

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Rulemaking Regarding Whether, or Subject to
What Conditions, the Suspension of Direct Access
May Be Lifted Consistent with Assembly Bill 1X
and Decision 01-09-060.

Rulemaking 07-05-025
(Filed May 24, 2007)

**NOTICE OF EX PARTE COMMUNICATION WITH BISHU CHATTERJEE BY
COMMERCIAL ENERGY OF CALIFORNIA AND
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION**

Michael B. Day
Suzy Hong
GOODIN, MACBRIDE, SQUERI,
DAY & LAMPREY, LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111
Telephone: 415-392-7900
Facsimile: 415-398-4321
Email: mday@goodinmacbride.com

For Commercial Energy of
California

September 12, 2011

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Rulemaking Regarding Whether, or Subject to
What Conditions, the Suspension of Direct Access
May Be Lifted Consistent with Assembly Bill 1X
and Decision 01-09-060.

Rulemaking 07-05-025
(Filed May 24, 2007)

**NOTICE OF EX PARTE COMMUNICATION WITH BISHU CHATTERJEE BY
COMMERCIAL ENERGY OF CALIFORNIA AND
CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION**

Pursuant to Rule 8.3 of the Commission's Rules of Practice and Procedure, Commercial Energy of California and the California Large Energy Consumers Association submit this Notice of Ex Parte Communication.

On Wednesday, September 7, 2011 at 4 pm an Ex Parte communication was held with Bishu Chatterjee, Advisor to Commissioner Timothy Alan Simon. In attendance for Commercial Energy were Ron Perry, CEO of Commercial Energy, and Michael Day of Goodin, MacBride, Squeri, Day & Lamprey, LLP, outside counsel for Commercial Energy. Also in attendance was William Booth, counsel for the California Large Energy Consumers Association (CLECA). The meeting was initiated by Mr. Day and took place at the Commission's offices in San Francisco and lasted for approximately 45 minutes.

At the meeting Mr. Day and Mr. Perry explained that the bonding requirement adopted in the Proposed Decision issued in the above-captioned docket would have a seriously damaging effect on the Direct Access market and would actively discourage ESPs from selling to

customers, and discourage customers from entering into contracts for Direct Access Service. Mr. Perry presented a table that he created from the formula for the bonding requirement contained in Appendix to the Proposed Decision, to show the approximate impact of an increase in volatility and an increase in energy costs on the amount of the bond that ESPs would have to purchase. The table demonstrates that increases in volatility and energy prices within historical experience can cause the cost of a bond for an ESP to be so large as to make it uneconomical to participate in the Direct Access market. Because PG&E and SCE refused to provide an updated bond calculation during the hearings, Mr. Perry used available public information to approximate current utility energy costs. Any margin of error in the assumed utility energy cost number is not meaningful because the order of magnitude of the bond cost grows so rapidly as market prices and volatility increase.

Mr. Booth explained that from the perspective of an industrial customer such a bonding provision would create a disincentive to participate in Direct Access. In addition, because the amount of the bond could be altered every six months by an Advice Letter filing changing the volatility inputs to the bonding calculation, there would be substantial uncertainty for both customers and ESPs that would undermine the ability of such parties to enter into long term fixed price Direct Access contracts.

Mr. Day pointed out that the existing tariff provisions that require all returning Direct Access customers to take Transitional Bundled Service (TBS rates) is a time-tested and effective means of ensuring that the utility's bundled customers are not saddled with additional procurement costs due to the return of a Direct Access customer. It was explained that the all the Direct Access parties in the case, the large majority of the customer groups represented in the

case, and SDG&E all supported the use of TBS rates in lieu of the complicated and potentially destabilizing bonding requirement.

The table demonstrating the potential impact of the bonding requirement is attached to this Notice. If you have any other questions regarding this Ex Parte Notice, please contact Michael Day at the address below.

Respectfully submitted this 12th day of September, 2011 at San Francisco, California.

GOODIN, MACBRIDE, SQUERI,
DAY & LAMPREY, LLP
Michael B. Day
Suzy Hong
505 Sansome Street, Suite 900
San Francisco, California 94111
Telephone: (415) 392-7900
Facsimile: (415) 398-4321
Email: mday@goodinmacbride.com

