



**Pacific Gas and
Electric Company**

Des Bell
Senior Vice President

Safety and Shared Services

US Mail:
Mail Code B32
Pacific Gas and Electric Company
P. O. Box 770000
San Francisco, CA 94177-0001

Overnight Mail:
Mail Code B32
Pacific Gas and Electric Company
77 Beale Street, Room B32
San Francisco, CA 94105-1551

415.973-4545
Fax: 415.973-6200

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Top PG&E Suppliers:

I am writing today to inform you of a new set of environmental management standards we are introducing for all top tier PG&E suppliers. You are receiving this letter because you are one of our top tier suppliers, defined as an Enterprise Strategic, Portfolio Preferred or Valued supplier who is evaluated through a formal PG&E scorecard review. Like PG&E, most of you have embraced corporate environmental responsibility as a key business value and have managed your company's operations accordingly. At PG&E we measure our environmental impacts and compliance performance, and we are on track to meet our goals for energy, water and waste reduction. As a result of these initiatives, we have identified operational efficiencies, realized cost savings and engaged our customers and employees in the benefits of environmental stewardship. We expect our suppliers to have similar programs and goals. Many of you have already participated in our industry-leading Green Supply Chain Program by initiating an innovative 'green' project or have completed our annual Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA) Sustainability Survey.

Today, we are announcing new environmental management standards that clearly detail our priorities, provide transparency in the supplier evaluation process and allow suppliers to improve their score throughout the year. These new standards incorporate feedback we have received from suppliers as well as PG&E best practices. PG&E will now expect all top tier suppliers to have an environmental management system (EMS), track environmental impacts, set reduction goals and report their performance publically.

These expectations set out fair but rigorous requirements for continuous improvement in environmental management without requiring a "one size fits all" approach. The annual EUISSCA Sustainability Survey will be used to monitor your compliance with these standards, and your performance will be evaluated through our formal scorecard review process. We will also conduct one-time assessments of your environmental management practices to ensure PG&E guidelines are being met.

I invite you to attend one of two PG&E hosted webinars in the coming weeks and to read the attached guidance for more information about these standards. Questions regarding these standards should be directed to your PG&E sourcing contact. We know standards for environmental performance are evolving and we appreciate you taking this next step in environmental leadership.

Sincerely,

**PG&E Supplier Environmental Management
Guidance & Metrics**

PG&E Supplier Environmental Management Standards

All top suppliers to PG&E are expected to meet these environmental management standards. Performance to these standards will be tracked through the annual Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA) Sustainability Survey and will be evaluated through regular supplier scorecard reviews.

1. Environmental Management System & Tracking

PG&E expects suppliers to effectively manage their environmental impacts utilizing an environmental management system (EMS).

EMS is an overall management system that includes a policy statement, organizational structure, planning, activities, responsibilities, procedures, processes, and resources for developing, implementing, achieving, monitoring, and maintaining an environmental policy. EMS should include the following elements: 1) Environmental policy and planning; 2) Implementation and operation; 3) Checking and corrective action; and 4) Management review. An effective EMS should be based on the Plan, Do, Check, Act model. We encourage ISO-14001 compliance as a best practice.

The EMS must address and track the company's impact in the following areas:

- Scope 1 and Scope 2 Greenhouse Gas Emissions (GHG)
- Energy
- Water
- Waste; and
- Compliance with relevant laws and regulations.

Tracking and reporting should be compliant with international standards and reporting frameworks such as the Greenhouse Gas Protocol, Carbon Disclosure Project, or other standard protocols for calculating, tracking, and reporting impacts.

2. Voluntary Reduction Goals

Suppliers should have voluntary reduction goals for three out of the four following impacts:

- GHG (Scope 1 and Scope 2) emissions
- Energy
- Water; and
- Waste

Goals should be specific, measurable, time-bound, and relevant to core business operations.

