Docket No.: R.07-05-025

Exhibit No.:

Date:

Witness: Mark E. Fulmer

ERRATA

REPLY TESTIMONY OF MARK E. FULMER ON BEHALF OF THE DIRECT ACCESS PARTIES CONCERNING THE TRANSITIONAL BUNDLED SERVICE RATE, DIRECT ACCESS SWITCHING RULES, MINIMUM STAY PROVISIONS, AND ENERGY SERVICE PROVIDER FINANCIAL SECURITY REQUIREMENTS

because of Amerex's policy not to sell or in any way provide data to consultants. Clearly, these data are NOT available to anyone in the public.

Q: What about other sources for implied volatility?

A: The City and County of San Francisco attempted to verify the public availability of implied volatility data from sources beyond Amerex. CCSF contacted five major brokers and energy data provider and was told that there is no publicly available data or even subscription serve data for implied volatility at NP15.[16] CCSF further reported that "PG&E used SP15 data to estimate the necessary implied volatility values for NP15."[17] Furthermore,

> CCSF has been informed by Amerex that it is only able to provide "indicative data," meaning that the data are based in whole or in part on estimates or approximations of what prices would have been in a given period. Typically, indicative data are provided when either no transactional data are available, or the data aggregator believes that insufficient transactional data are available to provide a reliable price indicator for the given period.[18]

While Amerex would not provide the DA Parties' consultant sample data, Mr. Fulmer did speak with the Amerex contact identified by P&GE in its testimony. Ms. Mundy (formerly Ms. Gist) confirmed CCSF's statements: Amerex does not provide quotes for volatility at NP15, and the SF15 implied volatility quotes are merely indicative and are available only to direct users.

Q: To summarize, there are no sources for implied volatility for NP15 and the single source for SP15 indicative volatility data is based on broker estimates. Should the Commission impose costs on ESPs ~~and CCAs~~ based on such weak data?

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[16] R.03-10-003, (Revised) Comments Of The City And County Of San Francisco On The Proposed Decision Of Administrative Law Judge Yip-Kikugawa, December 9, 2010, at 5.
[17] Ibid.
[18] Ibid. at 6

A: No. Requiring such a potentially large and varying FSR on an ESP, the cost of which would inevitably be paid by its customers, based in large part the estimate of a broker who does not answer to the Commission is clearly unreasonable.

d. THE RATIONALE BEHIND CALCULATING THE FRS BASED ON THE 95TH PERCENTILE IS FLAWED

Q: SCE states in testimony that "The 95 percent confidence interval represents a one-in-twenty (1-in-20) event and was adopted by the Commission in D.07-12-052 as the confidence interval to be used by IOUs to manage rate level risk for bundled service customers. This same confidence level should apply to forecasting the possible reentry fees that could occur. The bond should provide the same level of protection that the bundled service customers currently have." Is the bundled ratepayer risk being addressed in D.07-12-0~~2~~52 analogous to the risk bundled customers face from involuntarily returned DA customers?

No. The problem is that when a 95 percent confidence interval is applied to the IOUs management of market risk in their procurement portfolio, as called for in D.07-12-0~~2~~52, the result is a level of hedging that is designed to protect bundled customers against market risk: if the IOU doesn't hedge based on a 95 percent confidence level, then there is a 5% risk that rates will be unacceptably high. In the FSR case, even if the market events that result in wholesale costs that are above the 95^{th} percentile, there is still a large likelihood that the IOU will not bear any costs: simply because the wholesale prices are exceptionally high DOES NOT in itself mean that that an ESP will default. The probability of the ESP actually defaulting is not accounted for; the model effectively assumes that if these prices are reached, then the ESP will default. As discussed above, an ESP defaulting due simply to high market prices is highly unlikely. But the FSR model calculates the IOU potential exposure implicitly assuming a default will occur when the prices reach the 95th percentile.

VI. ANY FSR MODEL MUST BE FULLY AVAILABLE TO THOSE WHO PAY THE RESULTING AMOUNT

Q: Is it reasonable for an ESP to simply post tens, if not hundreds of millions of dollars of surety based on the unverified calculations of a competitor?

A: Clearly it is not. It is, in fact, irresponsible. If this or any other model is used to calculate an ESP FSR, or CCA Bond amount for that matter, it must be provided in its entirety to those paying the FSR or Bond.[19] This is only fair. There should be nothing in the model that can be treated as confidential. The unattractive alternative is to have each ESP ~~(and CCA)~~ keep parallel calculations and protest to the Commission if their shadow calculations do not result in the same FSR (or Bond) as that presented in an invoice from the IOU. Any dispute would be much more quickly and easily resolved if the IOUs would provide to the ESP the underlying model and data each time the FSR is calculated.

Q: Does this conclude your testimony?

A: Yes.

[19] This would likely require the ESP or CCA to have the appropriate subscription(s) or the permission of the provider of the market data (e.g., Amerex for volatility).

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