



**Pacific Gas and
Electric Company**[®]

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May 15, 2008

Supervisor Charles McGlashan
President, Marin County Board of Supervisors
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Dear Supervisor McGlashan:

Thank you for meeting with us on April 23rd to discuss ways that PG&E and Marin can continue to work together on energy issues. As we discussed at the meeting, while we are skeptical that the CCA Business Plan will deliver the anticipated benefits (significant reductions in greenhouse gas emissions at little or no cost), we share your vision and goals of providing more renewable energy and greenhouse gas reduction opportunities to the residents and businesses in Marin.

As a provider of electricity and natural gas, we recognize that the way we produce and deliver our products and serve our customers has a direct impact on the environment. We understand that environmental excellence is necessary to be a leader in our industry and to the success of our business. A healthy environment is also necessary for the well-being and vitality of our customers, employees, and the communities we serve—as well as society at large.

Our key objective is to provide realistic opportunities to reach our common goals. This letter provides a summary of the opportunities that were discussed in our meeting, and we look forward to discussing next steps with you as soon as you wish. The opportunities include: 1) a Green Tariff electric service option for customers, where customers can pay an additional amount on their bills in order to ensure that 100% of their electricity delivered by PG&E comes from renewable resources; 2) a simplified way that PG&E can purchase renewable power from smaller renewable energy producers in Marin and elsewhere for the benefit of our customers; 3) how County financed renewable energy projects can receive financial benefits for their power; and 4) how the energy efficiency program partnership between PG&E and the County can be enhanced and expanded with additional funding and in-kind support.

Green Tariff: As you know, PG&E currently offers an innovative tariff program – called ClimateSmart -- where our customers can voluntarily choose to pay an additional amount on their monthly bill, based on their energy usage, to neutralize the carbon footprint of both their electric and gas consumption. 100% of funds generated by this ClimateSmart program go directly to fund new greenhouse gas emission reduction projects in California. PG&E will invest these funds in a range of innovative projects, such as projects that capture methane gas from dairy farms and landfills and conserving and restoring California's forests. The first projects PG&E has invested in include the Garcia River forest in Mendocino County and the Lompico Headwaters in the Santa Cruz Mountains.



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PG&E plans to file with the CPUC for approval of a new tariff option. This "Green Tariff" will allow customers across our service territory the option of purchasing additional renewable electricity supplies. PG&E is currently in the process of defining the parameters of this tariff, but anticipates that it will be comprised of the same kinds of renewable resources that are currently included in PG&E's existing renewable procurement program, e.g. wind, solar, small hydro, biomass, etc. The price for Green Tariff renewable power relative to the customer's otherwise applicable rate is currently being estimated, and other tariff requirements (such as any minimum commitments) are also being developed. We anticipate that we would work jointly with the County, as well as other communities within our service area that are interested in this type of tariff, to broadly offer it and aggressively market it to our customers. We're happy to share the details, as well as solicit your input, at our next meeting.

Purchase of Renewable Energy from Local Projects: PG&E has always been interested in and open to purchasing renewable energy from projects of any size and has entered into contracts to secure renewable energy from many small projects over the years. However, we know that the bidding process was sometimes costly for smaller entities that wanted to sell their power to PG&E. To remedy this problem, PG&E recently received approval from the CPUC for a standard, short form contract for entities that generate up to 1.5 MW of power. Under the "Small Renewable Generator" tariff, customers can choose to either sell all of their output to PG&E, or displace a certain amount of on-site load and sell the surplus to PG&E. Contracts can be for lengths of 10, 15 and 20 years, with a different price schedule for each contract term. The prices are set by the CPUC, under a framework called the "Market Price Referent". We have already received interest from renewable developers in this standard form contract, and are excited about the opportunity to aggressively promote it in communities interested in encouraging the development of local renewable resources, beyond those already enabled through PG&E's customer incentive programs such as the Self-Generation Incentive Program and California Solar Initiative. We share your enthusiasm that this will help promote the creation of new local jobs for the development of community-based renewable projects, and look forward to working with Marin communities to seek out and promote good candidate projects.

Local Government Investment in Renewables: Per our discussion, we understand that the County wishes to directly invest in renewable projects, beyond those which it can continue to install to serve site load, with support from PG&E incentive programs. One option, as discussed above, is for the County to develop renewable projects and sell power to PG&E under the Small Renewable Generator tariff or through competitive solicitations. We understand that government projects which sell power to private entities such as PG&E may face questions regarding qualification for tax exempt financing. However, there is a bill currently under consideration by the California Legislature -- AB 2466 -- which would authorize a local governmental entity to receive a bill credit against electricity it has consumed from an electric corporation for electricity it supplied to the electric grid from a nearby renewable generating facility.



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PG&E is continuing to evaluate the bill. If it is passed and signed into law, it would enable Marin County (or any city or town) to install a renewable energy generating facility in a location where little or no energy consumption occurs and get a credit on the County's PG&E bill for energy use at a designated County facility. This alleviates the current circumstance where, if a government entity uses tax-exempt bonds to finance the construction of a renewable generating facility, it cannot sell the power. Under AB 2466, the County may be able to use tax-exempt financing to construct such facilities.

Management of Local Energy Efficiency and Renewable Programs: PG&E appreciates that the County and some of Marin's cities and towns also manage programs designed to encourage efficient energy use and production of electricity from renewable resources. These programs go beyond those currently covered by the Marin County Energy Watch, a joint project of PG&E and the County of Marin, funded by PG&E's public goods fund. PG&E believes that there are opportunities to help coordinate the administration of these programs with those managed by PG&E in order to improve the efficiency and effectiveness of program delivery and explore additional funding sources as well as technical and marketing support. We look forward to discussing such opportunities with you at our next meeting. We hope that this information is helpful to you. We will work with your staff to schedule a follow-up meeting. In the meantime, please do not hesitate to contact us should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Tom Bottorff". The signature is written in a cursive, slightly slanted style.

Thomas E. Bottorff
Senior Vice President, Regulatory Relations

cc: David Rubin
Joshua Townsend