livestock Methane Capture Project Protocol provides significant environmental benefits by reducing GHG emissions, as methane is, on a per ton basis, at least 21 times more potent than CO<sub>2</sub>. These projects also benefit local air quality by eliminating emissions which cause ground-level ozone.

Livestock Methane Capture projects are important to the ClimateSmart program because they allow the program to more fully "road test" the CCAR protocols. Using the CCAR Forest Project Protocol for ClimateSmart has been a valuable experience because it has resulted in an improved pro-forma contract as well as a better understanding of how to contract for features like permanence and financial additionality. By operationalizing the Livestock Methane Capture protocol for ClimateSmart contracts, those contracts could be similarly improved and valuable knowledge gained. Without diverse protocols, the number and type of economically viable projects in California will be more limited and slower to develop. This does not benefit the ClimateSmart program, its participants, the market, or the environment.

With the large number of dairies in the state, PG&E has a unique opportunity to spur the development of livestock methane capture projects in the near future. In addition, the ClimateSmart program has the unique ability to implement the CCAR protocols and bring needed credibility to the voluntary carbon market. Finally, the program furthers the goal set forth in testimony to "expand and diversify beyond forest sequestration projects." Because the ClimateSmart program's demonstration period is scheduled to sunset at the end of 2009 unless extended by CPUC, PG&E believes it is important that the Commission approve the use of this protocol so that livestock methane capture projects can be included and evaluated in the next RFOs.

## **b. Summary of the Projects Submitting Bids**

PG&E presents the following summaries of the six projects that presented bids in response to the program's 2007 RFO project solicitation. In order to maintain confidentiality and maintain competitiveness for future RFO solicitations, projects are identified by letter and other information is kept generic. The project proponent's name, location of project and amount of tonnage and price bid were omitted due to concerns about ensuring maximum value as these projects may bid in future solicitations.

### **Project A**

Project A is located within a forest which was protected from increased logging. Many important and sensitive species inhabit this forest, including northern spotted owls, mountain lions, coho salmon and steelhead trout. Project A consists of a suite of activities in the forest. One activity will reduce harvest levels on young well stocked conifer stands. These stands have significant levels of commercial conifers which would have been available for harvest. A second activity will use silviculture<sup>23</sup> that enhances growth of more valuable trees. Project A's activity in this forest is to harvest to encourage the continued vigorous growth of larger trees rather than harvesting all of

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<sup>23</sup> Silviculture is the art and science of controlling the establishment, growth, composition, and quality of forest vegetation for the full range of forest resource objectives.

them for their financial value which will lead to GHG emission reductions. While certain activities will create GHG emission reductions, the payments from the ClimateSmart program will pay for specific project costs that would otherwise have to be paid with revenues from increased timber harvests permitted by the project owner. The lower harvest levels will create the GHG emission reductions offered. Without the payments from the ClimateSmart program, the additional and expanded activities would not occur, and the GHG emission reductions would not be created.

### **Project B**

Project B covers primarily redwood forest. This Project will dedicate approximately 107 acres to a harvest method that favors carbon dioxide storage and sequestration. During the delivery term of the GHG emission reductions, emission reductions are achieved by removing significantly fewer trees than are permitted pursuant to conventional forest management and the property's conservation easement. Project B's forest management is an increase in stocking of the forest to an average of 90,000 board feet/acre with approximately 827,000 tons of CO<sub>2</sub> reduced during the 100-year project period.

The payments from the ClimateSmart program would enable the owner of Project B to harvest less than the amount permitted and to undertake other activities that will provide benefits in addition to the emission reductions. These activities will enhance native forest structure, species composition and habitat for threatened species, such as the northern spotted owl; improve water quality protections; and improve forest health and reduce natural risk. The project will utilize single-tree selection and small group selection silviculture techniques. All reforestation activities will utilize tree species indigenous to the area and from an appropriate seed zone. Additionally, the project activity will focus on reducing the density of Monterey pines which exists in varying levels throughout the property which is not native to this region of California, and impedes growth of native trees.

### **Project C**

Project C would reforest property that burned in a California wildfire in 2004. If the property is not reforested with native forest, non-native weed species will continue to invade it, particularly French broom and eucalyptus. This vegetation is undesirable, provides little habitat value, is highly flammable and is highly competitive. Project C will revegetate the property by collecting seeds, propagating and planting 9,500 plants and restore the property by monitoring and maintaining the native vegetation by irrigating, weeding and replacement until established. The project would manage the property without commercial use. This project will rely on organization staff and a well-established and highly successful volunteer program. The project's goal is to replant with native tree species and woody shrubs to increase tree and woody shrub cover from less than 3 percent to 85 percent vegetation within 4 years and 95-100 percent cover by year 10. Fifteen years of revegetation data collected from adjacent plant communities would guide the selection and placement of the plant palette and revegetation plan.

### **Project D**

Project D is composed of two conservation projects in California. The first portion of Project D is a dominant Jeffrey pine forest. The upland forests on the property also contain Ponderosa pine species and White and Red fir stands. The property would

have been developed to 600 residential units and a 350 acre golf course if it had not been acquired by the project owners for protection of habitat, water quality, and prevention from land conversion.

The second portion of Project D is a mixed conifer, ponderosa pine and black oak matrix forest, mountain wet meadow system, alluvial cottonwood-willow riparian system and freshwater marsh. This project is in an area zoned for housing development and timber production. The project activity would be deemed additional based on the substantiated baseline characterization and the sale listing of the property in 2006.

