May 17, 2010

Jane K. Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177

Subject: ClimateSmart™ Program Purchase of Verified Emission Reductions Under the U.S. Ozone Depleting Substances Project Reporting Protocol in Compliance with D.06-12-032

Dear Ms. Yura:

Advice Letter 3106-G/3642-E is effective May 5, 2010.

Sincerely,

Julie A. Fitch, Director
Energy Division
March 26, 2010

Advice 3106-G/3642-E  
(Pacific Gas and Electric Company ID U 39 M)

Public Utilities Commission of the State of California

Subject: ClimateSmart™ Program Purchase of Verified Emission Reductions Under the U.S. Ozone Depleting Substances Project Reporting Protocol in Compliance With Decision 06-12-032

Purpose

Pacific Gas and Electric Company (“PG&E”) hereby submits for filing an advice letter seeking permission to contract for greenhouse gas (GHG) emission reductions for its ClimateSmart program verified under the new Climate Action Reserve (“Reserve”) protocol for U.S. Ozone Depleting Substances Projects.1 This advice letter is submitted in accordance with Decision (D.) 06-12-032 (“Decision”), Ordering Paragraph 30, which requires PG&E to file an advice letter “seeking blanket permission to enter into contracts” for any new protocol.

Discussion of Protocol

The Reserve’s U.S. Ozone Depleting Substances Project Protocol2 provides guidance to account for, report, and verify GHG emission reductions associated with the destruction of high global warming potential ozone depleting substances (“ODS”) that would have otherwise been released to the atmosphere. These projects have the following benefits to ClimateSmart and PG&E customers:

- ODS have global warming potentials “several hundred to several thousand times that of carbon dioxide”3 and destruction of ODS is not common practice in the United States.4

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1 On February 3, 2010, the Climate Action Reserve Board of Directors (formerly the “California Climate Action Registry Board of Directors”) approved a protocol for U.S. Ozone Depleting Substances Projects.
• The Intergovernmental Panel on Climate Change ("IPCC") research estimates that ODS used in a given application "may be inadvertently released to the atmosphere at rates of up to 35% per year."\(^5\)

• Under the Reserve protocol, ODS will be "removed from residential appliances (e.g., refrigerators or A/C units) and commercial or industrial equipment"\(^6\) in California and "destroyed at a qualifying facility."\(^7\)

**Historic ODS Use and Current Emissions**

ODS were historically used in a wide variety of applications including refrigerants, foam blowing agents, solvents, and fire suppressants. In addition to their potency as ozone depleting substances, the ODS addressed by the Reserve’s protocol also exhibit high global warming potentials. The Montreal Protocol and the U.S. Clean Air Act\(^8\) ("CAA") control the production of ODS in the United States. However, neither framework requires the destruction of existing stocks of ODS. As such, continued use of these ODS is still widespread and can be found everywhere from vehicle air conditioners to industrial chillers. These stocks are continually recovered, reclaimed and recycled to service old equipment, often with very high leak rates. Because the Montreal Protocol and Title VI of the CAA do not forbid the use of existing or recycled ODS beyond the phase-out dates, even properly managed ODS banks will eventually be released as fugitive emissions to the atmosphere. Despite regulations prohibiting their intentional release through servicing, use, and end of life, IPCC research estimates that more than a third of refrigerant ODS contained in a given appliance may be inadvertently released to the atmosphere.\(^9\) Furthermore, many of the applications for which ODS foam was used, such as refrigeration or A/C units and building insulation, have extended lifetimes; therefore foams containing ODS will be present in the waste stream for many years to come. When foam containing ODS is disposed of, the ODS blowing agent is released from the foam during shredding and/or degradation in the landfill.

