

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



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Order Instituting Rulemaking to Develop Additional
Methods to Implement the California Renewables
Portfolio Standard Program.

Rulemaking 06-02-012
(Filed February 16, 2006)

**LATE-FILED NOTICE OF EX PARTE COMMUNICATION OF
THE ROYAL BANK OF SCOTLAND PLC**

Daniel W. Douglass
DOUGLASS & LIDDELL
21700 Oxnard Street, Suite 1030
Woodland Hills, California 91367
Telephone: (818) 961-3001
Facsimile: (818) 961-3004
Email: douglass@energyattorney.com

Attorneys for
SEMPRA ENERGY TRADING LLC,
AS AGENT FOR THE ROYAL BANK OF SCOTLAND PLC

December 16, 2010

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OF THE STATE OF CALIFORNIA**

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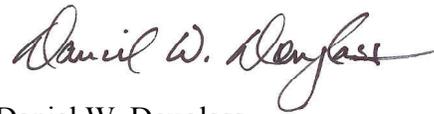
**LATE-FILED NOTICE OF EX PARTE COMMUNICATION OF
THE ROYAL BANK OF SCOTLAND PLC**

In accordance with the provisions of Article 8 of the Commission’s Rules of Practice and Procedure, The Royal Bank of Scotland plc (“RBS”) submits this notice of ex-parte communication.

The communication occurred when Harry Singh, Senior Vice President at RBS Sempra Commodities, appeared on a panel on the Developments in California’s Renewables Market, at the Sixth Annual California Power Market Forum, sponsored by Platts, held on December 6, 2010 at the Whitcomb Hotel in San Francisco, California. Mr. Singh’s panel discussion began at 10:45 am and he spoke for about 20 minutes. Mr. Singh discussed the different products and delivery mechanisms available for meeting the Renewable Portfolio Standard (“RPS”) in California. The communication was both written and oral. The PowerPoint presentation used by Mr. Singh is attached to this notice. The communications were limited to the plenary panel discussions during the conference.

Andy Schwartz, Advisor to President Peevey was on the panel with Mr. Singh, and Steve St. Marie, Advisor to Commissioner Bohn, was in the audience at the conference. Frank Lindh, General Counsel for the Commission and Julie Fitch, Director of the Energy Division, were in the audience at various times during the conference.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel W. Douglass". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Daniel W. Douglass
DOUGLASS & LIDDELL

Attorneys for
SEMPRA ENERGY TRADING LLC

December 16, 2010

Delivery Mechanisms for California's RPS Program

Harry Singh

Platts California Power Market Forum
December 6, 2010
San Francisco, CA



Delivery Mechanisms for Out-of-State RPS Resources

- California RPS has been used to finance new wind generation in the WECC
- California does not currently allow unbundled Renewable Energy Credits (RECs)
- Four categories of transactions are possible
 - Dynamically Scheduled VER Imports (currently not available but inherently inefficient)
 - Unbundled RECs (currently not authorized)
 - Hourly firm imports from VER scheduled using physical transmission
 - Firmed and Shaped Transactions (locational energy exchange of variable energy with firm shaped - allows calendar year banking)

Description	PD classification	SB 722 classification	Use of substitute resources	Conveyance of energy from RPS facility	Conveyance of energy and RECs	Intra-hour Firming Responsibility
Dynamically scheduled import from RPS facility	Bundled	Bundled	None	Yes	Yes	CBA
Transactions that only convey RECs	REC-only	REC-only	NA	No	No	Source BA
Hourly firm import scheduled from RPS facility using physical transmission	REC-only	Bundled	Intra-hour only	Yes	Yes	Source BA
Firmed and shaped transaction from RPS facility	REC-only	Bundled	Yes	No	Yes	Source BA