Payments from the ClimateSmart program would be the sole source of funding for both portions of Project D, if selected.

### **Project E**

Project E is a conservation-based forest management project for a forest that is currently the primary water source for 500 homes in the area. In 2001, a plan had proposed the logging of 55 percent of all trees in the project area greater than 18" in diameter. The plan included employing large, noisy helicopters within 300 feet of homes to remove the 100+ year-old trees on the property, with many of the trees slated for removal on the property already having been spray painted by the logging interests. This 2001 timber harvesting plan would also have resulted in increased siltation and possible landslides. In 2006, Project E owner purchased the land.

The owner of Project E requires additional funding to pay remaining land acquisition costs, negotiate a perpetual conservation easement, register and verify the project with the CCAR, and provide an endowment for stewardship of the easement and re-verification of the GHG emission reductions. Project E includes a zero-harvesting management plan which will remain in perpetuity under the proposed conservation easement. Payments from the ClimateSmart program would not only allow all the above necessary steps to happen, but would also allow the property owner to register and verify the project with the CCAR and place the project under a permanent conservation easement.

### **Project F**

Party F is pursuing a number of livestock methane capture projects in California but may not have a project ready to offer to the ClimateSmart program, at least not in time for implementation per the 2007 solicitation timetable. The owners of Project F are working to source GHG emissions reductions from a number of livestock methane capture projects throughout California. Party F proposed to originate the reductions and process them through its rigorous internal implementation process, and then register the reductions with CCAR. All of the reductions would meet CCAR's Livestock Methane Capture Project Verification Protocol. Party F also works with companies in developing and industrializing countries to create GHG emission reductions. As of February 2007, Party F was working on more than 400 projects using 22 different technologies, with the potential to generate more than 196 million tons in GHG emission reductions.

### **c. Verified Emission Reduction Purchase Agreements**

After reviewing bids, developing a shortlist of projects for contract negotiation, and conducting such negotiations, PG&E entered into two VERPAs, with Projects A and E (as described above), on February 20, 2008. The two agreements are to purchase GHG emission reductions from forestry projects under the Conservation-based Forest Management type. Due to the recent date of execution of these contracts, this Annual Report provides only an overview of these projects. Additional information will be included in the 2008 Annual Report.

#### **i. *First VERPA***

The seller of GHG emission reductions under the first VERPA is The Conservation Fund (or TCF). (See Project A described in Section 5.b. above.) TCF is an environmental nonprofit corporation dedicated to protecting America's most important landscapes and waterways for future generations. TCF's project is located on 23,780 acres of TCF property in Mendocino County. TCF will create Verified Emission Reductions (VERs) by reducing harvest levels which will sequester additional CO<sub>2</sub> in trees. These trees could have otherwise been harvested for timber according to TCF's current easement. These efforts are verified by a professional forester to be above and beyond the existing conservation easement held by The Nature Conservancy, ensuring the permanent protection of even more carbon-sequestering trees.

The CO<sub>2</sub> sequestered as represented in the VERs must remain sequestered for a period of 100 years from the delivery date of the VERs to PG&E. This permanence period of 100 years is the standard set by the United Nations International Panel on Climate Change for GHG emission reductions from forestry projects. PG&E has not required TCF to purchase an insurance policy for the permanence due to the lack of available policies in the marketplace and the expense of such policies.<sup>24</sup> However, PG&E has required TCF to provide a 10 percent reserve of VERs from the project. If there is a permanence failure, this reserve will be used to replace lost VERs. If that is not possible or other VERs from TCF's other projects cannot be procured, then comparable VERs from other sellers are to be procured to remedy a permanence failure.

#### **ii. *Second VERPA***

The seller of GHG emission reductions under the second VERPA is the Sempervirens Fund. (Project E described in Section 5.b. above.) The Sempervirens Fund (SVF) is a nonprofit corporation dedicated to preserving and protecting the natural character of California's Santa Cruz Mountains and to encourage appropriate public enjoyment of this environment. The project is located on 202 acres of SVF-owned property in Santa Cruz County. SVF will create VERs from the avoidance of substantial logging on the land which was planned for prior to purchase by SVF. In connection with this VERPA, SVF will

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<sup>24</sup> PG&E has investigated insurance rate information with a couple of leading insurance companies and has found that no premiums have been written for this type of risk. PG&E is continuing to investigate and help develop hedging options for covering the risk of loss of permanence of the forestry GHG emission reductions as a result of disaster befalling the projects during the permanence period.

place a permanent conservation easement on the land that will prevent any logging.

Similar to the TCF agreement, PG&E has required SVF to provide a 10 percent reserve of VERs from the project. If there is a permanence failure, this reserve will be used to replace lost VERs. If that is not possible or other VERs from SVF's other projects cannot be procured, then comparable VERs from other sellers are to be procured to remedy a permanence failure.

#### **d. Value of GHG Emission Reductions Under Contract**

The two initial VERPAs represent a total of 236,058 tons worth of reductions. The combined value of these contracts is \$2,152,532 (paid out over time, largely as VERs are verified and retired). The GHG emission reductions will be created by these projects from 2007 through 2021; however, the majority of the reductions—more than 97 percent—will be created by the end of 2012. The cost per ton for these reductions averages \$9.12 per ton, not taking into account the time value of money.

