



1 **Q. Please state your name, business address and position with PacifiCorp or**  
2 **“the Company”.**

3 A. My name is Stacey J. Kusters. My business address is 825 NE Multnomah Street,  
4 Suite 600, Portland, Oregon 97232. I am Director of Origination in Commercial  
5 and Trading for the Company.

6 **Q. Please describe your education and business background.**

7 A. I hold a B.A. in political science from Simon Fraser University and an EMBA  
8 from the University of British Columbia. I joined PacifiCorp Energy in January  
9 2001 as a manager of origination and assumed my current position as Director of  
10 Origination in 2006. From 1996 to 2001, I was employed at Powerex, the  
11 marketing arm for BC Hydro in Vancouver, British Columbia as the marketing  
12 manager to develop the Northwest and California regions. I held various  
13 positions at Powerex, which included business development, energy trading and  
14 origination. In addition to my positions, I also represented Powerex on the board  
15 of both the California Independent Operator (CAISO) and the California Power  
16 Exchange (CalPX) from 1999 through January 1, 2001.

17 **Q. Please explain your responsibilities as PacifiCorp’s Director of Origination.**

18 A. I manage the procurement of new generation resources, contract administration,  
19 market forecast group, the integrated resource plan (IRP), and structuring and  
20 pricing. Most relevant to this docket, I manage PacifiCorp’s renewable energy  
21 credit (REC or RECs) portfolio (also known as the “green book”), including the  
22 sale of RECs in excess of compliance requirements.

1 **Purpose of Testimony**

2 **Q. What is the purpose of your testimony?**

3 A. My testimony addresses four key areas:

- 4 • First, I present general background on the sales of RECs and the Company's  
5 policy governing such sales.
- 6 • Second, I explain the market dynamics for REC sales from 2009 to the  
7 present, and explain the challenges REC markets face going forward.
- 8 • Third, I sponsor and explain three Confidential Exhibits that provide the  
9 detailed accounting of REC revenues beginning January 1, 2009. These  
10 Exhibits were also attachments to the Company's May 24, 2011 compliance  
11 filing.
- 12 • Fourth, I explain the Company's methodology for allocating RECs to  
13 contracts, including after-the-fact matching from the green book to the  
14 contracts.

15 **Background and Policy on REC Sales**

16 **Q. Please provide general background on how RECs are marketed and sold.**

17 A. In general, REC sales are completed in one of two ways: 1) the sale of a bundled  
18 product (firm system energy and RECs); or 2) an unbundled product (REC only  
19 without energy, firm or contingent). Typically, the sale of a bundled product  
20 requires lengthy negotiations due to the highly structured nature of such  
21 transactions. REC sales made on a forward looking basis are typically more  
22 lucrative than after-the-fact REC sales from inventory, but also carry a higher  
23 degree of risk for the seller due to the potential for liquidated damages if the

1 forward delivery is not completed (often as high as \$50 per MWh). Historically,  
2 the Company has executed primarily bundled product forward sales, which allow  
3 the Company and its customers to receive the highest value for RECs.

4 **Q. Please describe some of the challenges in executing forward REC sales.**

5 A. The ability to realize forward REC sales is highly dependent on: 1) the actual  
6 volumes of generation from variable energy resources (*i.e.*, wind and hydro  
7 resources); 2) the willingness of a limited pool of counterparties to transact at any  
8 given point in time; and 3) the willingness of applicable regulators to approve  
9 transactions. In addition to the fact that wind and hydro resources are weather-  
10 dependent, operational factors can also result in production variances (*i.e.*,  
11 curtailments by the transmission provider and/or planned and unplanned outages).