3. Public Disclosure

Suppliers should report their performance against their environmental performance goals on an annual basis. Reporting should be readily available to the public and customers and should be quantifiable and measurable. Most suppliers choose to make performance reporting available on their website.

Definitions

Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA): Commonly known as ‘the Alliance’, EUISSCA was formed to promote environmental stewardship and provide value to customers and shareholders. Focusing on non-fuel (generation) suppliers, the Alliance’s goal is to work with industry suppliers and other interested parties to improve environmental performance and advance sustainable business practices.

EUISSCA Sustainability Survey: This is a survey that is sponsored by EUISSCA. The Alliance members want to better understand how companies in their supply chain are considering climate change and working to reduce their impacts in key environmental performance areas. The survey is typically issued in the beginning of July and answers should be based on readily available data. This survey is the primary input for the environmental performance section of PG&E’s supplier scorecard.

Environmental Management System (EMS): An EMS is an overall management system that includes a policy statement, organizational structure, planning, activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, monitoring, and maintaining an environmental policy. An effective EMS should include the following elements: 1) Environmental policy and planning; 2) Implementation and operation; 3) Checking and corrective action; and 4) Management review.

Environmental performance: Refers to an organization's environmental impacts, the actions they are taking to address impacts and the results of those actions or lack thereof (e.g., GHG emissions, pollution prevention, utilization of natural resources, and others).

International reporting standards: There are several international reporting standards for collecting and reporting GHG emissions, energy use, and other environmental impacts. These standards help standardize the methodology, calculations, and reporting of this data. They include but are not limited to:

- **Greenhouse Gas (GHG) Protocol:** The GHG Protocol is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage GHG emissions. www.ghgprotocol.org
- **Global Reporting Initiative (GRI):** The GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world. www.Globalreporting.org

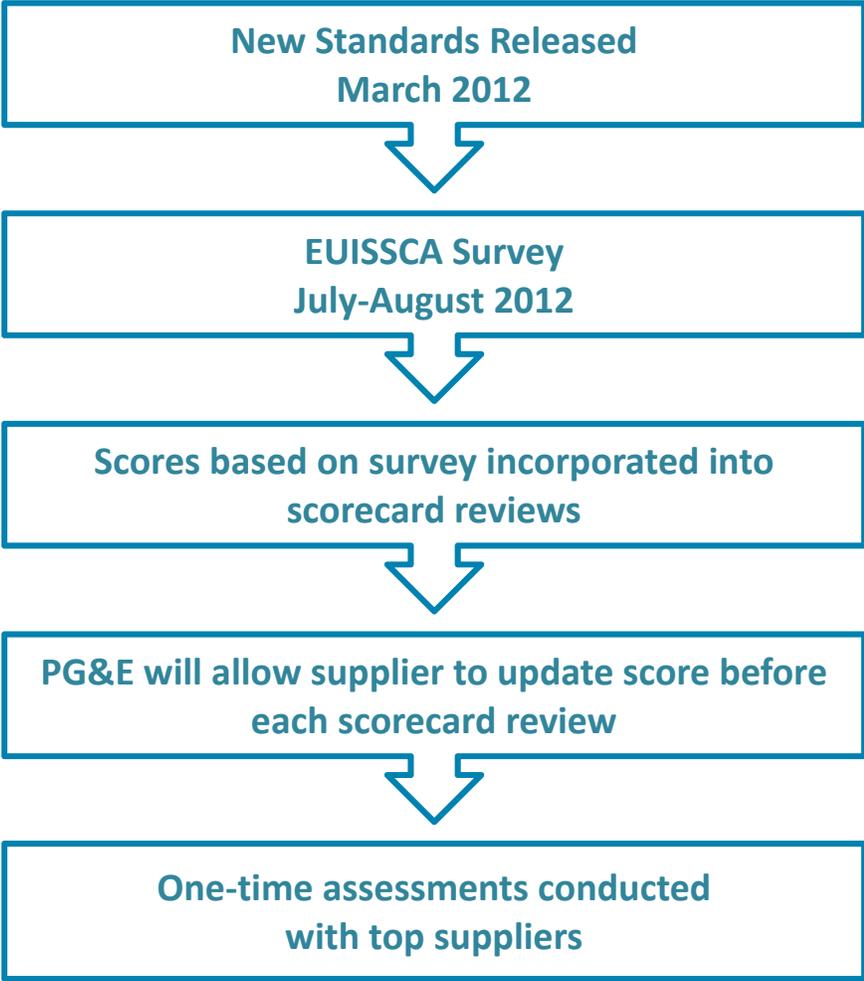
ISO-14001 certification: The International Organization for Standards (ISO) is a certification body that provides requirements and standards for an Environmental Management System (EMS).