Firmed and Shaped Transactions

- Firming and Shaping (F&S) is a CEC authorized delivery structure for bundling of RECs with physical power subject to certain rules
- Key Component is a Locational Energy Exchange where Variable Energy at Source is Exchanged for Firm Shaped Energy at a CA Delivery Point – banking allowed within a calendar year
- Source Balancing Authority (BA) provides *within-the-hour* firming for Variable Energy Resource (VER)
- Intermediary purchases VER power output and RECs at source
- Intermediary rebundles the RECs with firm shaped power delivered to CA Load Serving Entity (LSE) at a CA delivery point
- RECs delivered to CA LSE must equal actual RPS eligible MWh generated by facility within a calendar year
- RECs are tracked in WECC-wide WREGIS database
- Several variations of contract structure with case by case approval by CEC

- *Should Firmed and Shaped Transactions be considered bundled or REC-only?*
- *CPUC PDs have classified all Firmed and Shaped transactions as TRECs*

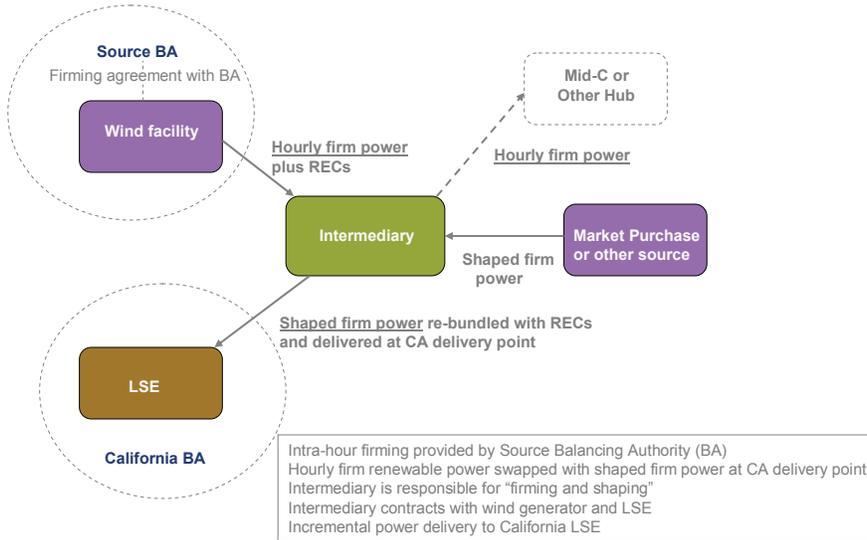


Considerations in Firming and Shaping Transactions

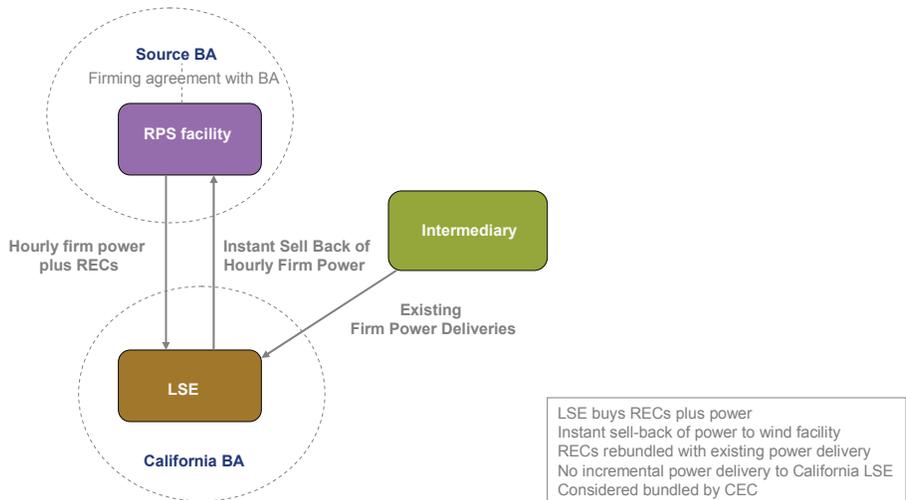
- What is being firmed?
- What is being shaped?
- Who is responsible for firming and shaping?
- Is the transaction a REC-only transaction?
 - What defines a REC-only transaction?
 - Definition may be different for CA and the Northwest
 - While CA may receive bundled delivery, only RECs are transferred from Northwest
- Is the CA LSE receiving incremental energy with RECs?
- Is power priced at Index or at Fixed Price?