By /s/ Michael B. Day
Michael B. Day

Attorneys for Commercial Energy of California

EXHIBIT TO DEMONSTRATE IMPACT OF PROPOSED DECISION 07-05-025 BONDING REQUIREMENT

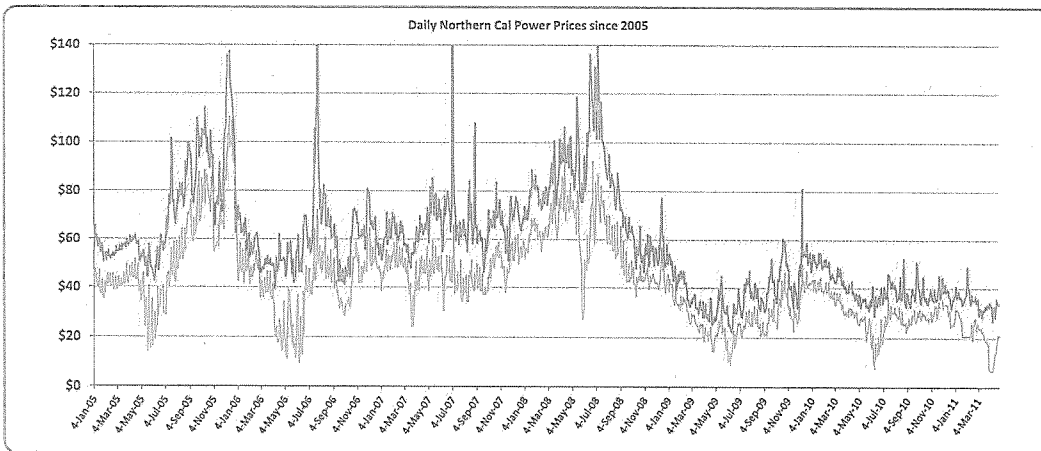
Ex.1: PG&E CALCULATION AS OF HEARING 3/30/2011							Ex.2: ADJUSTED FOR CURRENT PRICES IN MARKET AND IOU							Ex.3: ADJUSTED FOR HIGHER VOLATILITY ONLY							Ex.4: ADJUSTED FOR HIGHER PRICE (2X) AND VOLATILITY							
as of 4/30/2009							as of 8/31/2011							as of 4/30/2009							as of 8/31/2011							
Time to Expiry	Implied Volatility	Sigma	Sq root of time	OnPeak Forward	OffPeak		Time to Expiry	Implied Volatility	Sigma	Sq root of time	OnPeak Forward	OffPeak		Time to Expiry	Implied Volatility	Sigma	Sq root of time	OnPeak Forward	OffPeak		Time to Expiry	Implied Volatility	Sigma	Sq root of time	OnPeak Forward	OffPeak		
6/30/2009	0.1671	66%	0.0728	0.5067	45.44	28.68	10/31/2011	0.1671	66%	0.0728	0.5029	40.10	25.27	10/31/2011	2.5041	90%	2.0283	0.5029	45.44	28.63	10/31/2011	0.1671	90%	0.1354	0.5029	\$ 90.00	56.71	
7/31/2009	0.2521	64%	0.1032	0.5807	43.77	29.19	11/30/2011	0.2493	64%	0.1021	0.5807	40.25	26.84	11/30/2011	2.5863	80%	1.6552	0.5807	43.77	29.19	11/30/2011	0.2493	80%	0.1596	0.5807	\$ 81.00	54.02	
8/31/2009	0.3370	62%	0.1295	0.6492	43.77	29.19	12/31/2011	0.3342	62%	0.1285	0.6492	40.45	26.98	12/31/2011	2.6712	70%	1.3089	0.6492	43.77	29.19	12/31/2011	0.3342	70%	0.1638	0.6492	\$ 76.95	51.32	
9/30/2009	0.4192	53%	0.1177	0.7112	45.77	33.81	1/31/2012	0.4192	53%	0.1177	0.7058	39.65	29.29	1/31/2012	2.7562	61%	1.0256	0.7058	45.77	33.81	1/31/2012	0.4192	61%	0.1560	0.7058	\$ 73.10	54.00	
10/31/2009	0.5041	51%	0.1311	0.7656	45.77	33.81	2/28/2012	0.4959	51%	0.1290	0.7656	39.65	29.29	2/28/2012	2.8329	59%	0.9861	0.7656	45.77	33.81	2/28/2012	0.4959	59%	0.1726	0.7656	\$ 73.10	54.00	
11/30/2009	0.5863	49%	0.1408	0.8212	45.77	33.81	3/31/2012	0.5836	49%	0.1401	0.8165	37.40	27.63	3/31/2012	2.9205	57%	0.9489	0.8165	45.77	33.81	3/31/2012	0.5836	57%	0.1896	0.8165	\$ 65.79	48.60	
12/31/2009	0.6712	39%	0.1021	0.8698	51.13	38.12	4/30/2012	0.6658	39%	0.1013	0.8688	36.80	27.44	4/30/2012	3.0027	47%	0.6633	0.8688	51.13	38.12	4/30/2012	0.6658	47%	0.1471	0.8688	\$ 59.21	44.15	
1/31/2010	0.7562	38%	0.1092	0.9118	51.13	38.12	5/31/2012	0.7507	38%	0.1084	0.9139	37.45	27.92	5/31/2012	3.0877	50%	0.7719	0.9139	51.13	38.12	5/31/2012	0.7507	50%	0.1877	0.9139	\$ 71.06	52.98	
2/28/2010	0.8329	37%	0.1140	0.9589	51.13	38.12	6/30/2012	0.8329	37%	0.1140	0.9589	47.19	35.18	6/30/2012	3.1699	65%	1.3393	0.9589	51.13	38.12	6/30/2012	0.8329	65%	0.3519	0.9589	\$ 85.27	63.57	
3/31/2010	0.9178	35%	0.1124	1.0019	48.62	33.33	7/31/2012	0.9178	35%	0.1124	1.0038	47.19	32.35	7/31/2012	3.2548	75%	1.8308	1.0038	48.62	33.33	7/31/2012	0.9178	75%	0.5163	1.0038	\$ 102.32	70.14	
4/30/2010	1.0000	34%	0.1156	1.0413	48.62	33.33	8/31/2012	1.0027	34%	0.1159	1.0413	47.19	32.35	8/31/2012	3.3397	74%	1.8288	1.0413	48.62	33.33	8/31/2012	1.0027	74%	0.5491	1.0413	\$ 102.32	70.14	
5/31/2010	1.0849	36%	0.1406	1.0810	48.62	33.33	9/30/2012	1.0849	36%	0.1406	1.0828	45.42	31.14	9/30/2012	3.4219	76%	1.9765	1.0828	48.62	33.33	9/30/2012	1.0849	76%	0.6267	1.0828	\$ 102.32	70.14	
