

CAP-AND-TRADE

In late December the California Air Resources Board (CARB) adopted a cap and trade regulation under Assembly Bill (AB) 32, the Global Warming Solutions Act, passed in 2006. The market will start on January 1, 2012. Between now and then CARB will be building the market structure and finalizing important details left undone in the regulation.

CACES primary focus in 2011 will be the development and

finalization of the reporting requirements and cap and trade program. ESPs will presumably be subject to both the reporting rule and the cap and trade system. Under the cap and trade, ESPs will have a compliance obligation for emissions associated with imported power for which they are considered the importer. Additionally since the CARB's adoption of the cap-and-trade regulations we have seen a significant increase in forward energy prices

in California for 2012 and beyond while natural gas futures have not risen for that same term. This change is partially due to the CARB initiative. It is important that we understand how this regulation will be impacting future rates to be able to advise customers appropriately and incorporate different portfolio strategies to compliment market reactions related to the development of the cap-and-trade market.

Inside this issue:

Cap-and-Trade	1
CA Phase 3 Direct Access Caps	1
CA Regulatory Advocacy	2

California Phase 3 Direct Access Caps Believed to Be Hit

Several market participants believe that the amount of new direct access load available under Phase Three of the limited re-opening of direct access in California was hit essentially upon the Notice of Transfer period opening yesterday morning. Phase Three allotments are for direct access service beginning in 2012.

The utilities must confirm the submitted Notices of Transfer, to ensure that they were completed correctly and eliminate any duplicates (which customers send due to the first come, first served nature of the cap), and an official confirmation from the utilities is not expected for about a week.

However, based on the amount of email submissions from several suppliers, market observers are confident that the caps were hit at each utility, despite a relatively more reserved process than the prior two phases.

Additionally, there was much less load available under the cap during this phase. As set forth in the California PUC's original decision on the load caps, the amount of new direct access load that was available during Phase Three was about 789 GWh at Pacific Gas & Electric and also 789 GWh at Southern California Edison.

The amount of load available at San Diego Gas & Electric was about 92.4 GWh.

While it's still expected that there will be load which was denied the ability to take direct access due to the cap, some suppliers did report that a few customers which previously expressed interest in competitive supply were a bit more hesitant to submit a Notice to Transfer during this phase, due to a large increase in the Power Charge Indifference Adjustment (PCIA). The PCIA is essentially an exit fee which requires customers to continue paying the utilities on a nonbypassable basis for resource procurements made on the customer's behalf for time during which the customer took bundled service.

Nevertheless, although there was some hesitation by certain customers, suppliers generally reported robust interest in taking direct access, and expect that, upon final confirmation of allotments by the utilities, there will still be load wishing to take direct access that will be denied that opportunity due to the caps.

To read this article in its entirety or for more information please go to: <http://www.energychoicematters.com/stories/20110201d.html>

CALIFORNIA REGULATORY ADVOCACY

Join us to Support the Expansion of Direct Access for All California Businesses

Overview

In California, growth of the retail choice market was suspended in 2001, except for businesses that were contracted with an Energy Service Provider (ESP), who were allowed to remain on Direct Access (DA). With the passage of legislation in October 2009, the market began a phased-in and capped reopening of DA that stretches through 2013. Even after each round of the scheduled load is opened up for DA however the state will still only have approximately 10% of all eligible load on DA, as a result of the rules governing the implementation of the market reopening process. With all but one phase remaining, the first three phases were fully subscribed (filled) in a matter of seconds, illustrating that the demand far exceeds the amount of load that has been available/allowed to switch to Direct Access under the current legislation.

What Does this Mean to/for Your Business?

When states are fully open to retail choice, businesses like yours have additional opportunities to shop more or all of your load in the competitive electricity marketplace and to potentially find better rates, innovative solutions to your energy needs, better terms, and better service than what you might have on utility default service. In addition, on utility default service, you do run the risk of potential rate increases through periodic utility tariffs, of which consumers have no control. Once a tariff is approved by the California Public Utilities Commission (CPUC), consumers have no choice but to pay the increased rates and subject themselves to the unpredictable price changes and volatility.

What Does a Energy Service Provider Offer Over Utility Service?

Through an energy service provider (ESP) program—whether it is a fixed-price offering or an integrated energy strategy that incorporates various purchasing positions—you know your rate and can incorporate the known variables and risks into your business strategy and cash flow processes. Additionally, ESPs can help your business integrate all of its energy needs and internal energy policies into one program—which you cannot do on utility service. This includes the integration of carbon emissions reductions goals, energy efficiency programs, demand response, billing solutions/options and much more. **Having the ability to choose an energy provider empowers businesses to make cost-effective energy decisions and select choices that fit their business goals and appetite for risk.**

What Can You do to Influence DA Expansion Efforts?

Now is your opportunity to join us in speaking with, meeting with and communicating through letter-writing initiatives to California lawmakers to advocate for a full market reopening. Although a specific bill has not yet been introduced, **we are working with legislators now to discuss the options for such legislation and make recommendations that advocate for an expansion of the current cap on Direct Access.**

Power in Numbers

Legislators are keenly aware of the power of their constituents and the revenue that businesses generate for the state, and are more likely to listen to and consider feedback in numbers. The more interest that businesses in the state show about a topic/issue, the more likely elected officials will be to listen—as opposed to just listening to lobbyists or companies that are advocating on behalf of their own industry (i.e. power suppliers lobbying on behalf of Direct Access).

Please contact [Andrea Morrison](#), President, Alliance for Retail Energy Markets (AREM), at (916) 759-7052 to indicate your interest in joining our advocacy efforts, to learn more and/or to receive additional updates on that status of retail choice efforts in California.