Firming and Shaping – Standard Structure



REC-only Transactions



Regulatory Developments

- March 11, 2010 – CPUC Decision Authorizing Tradable RECs (TRECs)
 - Authorized TRECs for RPS compliance (subject to a 25% limit on new contracts)
 - Classified all non-dynamically scheduled renewable imports as TRECs subject to a limit
 - Confusion over what constitutes a “REC-only” transaction – case by case determination too burdensome

- May 6, 2010 – Stay of March 11 CPUC Decision
 - Introduced temporary moratorium on CPUC approval of further transactions
 - Moratorium does not apply to ESPs and Munis

- Aug 25, 2010 – Proposed Decision on TRECs Modifying March 11 Decision
 - Increases TREC limit to 40% of annual target (revised subsequently to 30%)
 - All previously approved transactions considered bundled and do not count towards annual TREC limit
 - TREC limit may not impact LSEs that are already at 14% of the 20% target
 - Retains all encompassing definition of TRECs going forward
 - TREC limit also to ESPs

- SB 722 – legislative effort to raise current 20% RPS to 33% by 2020
 - Three different categories subject to different limits on future contracts
 - Several interest groups – unions, environmentalists, utilities, developers
 - Failed to get a vote before clock ran out on Aug 31 – a starting point for any new legislation

- 33% RES – Established by CARB on Sept 23 under Executive Order
 - Formally includes Munis in the RPS program
 - Unrestricted REC purchase within WECC (this may be harmonized with the CPUC TREC Decision)



SB 722

- Three categories of transactions
- Limits defined as percent of contracts after June 1, 2010
- In-state definition may allow some non-dynamically scheduled transactions
- Firmed and shaped transactions must provide incremental energy

Category	Description	Requirement
In-state Resources	RPS resource is directly connected to a California Balancing Authority (CBA) or dynamically scheduled into CBA or scheduled into CBA without substitution	≥ 50% (2010 -13), ≥ 65% (2014-16), ≥ 75% (2017 - 20)
Unbundled RECs	Transactions that are REC only	≤ 25% (2010-13), ≤ 15% (2014-16), ≤ 10% (2017-20)
Firmed and Shaped Transactions	Must provide incremental energy using a contract of at least 10 years—substitute energy must meet emissions requirements of section 8344	≤ 50% (2010 -13), ≤ 35% (2014-16), ≤ 25%(2017-20)



One suggestion for improving SB722

- Steep escalation of “in-state” requirements inconsistent with long-term contracts

Compliance Period	LSE MWh	RPS Target (%)	In state Req (%)	RPS Target (MWh)	Allowed out of state (MWh)
2010-12	1000	20	50	200	100
2013-16	1000	25	65	250	87.5
2017-20	1000	33	75	330	82.5

- Slightly lower escalation of “in-state” requirements is more consistent with long-term contracts

Compliance Period	LSE MWh	RPS Target (%)	In state Req (%)	RPS Target (MWh)	Allowed out of state (MWh)
2010-12	1000	20	50	200	100
2013-16	1000	25	60	250	100
2017-20	1000	33	70	330	99