Scope 1 and 2 GHG Emissions: The GHG Protocol defines three scopes of emissions:

- **Scope 1** - Direct GHG emissions are emissions from sources that are owned or controlled by the company. For example, emissions from combustion in owned or controlled boilers, furnaces and vehicles.
- **Scope 2** - Accounts for GHG emissions from the generation of purchased electricity by the company.
- **Scope 3** - Optional reporting category that allows for the treatment of all other indirect emissions. They are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples include third party deliveries, business travel activities and the use of sold products and services.

Top Tier PG&E Supplier: Any PG&E supplier classified as an Enterprise Strategic, Portfolio Preferred, or Valued supplier that will be reviewed through a formal PG&E scorecard review.

Process for Evaluating Suppliers' Environmental Management



Scoring Methodology

Environmental sustainability constitutes 5 points (out of 100) on the supplier performance scorecard. Data is collected through the annual EUISSCA Sustainability Survey. This document outlines the scoring process for the environmental sustainability section.

SECTION	EUISSCA SUSTAINABILITY SURVEY QUESTIONS	POINTS
Environmental Management System & Tracking	Organization has an Environmental Management System (EMS) in place	2 points *Must have EMS and track/measure ALL 5 environmental impacts
	Greenhouse gas emissions are measured and trended	
	Energy consumption is measured and trended	
	Water use is measured and trended	
	Non-hazardous commercial waste generation is measured and trended	
	Environmental compliance performance (e.g. Notices of Violation, Permit Non-compliances, Reportable Spills and Significant Monetary Fines/penalties) is measured and trended	
Voluntary Reduction Goals	Organization has established a voluntary commitment to reduce greenhouse gas emissions	2 points *Voluntary reduction goals must address 3 or more environmental impacts
	Organization has established a voluntary commitment to reduce energy consumption	
	Organization established a voluntary commitment to reduce water consumption	
	Organization has established a voluntary commitment to reduce non-hazardous waste	
Public Disclosure	Organization's environmental performance results are reported externally (e.g., website, published in a sustainability/environmental report, included in an annual report or other published document, etc.)	1 point

Figure 1. The eleven survey questions that will be used to score suppliers. NOTE: Phrasing of the questions may change.

EMS and Impact Tracking.....	2 points
3 out of 4 Voluntary Reduction Goals.....	2 points
Environmental Performance Disclosure.....	1 point

Note:

- All questions are binary yes/no answer format.
- Within each section, suppliers must meet all requirements to receive points (no partial points).

Frequently Asked Questions

EUISSCA Sustainability Survey

Do we need to fill out the EUISSCA Sustainability Survey?

The Alliance survey is a voluntary survey and is used to better understand utility suppliers' environmental practices. We encourage PG&E suppliers to complete the survey, but they are not required to complete it. PG&E uses the survey to score our suppliers' environmental performance. Suppliers who do not complete the survey cannot be scored and will thus receive a zero score on the environmental sustainability section (worth 5 %) of their overall score.

Do we need to release the Alliance Sustainability Survey results to PG&E?