### **6. ClimateSmart Premiums Are Tax Deductible**

On December 17, 2007, the Internal Revenue Service (IRS) determined that customer contributions to ClimateSmart are tax deductible charitable contributions. This determination is retroactive to before the public launch of the program, so all customer contributions during 2007 are eligible for a tax deduction.

On January 31, 2008, the ClimateSmart Charity sent each ClimateSmart customer (active as well as de-enrolled customers) a letter informing the customer of the IRS determination, as well as the total amount billed to that customer during 2007 for the ClimateSmart program. (An example of this letter can be found in Appendix F.)

This favorable result for customers was the culmination of several steps taken by PG&E and the CPUC over the course of 2007. First, from December 2006 through February 2007, PG&E investigated what could be done to make residential customers' ClimateSmart premiums tax deductible, consistent with the goals of the program, pursuant to the CPUC's ClimateSmart Decision (D.06-12-032, OP 18). Consistent with this investigation's recommendation, as filed with the CPUC (see below), PG&E formed the ClimateSmart Charity, a California Nonprofit Public Benefit Corporation, on March 1, 2007. The purpose of the Charity is to reduce the level of greenhouse gases in the earth's atmosphere through forestry sequestration and, as appropriate, other GHG emission reduction projects, and its articles and by-laws reference and track the terms of the CPUC's decision authorizing and setting forth the parameters of the ClimateSmart program. The Officers and the Board of Directors of the Charity consist solely of PG&E employees. They receive no compensation from the Charity.<sup>25</sup> The CPUC reviewed PG&E's plans for the creation of the Charity in PG&E's March 1, 2007, Advice Letter 2813-G/2999-E (reporting in detail on its investigations), which the CPUC's Energy Division approved on June 27, 2007.

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<sup>25</sup> There are no paid staff for the Charity, which is structured such that ClimateSmart operations continued to be performed by utility personnel subject to CPUC oversight and the terms of Decision 06-12-032.

Next, on September 21, 2007, the Charity filed an “Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code.” In support of its application, the Charity described the structure that would be followed in order to ensure that customer contributions would be segregated from other PG&E revenues and then used for charitable purposes. The Charity explained, “PG&E will serve as the [Charity’s] agent in collecting the monthly contributions from participants on behalf of the Charity. . . . PG&E will segregate and direct the contributed funds to the [Charity], which will use such funds on initiatives to reduce greenhouse gas emissions. Specifically, the [Charity] will provide funds to carefully selected third-party organizations that carry out approved greenhouse gas reduction programs that satisfy protocols specified by the CPUC.” In response, the IRS issued its December 17, 2007 determination, which found “that [the ClimateSmart Charity is] exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Contributions to [the ClimateSmart Charity] are deductible under section 170 of the Code.”

On December 21, 2007, PG&E and the Charity created an escrow account to be used for the purposes of the ClimateSmart program. This escrow account was developed as a transitional measure to achieve the purposes set forth in the Charity’s application before the IRS, pending the development of a servicing agreement between PG&E and the Charity that can be reviewed and approved by the Commission. Accordingly, on December 27, 2007, PG&E transferred \$719,000 into the escrow account, an amount which was calculated to reflect the total amounts billed to ClimateSmart customers through November 30, 2007, as well as an estimate of amounts to be billed from November 30 through the remainder of 2007. Initial payments to the vendors under the GHG emission reduction contracts with PG&E will be made from the escrow account.

On December 28, 2007, PG&E sent a letter to the Energy Division, the Division of Ratepayer Advocates and members of the service list to Application 06-01-012, informing them of the IRS determination. Furthermore, PG&E explained that under a new provision of California law, once the IRS determines that an organization has tax-exempt status under federal law, that determination shall also exempt the organization from state taxes. (Calif. Revenue and Taxation Code Sec. 23701d(c)(1).) Accordingly, on January 23, 2008, the Charity submitted to the California Franchise Tax Board its Form 3500A seeking “Affirmation of Internal Revenue Code Section 501(c)(3).”

Customers who participated in the ClimateSmart program in 2007 received a letter from the ClimateSmart Charity dated January 31, 2008, indicating that the IRS had granted the entity 501(c)(3) status and setting forth the total amount they were billed during 2007 for ClimateSmart, noting that, after consulting with their tax professions, they may be able to deduct their 2007 ClimateSmart contributions when filing their 2007 income tax returns. A copy of this letter is provided in Appendix G.

## **7. Financial Results**

### **a. ClimateSmart Program Revenues**

PG&E billed premiums of \$704 thousand to 14,572 customers including PG&E in 2007. As described above, residential, commercial/industrial and agricultural customers began contributing to ClimateSmart premiums in the summer of 2007. Beginning January 1, 2007, through December 31, 2007, PG&E shareholders contributed \$502 thousand in ClimateSmart premiums.

These contributions are solely for use in funding independent, California-based GHG emission reduction projects under the strict protocols of the CCAR, per the Decision.

