



California Direct Access Lottery

Electricity Supply Purchasing Process For:
Non-Choice Customers in California

PROPRIETARY AND CONFIDENTIAL

December 22, 2011





ELECTRICITY SUPPLY PURCHASING RECOMMENDATION

Recommendation

Fellon-McCord recommends clients with facilities in PG&E, SCE, and/or SDG&E in California:

Begin the process and paperwork to enroll into third-party Direct Access (DA) electricity supply for 2013 (Year 4 Phase-in).

Background

Direct Access (DA) is an optional program allowing electricity end-users to secure electricity supply from qualified Electric Service Providers (ESP). Originally suspended in September 2001, Governor Schwarzenegger in 2009 signed into law the partial reopening of Direct Access for electricity supply.

A total of 3,946 Gigawatt Hours (GWh) has been in process of being phased in over a four-year phase in period:

1. Year 1 Phase-in (2010) load is 35% or 1,381 GWh.
2. Year 2 Phase-in (2011) load is 35% or 1,381 GWh.
3. Year 3 Phase-in (2012) load is 20% or 789 GWh.
4. ***Year 4 Phase-in (2013) load is 10% or 395 GWh.***

Each January, a lottery system is in place determining which customers are accepted back into the Direct Access program. The January lotteries determine participants for the following year, i.e. the January 2011 lottery determined those accepted beginning with the 2012 load. The January 2012 lottery will determine those accepted beginning with the 2013 load. January 13, 2012 will be the earliest customers will be able to submit notice of transfer.

The total load of the four-year phase in periods represents approximately 16% of the total GWh load in California. This will leave 84% of load not able to secure Direct Access pricing. As it stands now, no additional load will be allowed to participate in Direct Access after this last and final round is over. However, there is rumoring of legislation being introduced to allow additional load phase-in periods but those are not guaranteed.



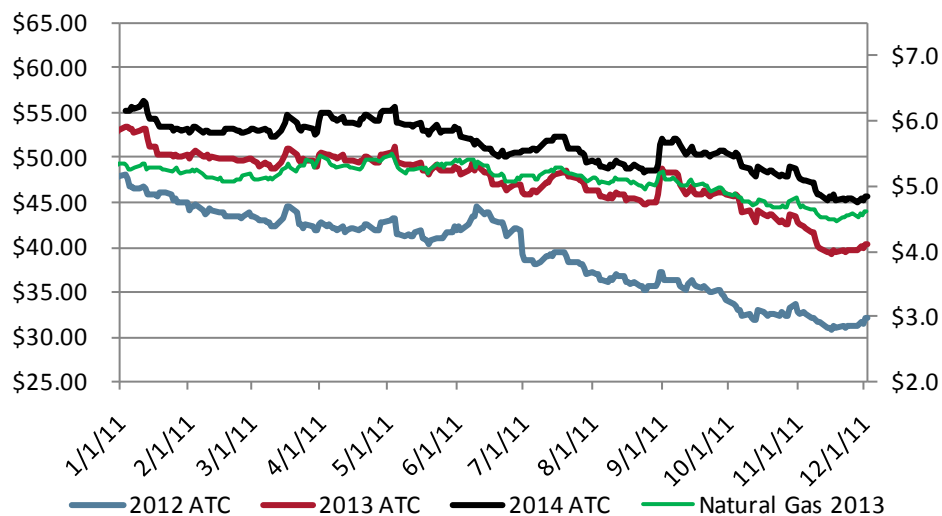
Benefit & Analysis

Wholesale power prices in California continue to trade lower than historical wholesale pricing. In California, hydroelectric and natural gas generation account for the majority of electric generation. Because hydro electric generation is expected to be sufficient, the remaining power needs fulfilled by natural gas remains minimal. Past market trends show strong correlations between natural gas pricing and California Day Ahead pricing.

In the past two years, semi-annual troughs for calendar-year contracts have brought lower prices than the preceding troughs as risk premiums on forward hedges diminish and natural gas markets remain in well-supplied condition.

While historical prices and events do not guarantee future market dynamics, if the current conditions continue into the future, electricity supply prices for 2013 and 2014 are expected to remain favorable for third-party supply pending regulatory decisions.

NP-15 Hub - Around the Clock (ATC) Pricing



Expectations state that PCIA charges in 2013 will be approximately \$4 -5/MWh. As a result, third-party shopping is expected to remain favorable for the 2013 calendar year even with the addition of the PCIA charge.



Implementation

1. Before January 13, 2012, complete, and if using a designated agent, return the 1) *Customer Information Service Request (CISR)* form, and 2) the *Six-Month Notice to Direct Access Service Account List* Excel spreadsheet.
 - a. Double-check with the Electric Service Provider (ESP) about specific deadlines for the completion and return of these documents; ESP's may require receipt of these documents in advance of the January 13 submission date to ensure accuracy of the forms and account information.
 - b. The *CISR* form (with box 4 checked) allows a designated agent such as the ESP to file the necessary forms and documents on behalf of the customer. Allowing an ESP to submit the necessary forms usually results in a speedier and smoother submission process. Additionally, working with an ESP allows review and double-checking of the forms and accounts for accuracy. If information is inaccurate or missing, the ESP can help resolve those issues before the Direct Access lottery opens on January 13, 2012.
 - c. For each unique Tax ID number, a separate application and *Six-Month Notice to Direct Access Service Account List* spreadsheet needs to be completed.
 - i. Multiple Tax ID numbers cannot be aggregated (i.e. one application and spreadsheet per Tax ID number).
 - ii. List must be in Excel format, no PDF's accepted.
 - iii. Double-check that account names and account numbers on all forms are the same as the distribution account names and account numbers.
2. On January 13, 2012, submit the *Six-Month Advance Notice to Transfer to Direct Access Service* form and the *Six-Month Notice to Direct Access Service Account List* spreadsheet. Acceptance is on a first-come, first-serve basis beginning at **9:00 AM (PST)** on **January 13, 2012** until the 2013 load cap is reached.
 - a. It is highly recommended to work directly with Electric Service Providers (ESP). ESP's can submit the necessary forms on behalf of customers.
 - b. If a designated agent such as an ESP is not utilized, customer is responsible for their own lottery submissions.
 - c. Acceptance to the lottery is not guaranteed.
 - d. **If the customer is accepted in the lottery, a third-party supply contract for 2013 (beginning with the customer's January 2013 meter read) needs to be signed**



and in effect within 60 days after January 13, 2012. If not, the customer is defaulted back to bundled service for a minimum period of 18 months.