You must release the survey to PG&E in order to be eligible for environmental sustainability points. We need your responses to the Alliance survey in order to calculate an environmental performance score in the scorecard.

When does the Alliance Sustainability Survey come out? How often?

The survey is typically released at the end of June or early July every year. PG&E supplier category leads and portfolio managers identify the key supplier contact to receive the survey. A link to the survey is emailed to the supplier contact.

What if we change our management practices after we fill out the survey?

Before each scorecard review, PG&E will reach out to suppliers to ensure the information on hand is up to date. At that time, a supplier can update PG&E on any changes since the survey was last taken.

PG&E Supplier Environmental Management Standards

Does the Environmental Management System need to be ISO-14001 certified?

PG&E recognizes ISO-14001 EMS certification and compliance as a best practice but it is not required to receive points on the scorecard.

How can we track energy/water/waste if we lease our space?

Tracking environmental impacts of leased assets is challenging, but is practical in many cases. Suppliers can consider having a separate electric or water meter installed, or can work with building managers to identify tracking, management, and reduction activities. Renewal of leases is often the best opportunity to negotiate for better environmental tracking practices.

What are some examples of reduction goals?

Examples include:

(1) Reducing energy consumption in corporate real estate by a certain percentage by installing light sensors, computer energy management software, or replacing lighting or HVAC equipment; (2) Upgrading fleets to more fuel efficient vehicles; (3) Reducing the miles traveled for business by utilizing route rationalization or telecommuting; (4) Reducing water consumption by a total amount or percentage by changing lawn management practices or installing low-flow fixtures; or (5) Contracting for on-site compost options for organic waste diversion. These are just some examples of impact reduction goals and activities.

How can we disclose performance without disclosing competitive information?

Suppliers need not disclose environmental performance by product or category, but can provide overall corporate impact information. Total consumption reporting is not required either. Suppliers only need to report some quantitative assessment of their environmental performance goals and activities. This could take the form of percentage reduction, for example.

What if we track only some but not all of the required impacts?

PG&E applauds all efforts to track environmental impact. To receive the two points on the scorecard reserved for management and tracking, suppliers must track all five aspects: Scope 1 and Scope 2 GHG emissions, energy, water, waste, and compliance.

How do I use my utility bill to track GHG emissions?

GHG emissions are measured by weight in metric tons of carbon dioxide equivalent (mt of CO₂e). Convert the energy units (kilowatt hours) on your utility bill to CO₂e by multiplying the kilowatt hours by the emissions factor (equivalent amount of CO₂e per kilowatt hour) of your energy source. The emissions factor can be provided by your electricity provider.

Do I need to track the impacts of my subcontractors and suppliers?

No. For these standards, suppliers are only required to track environmental impacts of their own operations and business. We encourage suppliers to track and manage their biggest environmental impacts. For some suppliers, this may be in the supply base.

How do I track GHG emissions from vehicles or other sources of transportation?

Most tracking tools utilize fuel receipts or miles traveled to calculate total emissions. There are many online calculators for assessing GHG emissions from vehicles. The Environmental Defense Fund has an online calculator at business.edf.org/projects/fleet-vehicles/fleet-calculator.

Miscellaneous

How much will this cost?

Implementation of these management practices will vary in cost depending on the current state of your environmental management practices.

This is not in my contract. Do I have to do comply with these standards?

In most contracts, PG&E requires participation in supplier scorecard reviews. These standards detail the performance expectations that will be reviewed through the scorecard process. If suppliers choose not to adopt these standards, it will be reflected in the scorecard.

What percentage of the scorecard does the environmental performance component make up?

Out of 100 points, a minimum of 5% is allocated for environmental performance.

Who is considered a “top tier” supplier to PG&E?

Top suppliers provide critical services and products to PG&E and are among our top 100 suppliers in size of business activity and critical operating importance to the company. These select suppliers are reviewed through a regular scorecard process.