CAISO MSC on Dynamic Transfers of Variable Energy Resources

- “There is no obvious reason why California should be better able to manage the uncertainty from all the renewable resources that are stimulated by California’s RPS that will be coming on-line in neighboring control areas. If it is more efficient to manage the intermittency locally, then there is a strong need to develop a set of markets and policies that are consistent enough across control areas that allow that to happen. If this imposes extra costs on neighboring areas, a transparent balancing mechanism can allow for the proper compensation and cost allocation. Then there is no need to expand mechanisms, such as dynamic imports, that perpetuate a fiction about the location of the resources and possibly result in inefficiencies in the provision of balancing services and use of scarce import capacity.”
- “For example SB 722 language (still under development) would specifically allow Dynamic Transfer scheduled resources to qualify as “in-State” resources, regardless of the cost or efficiency benefits that may (or may not) accrue from a Dynamic Transfer schedule for that resource. This could have a perverse effect of giving the procurement of Dynamic Transfer resources by California load serving entities higher priority than imported energy from intermittent sources that is firmed up by balancing resources in the exporting region.”

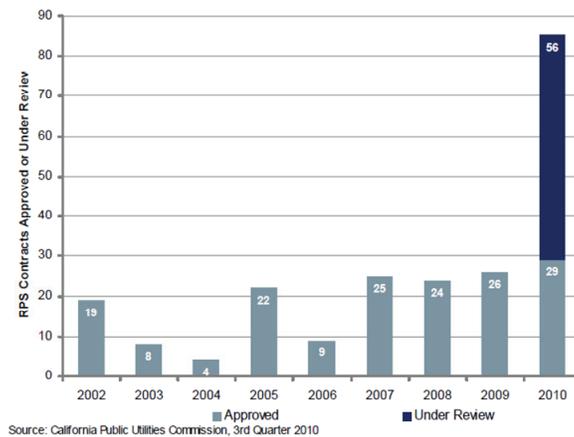
Source: <http://www.caiso.com/27e9/27e9d6297bf0.pdf>

Developments in the Source BA

- Wind Integration Tariffs
- Proposals for Wind-only BAs
- Self-supply of Reserves
- Third-party supply of Reserves
- Curtailment Protocols for wind exports (BPA's DSO 216)
- Proposal for Firm-contingent designation - Are wind exports subject to DSO 216 firm or non-firm?
- Can contingency reserves be used to firm up wind exports?
- Are wind exports that are not subject to curtailment as firm as exports from conventional resources if they are firmed by different categories of reserves?



CPUC Contract Review



CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the attached *Late-Filed Notice of Ex Parte Communication of The Royal Bank of Scotland plc* on all parties of record in proceeding *R.06-02-012* by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on December 16, 2010, at Woodland Hills, California.



Michelle Dangott

SERVICE LIST – R.06-02-012

ab1@cpuc.ca.gov
abb@eslawfirm.com
abiecunasjp@bv.com
aeg@cpuc.ca.gov
aes@cpuc.ca.gov
agc@cpuc.ca.gov
ahaubenstock@brightsourceenergy.com
aivancovich@caiso.com
alex.kang@itron.com
alho@pge.com
allison.heaton@macquarie.com
amartin@nextlight.com
amber@iepa.com
ams@cpuc.ca.gov
amsmith@semprautilities.com
anders.glader@elpower.com
andre.devilbiss@recurrentenergy.com
andre.templeman@macquarie.com
andrew.luszcz@glacialenergy.com
andy.vanhorn@vhcenergy.com
aorchar@smud.org
arno@recurrentenergy.com
artrivera@comcast.net
as2@cpuc.ca.gov
atk4@pge.com
atowbridge@daycartermurphy.com
austin.yang@sfgov.org
avege@firstwind.com
b.barnes@cleantechamerica.com
bari@pge.com
barmackm@calpine.com
bbeebe@smud.org
bcragg@goodinmacbride.com
bdicapo@caiso.com
bepstein@fablaw.com
bernardo@braunlegal.com
beth@beth411.com
bfinkelstein@turn.org
billm@enxco.com
bjnese@stoel.com
blaising@braunlegal.com
bobgex@dwt.com
bpurewal@water.ca.gov
brad@mp2capital.com
rbarkovich@earthlink.net
bsb@eslawfirm.com
bwm@cpuc.ca.gov
californiadockets@pacificorp.com
case.admin@sce.com
cassandra.sweet@dowjones.com
castille@landsenergy.com

