Pacific Gas and Electric Company

Pacific Gas and Electric Company
77 Beale St., Mail Code B9A
P.O. Box 770000
San Francisco, CA 94177

October 24, 2012

Edward Randolph, Director
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Re: Pacific Gas and Electric Company's ClimateSmart™ Charity Financial Audit Report

Dear Mr. Randolph:

Pursuant to *Resolution G-3429 – Pacific Gas and Electric Company (PG&E) requests approval to execute a Servicing Agreement between the utility and the ClimateSmart Charity and to modify its ClimateSmart balancing accounts*, issued December 15, 2011, PG&E hereby provides this information-only filing of WilsonMorgan LLP's financial audit report (see attached) of the ClimateSmart Charity for the year ended December 31, 2011 in accordance with Ordering Paragraph 5.

If you have any questions, please contact me at Redacted

Sincerely,

Redacted

Manager, Customer Demand Side Management

cc: Eugene Cadenasso - CPUC
Joel T. Perlstein - CPUC
Renee Samson– PG&E
Meredith Allen – PG&E
Sid Dietz – PG&E

Attachment

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CLIMATESMART CHARITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2011

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WILSONMORGAN LLP
Certified Public Accountants / Business Consultants
Registered Firm PCAOB

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ClimateSmart Charity
San Francisco, California

We have audited the accompanying statement of financial position of the ClimateSmart Charity (a California not-for-profit organization), as of December 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the ClimateSmart Charity's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ClimateSmart Charity as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

WilsonMorgan LLP

WilsonMorgan LLP

Irvine, California
October 2, 2012

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CLIMATESMART CHARITY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

ASSETS

Current assets:	
Cash held in escrow	$ 38,161
Accounts receivable	3,811,831
Deferred costs	120,000
Total current assets	3,969,992
Non-current assets:	
Deferred costs	128,350
Total non-current assets	128,350
Total assets	$ 4,098,342

LIABILITIES AND NET ASSETS

Current liabilities:	
Deferred revenue	$ 2,278,290
Total current liabilities	2,278,290
Non-current liabilities:	
Deferred revenue	1,820,052
Total non-current liabilities	1,820,052
Net assets, unrestricted	-
Total net assets	-
Total liabilities and net assets	$ 4,098,342

CLIMATESMART CHARITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Unrestricted:	
Support and revenues:	
Participant premiums	$ 3,426,572
In-kind contributions	125,762
Total support and revenues	3,552,334
Expenses:	
Program services	3,480,419
Supporting services:	
Management and general	71,915
Total expenses	3,552,334
Increase in net assets	-
Net assets, beginning of year	-
Net assets, end of year	$ -

The accompanying notes are an integral part of these financial statements

CLIMATESMART CHARITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Supporting Services	
	Program Services	**Management and General**	**Total Expenses**
Contract expense	$ 3,426,572	$ -	$ 3,426,572
In-kind contribution expense	53,847	71,915	125,762
Total program and supporting services expenses	$ 3,480,419	$ 71,915	$ 3,552,334

CLIMATESMART CHARITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities:	
Increase in net assets	$ -
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Change in assets and liabilities:	
Accounts receivable	(3,036,864)
Deferred costs	(197,139)
Deferred revenue	(389,625)
Net cash used in operating activities	(3,623,628)
Net decrease in cash equivalents	(3,623,628)
Cash held in escrow, beginning of year	3,661,789
Cash held in escrow, end of year	$ 38,161

The accompanying notes are an integral part of these financial statements

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1. ORGANIZATION AND NATURE OF ACTIVITIES

The ClimateSmart Program is a voluntary, tax-deductible program that allows enrolled customers to make voluntary contributions towards projects to reduce or sequester Greenhouse Gas (GHG) emissions in order to make those participants' electricity and gas use "climate neutral."