**Destruction of ODS**

In the Application, PG&E stated that it would only fund California-based projects verified under the Reserve’s protocols. ODS destruction projects are unique in that they consist of two steps that may be geographically distinct: 1) originating, sourcing, and aggregating the ODS, and 2) combusting the ODS. Destruction of ODS requires combusion in a specific facility that has the capacity to eliminate the ODS with an efficiency of 99.9% or higher. There are only 20 known commercial ODS destruction

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5 Ibid, page 5.
6 Ibid, page 71.
7 Ibid, page 3.
8 CAA, Title VI, Section 604(a).
facilities in the U.S.,\textsuperscript{10} 19 of which are RCRA-permitted hazardous waste combustors, and none of which are in California. In order to ensure that ODS is properly destroyed, the Reserve’s protocol requires destruction of ODS to occur at one of these “qualifying destruction facilities.”\textsuperscript{11} However, as California does not have a qualifying destruction facility, all California-based projects will need to transport the ODS out of state for destruction in order to create high-quality GHG emission reductions that satisfy the requirements of the Reserve protocol. However, the ODS point of origin, sourcing, aggregation, purification, and all other project activity, except for the destruction, will occur exclusively in California for any ODS projects from which the ClimateSmart program will purchase GHG emission reductions. Per the Reserve’s protocol, projects must document the custody and ownership of ODS beginning from the point of origin;\textsuperscript{12} PG&E will thus be able to follow and document the location of every stage of project activity. All the ODS from projects that the ClimateSmart program would invest in will originate in and be aggregated in California. Although destruction will occur out-of-state due to the lack of qualifying destruction facilities in-state, the CPUC should consider such projects to be California-based for the purposes of meeting the requirements of the Decision.

**Additionality**

In finalizing criteria for ODS projects to qualify under its protocol, the Reserve ensured that these projects are additional and do not pose any double-counting problems through its Performance Standard\textsuperscript{13} and Legal Requirement\textsuperscript{14} Tests. Because destruction of California-based ODS is not common practice, all ODS destruction activities that are eligible under the Reserve’s protocol also meet the ClimateSmart program’s definition of additionality.

In addition to the stringent requirements of the Reserve protocol, before entering into contracts for GHG emission reductions, the ClimateSmart program will also require, as it has done with forestry, manure management, and landfill projects, all ODS projects to provide evidence that “but for” ClimateSmart program funds, the project that generates the Reserve-verified GHG emission reduction would not have occurred.

\textsuperscript{10}\url{http://ozone.unep.org/Meeting_Documents/workshop_on_ODS_banks/WORKSHOP-3-INF1E.pdf}, p. 16, Table 1.


\textsuperscript{11} The Reserve defines a qualifying destruction facility as any destruction facility that is regulated by U.S. EPA as a Resource Conservation and Recovery Act (RCRA)-permitted hazardous waste combustor (HWC). Non-RCRA permitted facilities may also be deemed qualifying destruction facilities if they meet the pertinent guidelines provided by the Montreal Protocol's Technology & Economic Assessment Panel (TEAP) Report of the Task Force on Destruction Technologies. [TEAP, Volume 3B: Report of the Task Force on Destruction Technologies (2002)].

\textsuperscript{12} Reserve U.S Ozone Depleting Substances Project Protocol, Section 6, page 32.

\textsuperscript{13} Ibid, Section 3, page 10; the Performance Standard Test ensures that all projects exceed common practice.

\textsuperscript{14} Ibid; the Legal Requirement Test ensures that the emission reductions achieved were not already required due to any international, federal, state or local regulations, or other legally binding mandates.
Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail, by facsimile or electronically, any of which must be received no later than April 15, 2010, which is 20 days after the date of this filing. Protests should be mailed to:

CPUC Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Avenue
San Francisco, California  94102

Facsimile: (415) 703-2200
E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission:

Jane Yura
Vice President, Regulation and Rates
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, California  94177

Facsimile: (415) 973-6520
E-mail: PGETariffs@pge.com

Effective Date

PG&E requests that this advice filing become effective on regular notice, April 26, 2010, which is 31 calendar days after the date of filing.