The premium sub-accounts of the ClimateSmart Balancing Accounts track the difference between 100 percent of premiums billed to customers and the amounts paid to GHG emission reduction projects.<sup>26</sup> As of December 31, 2007, premiums of \$286 thousand were recorded in the Gas ClimateSmart Balancing Account and premiums of \$419 thousand were recorded in the Electric ClimateSmart Balancing Account. As described above, PG&E's contracts for GHG emission reduction projects began in 2008, and so have not yet been recorded in the balancing accounts. Interest accrues on the balance at PG&E's currently-adopted cost of capital of 8.79 percent, pursuant to the CPUC's requirements in the ClimateSmart Decision. The balance in the premium sub-accounts of the ClimateSmart Balancing Accounts is a credit of \$731 thousand at December 31, 2007, and a credit of \$896 thousand at January 31, 2008.<sup>27</sup>

**TABLE 7-1**  
**PACIFIC GAS AND ELECTRIC COMPANY**  
**CLIMATESMART BALANCING ACCOUNT – PREMIUM SUBACCOUNT**  
**(WITH BREAKDOWNS BY CUSTOMER CLASS)**  
**AS OF DECEMBER 31, 2007 AND JANUARY 31, 2008(a)**  
**(\$ 000s)**

	Electric 12/31/07	Gas 12/31/07	Total 12/31/07	Total 1/31/08
ClimateSmart Premiums - Residential	(\$49)	(\$80)	(\$129)	(\$216)
- Commercial/Agricultural	(23)	(50)	(73)	(93)
- PG&E Buildings (Through Shareholder Funds)	(346)	(156)	(502)	(555)
<b>Total Premiums</b>	<b>(\$419)</b>	<b>(\$286)</b>	<b>(\$704)</b>	<b>(\$863)</b>
Allocated GHG Reduction Project Expense	0	0	0	0
Interest (at Cost of Capital rate)	(17)	(10)	(27)	(32)
<b>Balance (Credit)/Debit</b>	<b>(\$435)</b>	<b>(\$296)</b>	<b>(\$731)</b>	<b>(\$896)</b>

<sup>26</sup> PG&E filed Advice 2812-G/2993-E on February 26, 2007, requesting creation of gas Preliminary Statement Part BS – ClimateSmart Balancing Account – Gas, and electric Preliminary Statement Part EM – ClimateSmart Balancing Account – Electric. The Advice Letter was approved on June 1, 2007, effective January 1, 2007.

<sup>27</sup> As discussed in Section 6, on December 21, 2007, the ClimateSmart Charity escrow agreement was signed. PG&E transferred \$719,000 into an escrow account on December 27, 2007, for restricted use by the ClimateSmart Charity in order to preserve the right for tax deductibility. The cash transfer was an interim measure and was not recorded in the premium subaccount which tracks the billed premiums. PG&E will address tariff and accounting changes for the ClimateSmart Charity in 2008.

(a) The 2007 year-end balance reflects adjustments recorded in January 2008.

Note: Total may be off by one due to rounding.

As described in Section 6 above, the premiums paid to PG&E by enrolled customers are now contributions to a not-for-profit public Charity organization and may be tax deductible for qualifying customers.

## **b. ClimateSmart Program Authorized Budget**

In the ClimateSmart Decision the CPUC authorized an administrative and marketing budget for the ClimateSmart program of \$16.3 million through December 31, 2009, in order to carry out the goals of the program as set forth in the decision. The initial budget projections adopted in the Decision, based on PG&E's testimony submitted in early 2006, were broken down by year, starting in 2006 under the assumption that the Decision authorizing the program would be received in or about the 3rd quarter of 2006. However, the Decision was not issued until December 14, 2006, delaying initial programs efforts relative to original projections in testimony. In recognition of this delay in CPUC's final decision approving the program, the CPUC authorized PG&E to move \$1.3 million in unspent 2006 budgeted ClimateSmart program funds into 2007.<sup>28</sup>

### **Administration and Marketing Expenditures**

About \$3.4 million of the \$16.3 million 3-year budget was expended in initial program start-up efforts between January 1, 2007, and December 31, 2007. This was less than the CPUC's authorized budget for 2007 of \$5.1 million (including carry forward of 2006 unspent funds). Administration expenditures include incremental labor costs; the costs of setting up enrollment, tracking, and reporting systems; costs associated with investigating creating a ClimateSmart charity; costs associated with contracting for GHG reduction projects; and payments to the CCAR.

The bulk of the 2007 administration and marketing (A&M) expenditures supported market research and initial promotion of the program, as well as other preparations for the pre- and post- public launch early roll-out period for this unique start-up program. Some of the wide variety of initial promotions of ClimateSmart in 2007 were not funded out of the ClimateSmart budget, including education on climate change and the ClimateSmart program which is part of PG&E's holistic portfolio of climate solutions along with energy efficiency as described in the LetsGreenThisCity web site and elsewhere. (See Section 4 for more details.) Furthermore, starting in November 2007, the ClimateSmart program received further promotion through PG&E's WeCanDoThis.com campaign, including thousands of radio advertisements and dozens of print ads that reached millions of northern Californians about the ClimateSmart program. PG&E's shareholders funded the WeCanDoThis.com campaign to raise awareness throughout PG&E's service territory about climate change and what PG&E itself is doing, as well as what PG&E customers can do, to take action to fight global warming.

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<sup>28</sup> Ordering Paragraph 3 of Decision 06-12-032 provides for transfer of funds among budget categories and spending on budgeted funds in different years upon CPUC approval of an advice letter filing seeking such change.