ccasselman@pilotpowergroup.com
cem@newsdata.com
centralfiles@semprautilities.com
chad_dickason@soleonenergy.com
chilen@nvenenergy.com
chris.leveriza@glacialenergy.vi
christi.nicolay@macquarie.com
cjm@cpuc.ca.gov
claufenb@energy.state.ca.us
clyde.murley@comcast.net
cmkehrein@ems-ca.com
cmmw@pge.com
cni@cpuc.ca.gov
cponds@ci.chula-vista.ca.us
cpuccases@pge.com
cpucdockets@keyesandfox.com
cpucrulings@navigantconsulting.com
crmd@pge.com
csteen@bakerlaw.com
cswoollums@midamerican.com
cwooten@lumenxconsulting.com
cynthia.brady@constellation.com
daking@semprageneration.com
dan.adler@calcef.org
dan@energysmarthomes.net
dave.mann@tradition.com
david.oliver@navigantconsulting.com
david.reid@gs.com
davidmorse9@gmail.com
davido@mid.org
dbp@cpuc.ca.gov
dbranchcomb@spi-ind.com
dbrooks@nvenenergy.com
dcarroll@downeybrand.com
dcover@esassoc.com
deb@a-klaw.com
dennis@ddecuir.com
derek@altapowergroup.com
dgrandy@caonsitegen.com
dgulino@ridgewoodpower.com
dhecht@sempratradng.com
dhuard@manatt.com
diane.fellman@nrenergy.com
diarmuid@greenwoodenv.com
dietrichlaw2@earthlink.net
dkk@eslawfirm.com
dmdubson@stoel.com
dniehaus@semprautilities.com
dorth@krcd.org
dot@cpuc.ca.gov
douglass@energyattorney.com

dseperas@calpine.com
dweisz@marinenergyauthority.org
dws@r-c-s-inc.com
dwtcpucdockets@dwt.com
ecl8@pge.com
ed.smeloff@sunpowercorp.com
egrizard@deweysquare.com
ehadley@reupower.com
ej_wright@oxy.com
ek@a-klaw.com
eklebaner@adamsbroadwell.com
eks@cpuc.ca.gov
elizabeth.blase@lw.com
ell5@pge.com
emello@sppc.com
envirotrading@calpine.com
erasmussen@marinenergyauthority.org
e-recipient@caiso.com
eric.cherniss@gmail.com
esison@smud.org
fderosa@nextlight.com
filings@a-klaw.com
fortlieb@sandiego.gov
fred.wellington@navigantconsulting.com
freesa@thirdplanetwind.com
fyanney@fulbright.com
garson_knapp@fpl.com
gary.allen@sce.com
gbarkalo@energy.state.ca.us
gbass@noblesolutions.com
gcollord@arb.ca.gov
gcooper@cpv.com
gloriab@anzaelectric.org
glw@eslawfirm.com
gmorris@emf.net
gpetlin@3degreesinc.com
grosenblum@caiso.com
grp_hou_ep@edftrading.com
gtd@cpuc.ca.gov
gtrobinson@lbl.gov
gxl2@pge.com
hal@rwitz.net
harry.singh@rbssempra.com
hcronin@water.ca.gov
holly@ausra.com
hrait@energy.state.ca.us
hrasool@semprautilities.com
imcgowan@3degreesinc.com
info@calseia.org
ishwar.saini@macquarie.com
jaa@cpuc.ca.gov