Notice

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties for Service List A.06-01-012. Address changes to the General Order 96-B service list.
and electronic approvals should be sent to e-mail PGETariffs@pge.com. Advice letter filings can also be accessed electronically at http://www.pge.com/tariffs.

Vice President - Regulation and Rates

cc: Service List A.06-01-012

Attachments
APPENDIX

Background

In January 2006, PG&E filed Application (A.) 06-01-012 ("Application") proposing a Climate Protection Tariff Program (now titled the ClimateSmart program) that would allow customers to offset the greenhouse gas (GHG) emissions associated with their energy use by paying an additional amount on their PG&E bill. The CPUC approved, with modifications, PG&E’s proposed program on December 14, 2006, through D.06-12-032 ("Decision").

PG&E expressed interest in expanding the program as additional project protocols are developed that might be shown to generate verifiable and cost-effective GHG emission reductions as future projects of interest.\(^{15}\)

In the Decision, the CPUC agreed with PG&E that additional approved protocols would benefit the program “by mitigating the risks associated with an all-forestry offset program”\(^{16}\). Similar to methane projects (the reduction of which provides “significant environmental benefits” as the CPUC stated in the Decision\(^{17}\)), the capture and destruction of ozone depleting substances are of particular interest, as the ozone-depleting substances range from several hundred to several thousand times more potent GHGs than carbon dioxide. The CPUC ordered PG&E to file an advice letter to contract for projects under any new types of protocols, and to demonstrate that such projects will be “additional” and pose no double-counting problem.\(^{18}\)

As mentioned in its Resolution G-3410, “the Commission expects PG&E to consider the suitability of alternative offset types as new protocols are developed and approved for use. Diversifying the list of eligible offset types is seen as a way to lessen the risk that projects may be unavailable to meet program needs as well as to provide opportunities for funding less costly projects.”\(^{19}\) Accordingly, in order for the ClimateSmart™ program to contract for ozone depleting substances projects, PG&E files this advice letter in compliance with the CPUC’s order to request “blanket permission to enter into contracts” for other types of projects.

\(^{15}\) A.06-01-012, page 2-6.
\(^{16}\) D.06-12-032, Finding of Fact 12.
\(^{17}\) Id., p. 41.
\(^{18}\) Id., OP-30.
\(^{19}\) CPUC Resolution G-3410, June 12, 2008, p. 3.
Company name/CPUC Utility No. Pacific Gas and Electric Company (ID U39 M)

Utility type:
- [ ] ELC
- [x] GAS
- [ ] PLC
- [ ] HEAT
- [ ] WATER

Contact Person: Linda Tom-Martinez
Phone #: (415) 973-4612
E-mail: lmt1@pge.com

EXPLANATION OF UTILITY TYPE
ELC = Electric
GAS = Gas
PLC = Pipeline
HEAT = Heat
WATER = Water

Advice Letter (AL) #: 3106-G/3642-E
Subject of AL: ClimateSmart™ Program Purchase of Verified Emission Reductions Under the U.S. Ozone Depleting Substances Project Reporting Protocol in Compliance With Decision 06-12-032

Keywords (choose from CPUC listing): Contracts, Compliance
AL filing type: [ ] Monthly  [ ] Quarterly  [ ] Annual  [x] One-Time  [ ] Other _____________________________

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.06-12-032

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No
Summarize differences between the AL and the prior withdrawn or rejected AL: _____________________________

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for: Confidential information will be made available to those who have executed a nondisclosure agreement: [ ] Yes  [ ] No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information:
__________________________________________________________________________________________________

Resolution Required? [ ] Yes  [x] No
Requested effective date: April 26, 2010

Estimated system annual revenue effect (%): N/A
Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:
Service affected and changes proposed: N/A
Pending advice letters that revise the same tariff sheets: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Ave.,
San Francisco, CA 94102
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Jane K. Yura
Vice President, Regulation and Rates
77 Beale Street, Mail Code B10B
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com
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