12 **Q. Has the Company developed a policy for REC sales to facilitate such sales,  
13 while managing risk?**

14 A. Yes. The Company's policy allows for sale of RECs within clearly defined  
15 limits. The Company may sell on a firm forward basis no more than 75 percent of  
16 the forward estimated output of production of RECs generated by company assets.  
17 The Company may sell up to 100 percent of the estimated output on a production  
18 contingent basis (unit contingent), provided that on a monthly basis, any sales of  
19 unit contingent output are subtracted from the forward estimated output that is  
20 subject to the 75 percent restriction for firm forward sales. These limitations are  
21 designed to protect against the risk of non-delivery and associated liquidated  
22 damages penalties attendant in the forward sales of RECs.

1 **Q. Are there other risk-related limitations on the Company's sale of RECs?**

2 A. Yes. The Company's policy does not permit transactions that cause the REC  
3 position in the green book to be short (*i.e.* where RECs sales exceed RECs  
4 generated). If the REC position becomes passively short (due, for example, to a  
5 generation forecast change, variance from predicted to actual generation, or a  
6 change to or new REC program or applicable law), the position must be brought  
7 back into balance within 60 calendar days.

8 **Analysis of REC Markets**

9 **Q. Please provide an overview of the REC market.**

10 A. The REC market has been and continues to be volatile and unpredictable. The  
11 overall REC market has limited market depth with little to no price transparency.  
12 REC transactions are usually completed bilaterally and not via an established  
13 trading platform, such as a broker, where specific, timely market information can  
14 be obtained. Additionally, REC buyers and sellers are not typically engaged in  
15 seeking transactions at the same level throughout the year, but rather transact only  
16 a few times each year. This means the REC market is mostly opportunistic. REC  
17 market volatility is also caused by uncertain or changing state renewable portfolio  
18 standard (RPS) policy developments in California, as I describe in more detail  
19 below.

20 **Q. What is the primary market for REC sales in the Western Electric**  
21 **Coordinating Council (WECC)?**

22 A. The primary market for REC sales is the California compliance market. There is  
23 a small voluntary market in which the Company has made some sales, but such

1 sales are limited and are at a lower price than the California compliance market.

2 **Q. Has the California REC market undergone recent and significant changes?**

3 A. Yes. In March 2010, the California Public Utilities Commission (CPUC) stayed  
4 approval of any REC contracts by the California investor-owned utilities  
5 (IOUs) for use of out of state resources. Throughout 2010 and into early 2011,  
6 the CPUC issued several decisions on the use of out of state resources by  
7 compliance entities, including all California IOUs and energy service providers.

8 In April 2011, Senate Bill No. 2 (“SB 2x”) was enacted, revising  
9 California’s RPS. SB 2x will become effective on the 91<sup>st</sup> day following close of  
10 the First Extraordinary Session, a date that is not yet known.

11 Guidelines for REC sales into the California market have remained  
12 uncertain throughout this time period and transactions involving out of state RECs  
13 have stalled.

14 **Q. Did the Company execute REC sales in the California REC market prior to**  
15 **March 2010?**

16 A. Yes. These sales contracts were structured as a bundled product that required the  
17 Company to schedule system energy bundled with a REC. The Company’s  
18 contracts in 2009 with San Diego Gas and Electric (SDG&E), Pacific Gas and  
19 Electric (PG&E) and Southern California Edison (SCE) were approved prior to  
20 the issuance of the CPUC approval moratorium, and are all grandfathered as  
21 bundled product transactions.

1 **Q. In the current California REC market, would these same sales be considered**  
2 **bundled sales?**

3 A. No. If executed today, such contracts would be deemed as a non-bundled product  
4 or a tradable renewable energy credit (TREC) sale pursuant to applicable CPUC  
5 rulings, because the generation resource is outside of California, and energy  
6 delivery can be met with replacement energy that is not dynamically scheduled or  
7 located in California. Under currently applicable rules, all resources under  
8 contract that are not grandfathered and are from resources located outside of  
9 California are deemed to be TRECs.

10 **Q. Why is this important?**

11 A. Under current regulations and under SB 2x, California IOUs have limitations on  
12 the amount of TRECs that can be used for RPS compliance. From the  
13 information the Company has reviewed, all three of the California IOUs have  
14 reached their TREC limitation through 2015, limiting the demand for RECs from  
15 resources outside of California in the California compliance market.