cathy.karlstad@sce.com
cbreidenich@yahoo.com
janet.gagnon@solarworldusa.com
janice@strategenconsulting.com
janreid@coastecon.com
jansell@alternitywindpower.com
jared.johnson@lw.com
jarmstrong@goodinmacbride.com
jchamberlin@lspower.com
jcolive@bpa.gov
jcostantino@manatt.com
jdalessi@navigantconsulting.com
jdh@eslawfirm.com
jeffgray@dwt.com
jennifer.barnes@navigantconsulting.com
jeremy.weinstein@pacificorp.com
jf@pointcarbon.com
jf2@cpuc.ca.gov
jgreco@terra-genpower.com
jhamrin@resource-solutions.org
jholmes@emi1.com
jim.howell@recurrentenergy.com
jim_p_white@transcanada.com
jjg@eslawfirm.com
jkarp@winston.com
jkepke@ch2m.com
jleslie@luce.com
jluckhardt@downeybrand.com
jm3@cpuc.ca.gov
jmcfarland@treasurer.ca.gov
jmcMahon@8760energy.com
jody_london_consulting@earthlink.net
joe.langenberg@gmail.com
joe.paul@dynegy.com
john_dunn@transcanada.com
johnrredding@earthlink.net
joni.templeton@sce.com
jordan.white@pacificorp.com
joyw@mid.org
jp6@cpuc.ca.gov
jpepper@svpower.com
jpross@sungevity.com
jravenesanmarcos@yahoo.com
jrehfeld@naturener.net
jrichman@bloomenergy.com
jrobertpayne@gmail.com
jsanders@caiso.com
jscancarelli@crowell.com
jsqueri@gmssr.com
judypau@dwt.com
jweil@aglet.org
jwoodruff@nextlight.com
karen@klindh.com

dsanchez@daycartermurphy.com
dsaul@pacificsolar.net
keithwhite@earthlink.net
ken.baker@wal-mart.com
kenneth.swain@navigantconsulting.com
kerry.eden@ci.corona.ca.us
kerry.hattevik@nexteraenergy.com
kevin.lynch@iberdrolaren.com
kfox@keyesandfox.com
khassan@semprautilities.com
kjsimonsen@ems-ca.com
klatt@energyattorney.com
kmills@cfbf.com
kowalewskia@calpine.com
kpp@cpuc.ca.gov
kristin@consciousventuresgroup.com
kswitzer@gswater.com
kswitzer@gswater.com
kzocchet@energy.state.ca.us
laurie.mazer@bp.com
lcottle@winston.com
lgonzalez@energy.state.ca.us
liddell@energyattorney.com
lindsay_zaitsoff@transalta.com
lisa.yoho@citi.com
lisa_weinzimer@platts.com
liz.thomas@klgates.com
lmh@eslawfirm.com
lmi@cpuc.ca.gov
lmitchell@hanmor.com
lpark@navigantconsulting.com
lpettis@calstate.edu
luke.dunnington@recurrentenergy.com
lwhouse@innercite.com
lwisland@ucsusa.org
lynn@lmaconsulting.com
mannm@dteenergy.com
marcel@turn.org
marcie.milner@shell.com
mark.thompson@powerex.com
martinhomerc@gmail.com
mary@solutionsforutilities.com
masullivan@hhlaw.com
matt.miller@recurrentenergy.com
matthew@turn.org
mchediak@bloomberg.net
mclaughlin@braunlegal.com
mday@goodinmacbride.com
mdeange@smud.org
mdjoseph@adamsbroadwell.com
meredith_lamey@transcanada.com
mflorio@turn.org
mgml@pge.com