Table 7-2 provides a summary of ClimateSmart program expenditures through January 31, 2008:

**TABLE 7-2**  
**PACIFIC GAS AND ELECTRIC COMPANY**  
**CLIMATESMART PROGRAM EXPENDITURES**  
**THROUGH DECEMBER 31, 2007 AND JANUARY 31, 2008**  
**(\$000)**

	Through 12/31/07	Through 1/31/08
Marketing and Communications	\$2,442	\$2,446
Program Admin (w/o CCAR)	751	815
CCAR	192	192
<b>Total</b>	<b>\$3,385</b>	<b>\$3,453</b>

Table 7-3, below, shows the electric and gas ClimateSmart balancing account, Administration and Marketing Subaccount, activity for 2007 in thousands of dollars. The credit balance of \$1,740 thousand represents the amount authorized to be spent on administration and marketing in 2007 and not spent in 2007.

**TABLE 7-3**  
**PACIFIC GAS AND ELECTRIC COMPANY**  
**CLIMATESMART 2007 ADMINISTRATION AND MARKETING SUBACCOUNTS(a)**  
**(\$000)**

	Electric	Gas	Total
Annual Authorized Revenue Requirement	(\$3,549)	(\$1,521)	(\$5,070)
Allocated Administration Expense – Excluding CCAR	526	225	751
CCAR Expense	134	58	192
Allocated Marketing Expense	1,710	733	2,442
Interest	(39)	(17)	(56)
<b>Balance (Credit)/Debit</b>	<b>(\$1,218)</b>	<b>(\$522)</b>	<b>(\$1,740)</b>

(a) The 2007 year-end balance reflects adjustments recorded in January 2008.

Note: Total may be off by one due to rounding.

On February 11, 2008, PG&E filed Advice 2903-G/3208-E to request authorization to spend the \$1,740 thousand credit balance in 2008 on ClimateSmart administration and marketing necessary to accomplish the overall goals of this 3-year demonstration program. The resulting budgets for 2008 and 2009 would be \$6,860 thousand and \$6,070 thousand, respectively.

The requested transfer and reallocation of funds will support greater educational outreach to PG&E customers regarding their impact on climate change and how individuals' and businesses' participation in the ClimateSmart program can help fight global warming. With the approval of the tax-deductible status of ClimateSmart premiums (described in Section 6), and entry into identifiable GHG emission reduction contracts (described in Section 5), ClimateSmart is now positioned to be marketed with increased effectiveness in 2008. Thus, using these unspent 2007 funds for a significant ramp-up of outreach in 2008 based on lessons learned and initial outreach groundwork laid in 2007 will help advance the goals of this 3-year demonstration program, as approved by the CPUC.

A portion of the authorized administrative budget was earmarked to fund up to \$900,000 in payments by PG&E to the CCAR to help support the development of four additional project protocols as well as the infrastructure to support tracking, registering, verifying, and retiring the ClimateSmart program's GHG emission reductions. As of January 31, 2008, PG&E had paid CCAR \$191,832. PG&E expects to remit the full \$900,000 to CCAR by the end of 2009 as CCAR develops more protocols.

### **c. Additional Detail on Marketing Dollars Spent**

PG&E invested \$2,442 thousand of the ClimateSmart program budget in marketing activities in 2007. These marketing activities which are described in detail in Section 4 above, fall into five major categories:

#### **i. *Market Research, Messaging and Training***

As described in Section 4 above, PG&E conducted Market Research to guide program launch and roll-out. PG&E developed residential and commercial messaging to be tested in the customer market research. Some messaging developed for market research later was used to assist with collateral development. Focus groups were held with residential and commercial customers. Additional market research was performed during the roll-out and activities were adjusted according to the results. PG&E developed tools for an analytics-driven, proxy-based targeting approach. Training materials were designed and developed for customer-facing employees.<sup>29</sup> The cost of market research messaging, and training combined was \$569 thousand.

#### **ii. *Advertising***

The cost of developing the ClimateSmart look and feel including the logo, photography, online banner, as well as the development of an online carbon calculator and other content on PG&E's web site was \$290 thousand.

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<sup>29</sup> Training dollars in the ClimateSmart Administration and Marketing subaccounts of the ClimateSmart balancing account are limited to the cost of developing the training plan and producing the training material. Customer-facing-employees' time spent in being trained to promote ClimateSmart or respond to customer requests regarding ClimateSmart are not paid for from the ClimateSmart budget.

iii. **Media**

The cost of paid media described in Section 4 above, including online advertising and newspaper ads, was \$740 thousand.

iv. **Collateral**

Collateral, which is the tangible and electronic marketing support materials developed to promote or provide education about the program, includes direct mailings, fact sheets, brochures, newsletters and other promotional materials. The cost of developing, producing and distributing collateral, including incremental postage, was \$762 thousand.

v. **Events**

PG&E organized and participated in internal and external events to educate the public about the program. The cost of these events, including venues, presentations and posters, press kits, audio visual support, and collateral developed specifically for use at events, such as the seed footprint bookmarks, was \$81 thousand.

## 8. Challenges and Lessons Learned

As noted in PG&E's testimony, this program was designed as a demonstration program in recognition that there are many unknowns. Over the last year PG&E has learned a lot about our customers' views on climate change and what many of them have done and are willing to do to reduce their carbon footprint. Many of these learnings are relevant to the State's work in developing the infrastructure for a low carbon future in California. PG&E is pleased to share the key lessons learned to date in the demonstration program.