6/30/2010					\$ 47.46	\$ 33.57	10/31/2012					\$ 41.56	\$ 29.31	10/31/2012					\$ 47.46	\$ 33.57	10/31/2012					\$ 81.87	\$ 57.48	
					Hours per period	5,008					Hours per period	5,008					Hours per period	5,008					Hours per period	5,008				3,752
					Weighted Average Price	\$ 41.51					Weighted Average Price	\$ 36.31					Weighted Average Price	\$ 41.51					Weighted Average Price	\$ 71.42				3,752
					Market price with 6% loss factor	\$ 44.00					Market price with 6% loss factor	\$ 38.49					Market price with 6% loss factor	\$ 44.00					Market price with 6% loss factor	\$ 75.71				
					Derived Average Volatility	42.96%					Derived Average Volatility	42.93%					Derived Average Volatility	67.85%					Derived Average Volatility	66.87%				
					Time to Expiry	0.5					Time to Expiry	0.5					Time to Expiry	0.5					Time to Expiry	0.5				
					95% Confidence Interval Multiplier	1.6449					95% Confidence Interval Multiplier	1.6449					95% Confidence Interval Multiplier	1.6449					95% Confidence Interval Multiplier	1.6449				
					Stressed Price @ 95% CI	\$ 69.14					Stressed Price @ 95% CI	\$ 60.47					Stressed Price @ 95% CI	\$ 86.14					Stressed Price @ 95% CI	\$ 147.02				
					Stressed RA Price	\$ 6.25					Stressed RA Price	\$ 6.25					Stressed RA Price	\$ 6.25					Stressed RA Price	\$ 6.25				
					Market price with Security/Bonding Requirement:	\$ 75.40					Market price with Security/Bonding Requirement:	\$ 66.72					Market price with Security/Bonding Requirement:	\$ 92.39					Market price with Security/Bonding Requirement:	\$ 153.27				
					Additional premium above Market Price:	\$ 31.39					Additional premium above Market Price:	\$ 28.23					Additional premium above Market Price:	\$ 48.38					Additional premium above Market Price:	\$ 77.56				
					IOU System Bundled Rate	\$ 93.55					IOU System Bundled Rate	\$ 58.16					IOU System Bundled Rate	\$ 58.16					IOU System Bundled Rate	\$ 58.16				
					Stressed IOU Adder	\$ 10.00					Stressed IOU Adder	\$ 10.00					Stressed IOU Adder	\$ 10.00					Stressed IOU Adder	\$ 10.00				
					Stressed IOU Gen Price	\$ 103.55					Stressed IOU Gen Price	\$ 68.16					Stressed IOU Gen Price	\$ 68.16					Stressed IOU Gen Price	\$ 68.16				
					Net ESP Credit Cost	\$ (28.15)					Net ESP Credit Cost	\$ (1.43)					Net ESP Credit Cost	\$ 24.23					Net ESP Credit Cost	\$ 85.11				

Notes:

If Net ESP Credit Cost is less than zero, ESP only posts for the administrative costs. (Examples 1 & 2)

If Net ESP Credit Cost is more than zero, the IOU will multiply that amount by the annual ESP load. (Examples 3 & 4)

In the event of market prices doubling (as shown in Example 4), third party credit requirements double due to higher costs (\$38.49 rises to \$75.71/mwh), but the Bonding Deposit more than quadruples (\$85.11 + \$75.71) the total cost to the ESP supplier.



Year	Peak	OffPeak
2005	\$ 72.37	\$ 52.78
2006	\$ 61.66	\$ 40.33
2007	\$ 67.33	\$ 46.68
2008	\$ 80.83	\$ 59.12
2009	\$ 39.42	\$ 28.26
2010	\$ 40.36	\$ 29.65
2011	\$ 34.90	\$ 20.83