jackmack@suesec.com
james.woodruff@firstsolar.com
mike.ferguson@spectrongroup.com
mjs@cpuc.ca.gov
mmazur@3phasesrenewables.com
mmcl@pge.com
mniroula@water.ca.gov
mpa@a-klaw.com
mpf@stateside.com
mpo@cpuc.ca.gov
mpr-ca@coolearthsolar.com
mrgg@pge.com
mrl@cpuc.ca.gov
mrw@mrwassoc.com
mshames@ucan.org
msr.general.manager@gmail.com
msr.general.manager@gmail.com
mtmcewan@gmail.com
nao@cpuc.ca.gov
ndesnoo@ci.berkeley.ca.us
nellie.tong@us.kema.com
nelson@thnelson.com
nes@a-klaw.com
nfinerty@evomarkets.com
nlong@nrdc.org
nlr@cpuc.ca.gov
nmurray@naturener.net
nrader@calwea.org
nsuetake@turn.org
nxk2@pge.com
obartho@smud.org
olga.beznosova@bctc.com
paulfenn@local.org
pbarthol@energy.state.ca.us
pblood@columbiaenergypartners.com
pbrehm@infiniacorp.com
perlism@dicksteinshapiro.com
peter.pearson@bves.com
phanschen@mofo.com
philha@astound.net
pletkarj@bv.com
pmaxwell@navigantconsulting.com
psd@cpuc.ca.gov
pssed@adelphia.net
pssed@adelphia.net
pstoner@lgc.org
r.raushenbush@comcast.net
rafi.hassan@sig.com
ralf1241a@cs.com
ramonag@ebmud.com
rarego@lakeviewlight.com
rblee@bakerlaw.com
regrelcpuccases@pge.com

katherine@evomarkets.com
kdusel@navigantconsulting.com
keith.mccrea@sablaw.com
rick_noger@praxair.com
rkeen@manatt.com
rkmoore@gswater.com
rmccann@umich.edu
rmccoy@ercot.com
rmiller@energy.state.ca.us
rmm@cpuc.ca.gov
rochmanm@spurr.org
ron.cerniglia@directenergy.com
roxane.perruso@tac-denver.com
rresch@seia.org
rroth@smud.org
rschmidt@bartlewells.com
rwalthers@pacbell.net
ryan.heidari@endimensions.com
saeed.farrokhpay@ferc.gov
salleyoo@dwt.com
sas@a-klaw.com
sberlin@mccarthy.com
sbeserra@sbcglobal.net
sc1@cpuc.ca.gov
sdhilton@stoel.com
sean.beatty@mirant.com
seh@pge.com
shani@scvas.org

mhyams@sfgov.org
michael.mcdonald@ieee.org
michael@mp2capital.com
shannon@consciousventuresgroup.com
shess@edisonmission.com
sho@ograde.us
shong@goodinmacbride.com
smk@cpuc.ca.gov
snelson@semprautilities.com
snuller@ethree.com
spauker@wsgr.com
srovetti@sfgov.org
ssmyers@att.net
stevegreenwald@dwt.com
steven@iepa.com
sue.mara@rtoadvisors.com
susan.munves@smgov.net
svn@cpuc.ca.gov
sylvia.castillo@bsgclearing.com
tam.hunt@gmail.com
tbo@cpuc.ca.gov
tbrunello@calstrat.com
tciardella@nvenenergy.com
tcorr@sempraglobal.com
tdarton@pilotpowergroup.com
tdillard@sppc.com
theresa.mueller@sfgov.org
thomase.hobson@ge.com

renewablegroup@cpuc.ca.gov
rhardy@hardyenergy.com
rhwiser@lbl.gov
timea.zentai@navigantconsulting.com
tjaffe@energybusinessconsultants.com
tjl@a-klaw.com
tkaushik@manatt.com
tmartin@alternitywindpower.com
tobinjmr@sbcglobal.net
todd.johansen@recurrentenergy.com
tom.elgie@powerex.com
tomb@crossborderenergy.com
tomk@mid.org
tpomales@arb.ca.gov
tsolomon@winston.com
tszymanski@hunton.com
vidhyaprabhakaran@dwt.com
vjw3@pge.com
vsuravarapu@cera.com
vwood@smud.org
wblattner@semprautilities.com
wbooth@booth-law.com
wes658@gmail.com
william.v.walsh@sce.com
wplaxico@axiopower.com
wvm3@pge.com
wwester@smud.org