### a. Program Design & Customer Education

i. **Complexity of the Issue**

A central challenge for the ClimateSmart program has been that the connection between personal home energy use and GHG emissions is not a clear association for most customers. Many customers do not think about where their energy comes from and, therefore, are not aware that their home energy use emits about 5.3 tons of CO<sub>2</sub> per year. Neither are many aware that 68 percent of the typical home's carbon footprint is from its natural gas usage—a fossil fuel—or that PG&E's electric grid is already on average over 50 percent from non-carbon emitting sources.

PG&E's customers have also been trained to think of energy in terms of cost savings and conservation (i.e., "conserve energy to lower my bill"), not an additional cost for a carbon offset -- a concept unfamiliar to most customers. In addition, much of the press that has appeared on the subject has questioned the quality of many other offsets. Fortunately, the rigor of the ClimateSmart program has set it apart from other programs.

The earned media coverage about the program and the projects in which participants' money is being invested has been almost entirely positive. However, there is still the challenge in reaching our customers. Creating a greater customer awareness about their carbon footprint and a new product requires many information "touches" for each customer before he or she is likely to decide to take action. Despite concerted efforts, many customers still are not aware of the ClimateSmart program and, obviously, awareness is a prerequisite for them to take action to join. The program is stepping-up outreach in 2008, based on lessons learned thus far, to further increase awareness through such channels as larger scale and more frequent direct marketing, affinity group outreach, public relations and earned media.

ii. ***Expansion of Program Eligibility May Be Warranted***

During this first year of outreach and marketing, PG&E has encountered a number of situations in which customers desire to contribute to the ClimateSmart program on a non-volumetric basis. The ClimateSmart tariff utilizes a volumetric rate applied to gas and electricity use. Therefore, certain fixed usage rate schedules such as streetlights and unmetered loads are not eligible for the volumetric rate. Certain customers have expressed disappointment to PG&E that such rate schedules are not eligible for the program. For example, the City of Rocklin, the first city to join the ClimateSmart program, expressed dissatisfaction when it learned that not all of its energy use (e.g., from unmetered streetlights) could be made climate neutral through the ClimateSmart program's existing volumetric based rates. Because usage amounts for fixed-usage loads such as streetlights are known, though not metered, PG&E believes that it may be appropriate to expand the ClimateSmart program to include such rate schedules.

PG&E has also been approached by many individuals who would like to join the program but do not have an account with PG&E. For example, PG&E has heard from interested residential and commercial tenants whose energy bill is received and paid centrally by their landlord. These tenants would like the opportunity to contribute to ClimateSmart directly, even if their landlord is not interested. Likewise, some participating customers have stated a desire to do more to support the program and to pay more than their volumetric rate. Although the current program rules do not prohibit individuals from making lump sum contributions to the program or making larger contributions, there is no formalized mechanism for doing so.

PG&E is investigating these issues further and, as appropriate, may file with the CPUC to expand the eligibility of the program and/or to formalize a mechanism for making contributions above and beyond the volumetric rate, to satisfy such customer requests and further support early GHG emission reductions.

iii. ***GHG Emission Reduction Projections Difficult as Early Adopters Are Energy Efficient***

Consistent with PG&E's expectations, the earliest customers enrolled in the ClimateSmart program have a lower average energy usage than the typical residential PG&E customer. PG&E's system average "typical" residential customers' ClimateSmart contribution was estimated at \$4.31 per month, however,

the average for ClimateSmart participants before October 31, 2007, was only \$2.79 per month. Based on broader enrollments as of January 31, 2008, the program's residential contribution average increased to \$3.15 per month, and is expected to continue to move closer to the system average as enrollment increases. Similarly, although the projected average ClimateSmart payment for the median usage of all commercial accounts (including many small businesses) was initially estimated to be about \$200 per month, early-adopting commercial customers' average payment as of October 31, 2007 was only \$103 per month. After initial outreach to early adopting customers, PG&E adjusted its outreach strategies in October and November to focus more intensely on medium and larger commercial accounts in order to achieve the program's objectives for carbon reductions. As a result, based on broader commercial enrollments as of January 31, 2008, the average commercial payment had risen to \$147 per month.

#### **iv. *Carbon Calculator as Consciousness-Raising Tool***

ClimateSmart drove the creation and addition of a "carbon calculator" on the PG&E's web site. This feature proved popular and consistently gets strong positive customer response. The ClimateSmart team worked with other groups at PG&E (e.g., CEE, Sustainable Communities, Environmental Policy, Demand Response, California Solar Initiative and integrated marketing teams) to plan further improvements and upgrades to the carbon calculator feature in 2008.

#### **v. *Key Marketing Messages***

Focus groups conducted on ClimateSmart indicated that customers may initially approach the program with skepticism, and that certain types of information are particularly important to address customers' concerns. Customers participating in focus groups express greater interest in ClimateSmart upon learning that PG&E's shareholders are contributing approximately \$1.5 million to make PG&E's own buildings climate neutral, and that PG&E does not profit from the program. Focus group participants have also indicated that independent endorsement increases their likelihood of participating in the program. Therefore, PG&E's marketing materials will increasingly include quotes from outside "validators" like leaders of the Environmental Defense Fund, the University of California, Small Business California and businesses enrolled in the program. Marketing materials may also include messaging that PG&E does not profit from the program and that PG&E's shareholders contribute to the program. PG&E will continue to test and improve such messaging in future rounds of outreach, including numerous direct mailers and several bill inserts as 2008 progresses.