16 **Q. What is required to implement SB 2x and what are the associated timelines?**

17 A. The legislation requires implementation by the California Energy Commission  
18 (CEC), the California Air Resources Board (CARB) and the CPUC. The full  
19 implementation process is anticipated to take approximately 18 months to two  
20 years.

21 **Q. How will SB 2x impact the California REC market in the near-term?**

22 A. SB 2x and most particularly its pending effective date and the three separate state  
23 agency rulemakings with respect to its implementation, have continued the

1 disruption of the California REC market ongoing since March 2010. Even though  
2 the rulemakings at the three state agencies are now underway, they are proceeding  
3 under a cloud of uncertainty given SB 2x's not-yet-effective status. It is  
4 impossible for market participants to reliably predict the timing and substance of  
5 final implementation decisions.

6 **Q. Do the three California IOUs have pending Request For Proposals for**  
7 **renewable resources?**

8 A. Yes. However, due to the uncertainty around the effective date of SB 2x and the  
9 outcome of pending rulemakings, there is some reason to believe that the request  
10 for proposals (RFPs) will be more informational for the California IOUs than real,  
11 at least for the near future. While the Company is participating in these RFPs, it  
12 is not optimistic that any transactions will occur under the RFPs until the later part  
13 of 2012.

14 **Q. If the Company cannot participate in the California market, in which**  
15 **markets will it participate?**

16 A. The voluntary market for REC sales is likely to be the only other market available  
17 to the Company. Prevailing prices in this market are currently between ■ and ■  
18 per megawatt hour. The Company's REC revenue forecast in Confidential  
19 Exhibit No.\_\_\_\_(SJK-4C) for 2011 and 2012 reflects a combination of current  
20 market dynamics and prices, as well as the effects of the grandfathered contracts  
21 discussed above.

22 **Q. Are there other opportunities beyond the broker market?**

23 A. Not at this time. The REC market has very few participants, is not transparent,



1 and transactions are on either a bilateral basis or through responding to requests  
2 for proposals issued by other utilities. The Company is participating in all  
3 potential sales opportunities as they arise, but these are currently quite limited.

4 **Q. Did the Company also transact with Nevada Power for the sales of RECs?**

5 A. Yes. The Company initially contracted with Nevada Power in December 2009  
6 and again in February 2011. However, the Nevada Power (NV Energy) contract  
7 is limited to a pool of resources that are located only on the east side – resources  
8 that are not included in rate base in Washington.

9 **Q. Why does the NV Energy Contract limit the pool of resources to only east  
10 side resources?**

11 A. NV Energy requires that the company deliver system energy that is scheduled  
12 from a PacifiCorp Balancing Authority area (BAA) to a NV Energy intertie point,  
13 and on an after the fact basis is deemed to be generated by a pool of eligible  
14 renewable resources located in the same BAA. NV Energy's requirements  
15 limited PacifiCorp's contract system energy deliveries to only the east side  
16 intertie points. The contract requires monthly reconciliation of metered data to  
17 match the generation output from the thirty-four renewable resources in the pool  
18 of resources only on the east side.

19 **Detailed Accounting of REC Revenues**

20 **Q. Please explain Confidential Exhibit No.\_\_(SJK-2C).**

21 A. Confidential Exhibit No.\_\_(SJK-2C) provides a detailed accounting of REC  
22 revenues received for calendar year 2009. It contains three tables. Page 1  
23 provides a summary table of actual REC revenues by month and by resource for

1 calendar year 2009. This information is provided on a total company basis for all  
2 of the Company's RECs sales, including sales related to renewable resources that  
3 are not included in the Company's Washington rates under the West Control Area  
4 (WCA) allocation methodology. The table provides the resource subtotals by  
5 control area and then as allocated to Washington which is further discussed in the  
6 phase II direct testimony of Company witness R. Bryce Dalley.