On December 14, 2006, the California Public Utilities Commission (the CPUC) approved Pacific Gas and Electric Company's (the Utility) request to establish a Climate Protection Tariff, now known as the ClimateSmart Program. On March 1, 2007, the Utility formed the ClimateSmart Charity (the Charity). Beginning on May 2007, the Utility commenced offering the ClimateSmart Program to its customers. The Utility billed and collected ClimateSmart Program premiums based on each customer's usage and entered into contracts to purchase voluntary GHG emission reductions generated by projects such as forest conservation and dairy methane capture.

On December 15, 2011, the CPUC approved the servicing agreement between the Utility and the Charity, effective December 20, 2011. The CPUC approved servicing agreement enabled the Utility to transfer funds collected from ClimateSmart Program customers to the Charity. Effective December 20, 2011, the Charity will administer these funds and the GHG emission reduction contracts.

As directed by the CPUC, the ClimateSmart Program concluded at the end of 2011, and customers may no longer make voluntary contributions. In 2012, at the request of the CPUC, the Utility contributed $1,963,021 of unused administrative and marketing funds to the Charity. In 2012, the Utility also transferred $194,650 of ClimateSmart program premiums related to 2011 customer usage subsequently billed in 2012.

The Charity is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the Charity are maintained in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-For-Profit Organizations*. Under ASC 958-205, the Charity is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets that are legally unrestricted, including cash internally designated by the Charity's board of directors, are reported as part of the unrestricted class of net assets.

Public Support

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. The Charity had no temporarily or permanently restricted net assets as of December 31, 2011.

Donated Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market values in the period received. The Charity received all of its donated services from the Utility. The estimated fair value of the donated services was $125,762 and is reported as support and expense in the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Accordingly, actual results could differ from those of estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Held in Escrow

The cash account was maintained by the Utility in a separate escrow account. This escrow account was jointly held by the Utility and the Charity. Funds held in this account were used to fund the GHG emission reduction contracts. The balance was transferred to the Charity subsequent to year end.

Accounts Receivable

Accounts receivable primarily represents the amount the Utility owes the Charity for the 2011 ClimateSmart Program premiums and the cumulative interest earned on the funds collected from ClimateSmart Program customers, but not yet paid out on GHG emission reduction contracts prior to the funds being transferred to the Charity.

Deferred Costs

The Utility contracts with outside vendors to purchase Verification Emission Reductions (VERs) from projects that reduce GHG emissions.

Deferred costs represent prepayments for the VERs from various vendors. The prepayments are deferred and charged to operations as the VERs are delivered or over the term of the contract.

Deferred Revenue

Deferred revenue represents the portion of participant premiums that will be recognized as revenue when the VERs are delivered or over the term of the VERs contract. The premiums collected meet the characteristics of an exchange transaction. An exchange transaction can be described as a reciprocal transfer of goods or services in which each party receives or sacrifices some type of similarly valued consideration. Management determined that the premiums collected by the Charity represent a reciprocal transaction in which PG&E contributed funds to the Charity to execute the contracts in order to achieve targeted GHG reduction levels.

3. COMMITMENTS

The Utility intends to assign the GHG emission reduction contracts to the Charity subsequent to year end.

The table below summarizes the contractual commitments to purchase VERs:

Year Ending December 31,	Amount
2012	$ 2,166,225
2013	1,622,492
2014	530,186
2015	483,322
2016	503,472
2017 through 2022	31,794
Total	$ 5,337,491

The Charity intends to re-negotiate the existing contracts to reduce future contractual payments as stipulated in each vendor's contract. The creation of the Charity does not relieve the Utility of its obligations under pertinent CPUC decisions or orders. If the Charity is unable to meet its contractual commitments, the Utility shall use non-ratepayer funds to cover the shortfall.

4. SUBSEQUENT EVENTS

The Charity has evaluated subsequent events through October 2, 2012 in accordance with FASB ASC 855-10, *Subsequent Events – Overall*, which was the date the financial statements were available to be issued. Management determined that no material subsequent events have occurred that would require disclosure or recognition in the accompanying financial statements for the year ended December 31, 2011.