#### **vi. *Residential Customer Confusion on Commodity Choice***

In PG&E's ClimateSmart program September 2007 bill insert and residential targeted direct mail, the response form requested the residential customer to affirmatively check whether the customer wanted to make his/her electricity and/or natural gas usage climate neutral. Nearly one-third of the initial respondents did not select any commodity at all, requiring PG&E to contact directly each dual-commodity customer to determine whether they intended to sign up for both commodities or which single commodity. Because nearly all dual-commodity residential customers sign up for both commodities, this administrative process

created unnecessary delay and expense. Accordingly, PG&E has revised its program materials for residential customers to eliminate the commodity choice option. For commercial customers, however, PG&E has retained the commodity choice option. Unlike residential customers, many commercial customers have shown a preference for selecting just one commodity (as their dual contribution levels can range as high as tens or hundreds of thousands per year, which may make partial initial participation better than none at all). As of January 31, 2008, over 23 percent of PG&E's commercial ClimateSmart customers had selected only one commodity. In contrast, about 6 percent of PG&E's dual-commodity residential ClimateSmart customers had selected only one commodity.

#### **vii. Charitable Deduction**

PG&E did not obtain 501 (c)(3) status for ClimateSmart from the IRS until December 2007. As a result, initial marketing materials did not address the possibility of tax deductibility for residential customers. PG&E hopes that tax deductibility will increase the attractiveness of the program for residential customers, as suggested in customer surveys and focus groups conducted to date. However, because the first outreach pieces indicating tax deductibility will not go out until mid-March 2008, comparative response rates will not be known for several months. At such time, PG&E will conduct a comparative analysis to endeavor to determine whether tax deductibility has made a meaningful difference in customer response rates. Future marketing materials may increasingly emphasize tax deductibility if the impact of this message on response rates is significant.

#### **viii. Outreach to Lower Income Customers**

Consistent with its own testimony as reflected in the CPUC's decision, PG&E's ClimateSmart marketing plan considered and implemented various means for outreach to and inclusion of the interests of lower income customers. PG&E's outreach efforts for lower income customers are discussed in Sections 3 and 4 of this report. On September 14, 2007, and February 2008, PG&E met with representatives of the CPUC to discuss such matters. Based on these meetings, the CPUC approved the marketing plan advice letter.

Lessons learned on outreach to lower income customers thus far include: (1) the need to provide tenants who do not directly receive a PG&E bill a means to personally participate, if desired; and (2) that some lower income customers have had trouble understanding that this way of reducing their carbon footprint costs them an additional amount on their bill. A handful of lower income ClimateSmart enrollees in 2007 later de-enrolled when they realized the fundamental nature of the program. Future outreach to lower income customers will seek to clarify and avoid such misunderstandings as much as possible.

### **b. Climate Change Infrastructure**

#### **i. Project Diversification**

PG&E has been unable to diversify the ClimateSmart project portfolio beyond forestry projects to date. PG&E filed Advice Letter 2846-G/3075-E on June 27,

2007, requesting CPUC approval to incorporate use of the new CCAR Livestock Methane Capture Project Protocol into ClimateSmart project solicitations. However, the advice letter has been held in abeyance by the CPUC in consideration of policymaking developments underway in the CPUC's Rulemaking to Develop Additional Methods to Implement the California Renewables Portfolio Standard Program (Rulemaking 06-02-012). PG&E hopes to receive the CPUC's approval of the Livestock Methane Capture Project Protocol in the near future so that such projects will be eligible to compete for ClimateSmart funding in PG&E's second solicitation of projects, expected to be issued in the spring 2008.

**ii. *Solicitations, Bid Evaluation, Project Negotiations and Contracting***

The agreements PG&E has recently entered to purchase independent, competitively bid GHG emission reduction projects in connection with the ClimateSmart program are among the first executed that adhere to the CCAR project protocols. Since a form of agreement for the purchase of GHG emission reductions under the CCAR protocols was not available, PG&E developed its own form of purchase agreement based on its experience with renewable energy contracts, agreements used by the World Bank for GHG emission reduction projects, and the recommendations of outside counsel with more than 10 years of experience in carbon markets.

Negotiating these first purchase agreements for ClimateSmart presented a significant learning opportunity for both PG&E and the sellers of the GHG emission reductions. This was one of the first times the non-profit counterparties had negotiated a commercial contract and the first time anyone had negotiated a contract for CCAR verifiable GHG emission reductions.

The permanence period for these forestry projects was another challenging aspect of the contract negotiations. The length and scope of the permanence period had to be addressed, as the CCAR protocols provide that the parties negotiate the exact terms of permanence. PG&E used the standard set by the United Nations International Panel on Climate Change for GHG emission reductions from forestry projects as the basis for determining the permanence period. PG&E also required certain representations, warranties, and covenants with respect to the project and the seller in order to ensure permanence.

Measuring the financial additionality<sup>30</sup> of the projects was particularly challenging. PG&E and The Conservation Fund developed a solution relying on the opinion of an independent professional Forester. The key components required by this opinion to prove financial additionality include:

1. A forest management plan developed by TCF meeting the standards for forest industry management;

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<sup>30</sup> Financial additionality demonstrates that the activity of a given project achieves GHG emission reductions that exceed business as usual by showing that the revenues received by the seller be necessary to complete the financing of the project. To prove financial additionality, evidence needs to be supplied that shows that but for funds provided by a buyer of verified GHG emission reductions, the project that generates the verified emission reductions would not have occurred.

2. The management measures intended to prevent a reduction in the carbon sequestered from unplanned activities or natural events meet the standards of the forestry industry;
3. The harvest of timber from the project is less than what would be permitted pursuant to the conservation easement on the property;
4. A finding that TCF's estimate of the net revenue foregone as a result of not conducting certain timber harvests otherwise allowable under the conservation easement is reasonable;
5. A finding that TCF's estimate of the operating expenses for the project is reasonable; and
6. A confirmation that TCF has foregone timber harvests at least equal to the amount of GHG emission reductions for which payments are to be made by the ClimateSmart program.

The test for financial additionality with Sempervirens Fund's Lompico Forest Agreement was less complicated than for the Conservation Fund's Garcia River Forest Agreement, in part because the Lompico Headwaters property was not already subject to a conservation easement. The placement of a conservation easement on the property and the ongoing maintenance of the property, as required by the agreement, would not have been possible without the additional revenue received by the ClimateSmart program from the sale of the GHG emissions reductions. Thus, these activities by definition met the financial additionality standards.

### **iii. *Managing GHG Emission Reductions for Risk***

PG&E is concerned about the potential risk of loss of permanence for forestry projects due to natural disasters. There are several ways in which PG&E is working to reduce this risk. First, all forestry projects which PG&E contracts are required to provide a reserve of GHG emission reductions. This reserve is determined based on the risk relative to the climate and species of tree and historical fire rates in the region. The two projects PG&E has entered into purchase agreements with are coastal redwood forests. Because the climate on the coast is moist and redwood trees pose a lower fire risk than other species, PG&E set the reserve at 10 percent. Another way in which PG&E plans to reduce the risk is by developing a portfolio of forestry projects throughout the state. This will minimize the potential loss over the entire portfolio. Diversifying the portfolio with non-forestry based projects will further reduce the potential loss of permanence. Finally, PG&E has investigated insurance rate information with a couple of leading insurance companies and has found that no premiums have been written for this type of risk. PG&E will continue to investigate and help develop hedging options for covering the risk of loss of permanence of the forestry GHG emission reductions in 2008.

#### **iv. CCAR Protocol and Tracking Mechanism Development**

PG&E worked closely with the CCAR in 2007, routinely meeting throughout the year to discuss progress on the project protocols as well as to share insights from the ClimateSmart program. Unfortunately, development of project protocols has been slower than anticipated, with no project protocols developed in 2006 and only one protocol having been developed with ClimateSmart funds in 2007: the Livestock Methane Capture Project Protocol. The CCAR also developed the Landfill Project Reporting Protocol in 2007 and the ClimateSmart program is investigating funding it as well. PG&E has currently paid CCAR \$191,832. Future payments, per the CPUC decision, will be based on CCAR progress and results on protocols development as well as CCAR implementation of tracking mechanisms for verified GHG emission reductions under such projects. These tracking mechanisms are important to record the GHG emissions reductions generated over time for the projects, their retirement status, and the underlying activity data that is generated from ongoing monitoring and verification. Another ClimateSmart funded CCAR project protocol is currently scheduled to be completed in 2008, for urban forestry projects.

#### **v. GHG Emission Reduction Project Tracking IT**

PG&E developed and implemented an IT system to manage and track compliance with the terms of the GHG emission reduction agreements. Because these are complicated agreements with obligations extending into the future, it was necessary to develop an IT system to ensure that payments are tied to verification of GHG emission reductions. Furthermore, PG&E needs to monitor the projects under contract through lengthy permanence<sup>31</sup> periods in order to ensure that the verified emissions reductions purchased would remain valid into the future. There is currently no off-the-shelf solution available to track such contracts. PG&E investigated several options, and ultimately selected Enviance to develop a contract management system for the ClimateSmart projects. Enviance specializes in delivering software that automates and improves the management of environmental, health and safety compliance activities and their products are currently used by PG&E to monitor compliance with environmental regulations and to manage contracts for energy procurement. The system was implemented in early 2008.

## **9. Conclusion**

PG&E has learned many important lessons as it reached the many milestones discussed above to meet the numerous challenges facing this demonstration program during its earliest start-up phase.

PG&E is incorporating this experience into the expanded outreach plan for 2008 and anticipates increased program enrollment and contributions toward new GHG emission reduction projects. As greater program awareness builds, PG&E would expect the likelihood of an increased response rate ramping up at the end of Q1 and through Q2 2008

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<sup>31</sup> The CO<sub>2</sub> sequestered under forestry projects must remain sequestered for a period of 100 years. This is the standard set by the United Nations International Panel on Climate Change for GHG emission reductions from forestry projects.

as increased outreach takes hold. The widespread earned media coverage of PG&E's recent announcements of the program's first two independent, verified forestry projects with respected land trusts addresses customers' desire to know where their money is going. Similarly, PG&E hopes customers will welcome the recently obtained 501 (c)(3) tax-deductible charitable donation status. A further positive sign is that in late 2007 the ClimateSmart program's approach (including both forestry and livestock methane capture projects) was copied in large part by at least one other utility—Northwest Natural in Oregon and Washington. (<https://www.nwnatural.com/>)

PG&E looks forward to working cooperatively with the CPUC and the ClimateSmart program's External Advisory Group as the program achieves further milestones during 2008. PG&E anticipates reporting on such further accomplishments in its Second Annual Report, which according to the ClimateSmart Decision, will be filed with the CPUC on Monday, March 16, 2009.