7 Page 2 provides a summary table of the actual number of RECs sold by  
8 month and by resource for calendar year 2009. The table's format matches that of  
9 Page 1 and provides megawatt-hours on a total company basis, a control area  
10 basis and a Washington-allocated basis.

11 Pages 3 through 11 provide transaction details by contract by month for  
12 calendar year 2009, including the contract number, the name of the entity who is  
13 the counter party, the resource from which the REC was generated, the location  
14 and type of resource by control area, the vintage of the REC that was sold, the  
15 month in which the transaction was recorded in the Company's accounting  
16 system, the REC price, the quantity of RECs sold, and the total dollars from the  
17 transactions.

18 **Q. Please explain Confidential Exhibit No.\_\_(SJK-3C).**

19 A. This Exhibit provides a detailed accounting of REC revenues received for  
20 calendar year 2010. It contains the same information as described above.

21 **Q. Please explain Confidential Exhibit No.\_\_(SJK-4C).**

22 A. This Exhibit provides a forecast of REC Revenues received from January 1, 2011  
23 through March 31, 2012 (although the rate effective period technically ends on

1 April 2, 2012, for practical reasons, the Company rounded the forecast to the end  
2 of March 2012).

3 The Confidential Exhibit contains two tables. Page 1 provides the total  
4 forecast REC revenues by month and by resource. The estimated sales volumes  
5 are based on the number of RECs generated each month that are forecasted to be  
6 sold at some time during the calendar year. Given the complexities of the  
7 contracts and the variability of generation, it is not possible for the Company to  
8 precisely forecast in which month the REC will be sold and/or the REC revenue  
9 realized. Page 2 provides the total forecast number of RECs sold by month and  
10 by resource. The table format and approach matches that of Page 1.

11 Mr. Dalley sponsors Confidential Exhibit No.\_\_(RBD-27C), which  
12 provides the forecast of REC revenues on a Washington-allocated basis for the  
13 period January 1, 2011 through March 31, 2012. The updated forecast was  
14 developed based on the terms and conditions of the executed contracts, as well as  
15 a “best guess” on future potential sales during the forecast period, given all of the  
16 REC market uncertainties I outlined above.

17 **Allocation of RECs to Sales Contracts**

18 **Q. How does the Company allocate resources to supply its REC sales contracts?**

19 A. The allocation of resources to RECs sales contract occurs after the fact in the  
20 Company’s green book. The Company’s overall philosophy is to allocate RECs  
21 from resources on a prorated basis to contracts regardless of price. However,  
22 because the counterparty often imposes restrictions on what resources can and  
23 cannot be included in a resource pool, an optimization of those resources is

1 required in order to fill specific contract pools. The Company uses a waterfall  
2 approach by resource.

3 **Q. Please explain.**

4 A. In allocating Company RECs to contracts, the Company first looks at the resource  
5 pools that are available in each contract. For example in 2009, the original pool  
6 of resources was established because only four resources at the time were certified  
7 as eligible renewable resources by the CEC. These four resources were initially  
8 allocated to the SDG&E contract. As additional resources were approved as  
9 eligible by the CEC, they were allocated to the SCE and the PG&E resource pool  
10 contracts providing as much flexibility from the Company's perspective to  
11 maximize use of as many CEC-approved resources.

12 The allocation of RECs in 2009 through 2010 went to the SDG&E  
13 contract first (since the pool of resources was limited to four). Next, eligible east-  
14 side RECs were allocated to the NV Energy contract. The eligible remaining  
15 RECs were optimized and applied to each of the SCE and PG&E transactions.  
16 These two contracts were executed after the SDG&E contract, and additional  
17 resources had been certified, allowing the pool for each of these contracts to  
18 include more resources.

19 After the RECs are allocated to these three California contracts, the rest of  
20 the contracts are optimized with the remaining RECs from the eligible marketable  
21 resources. Starting in 2011, the SDG&E contract expired and therefore the  
22 methodology changed to allocating east-side RECs to the NV Energy contract  
23 first, and then to RECs to the SCE and PG&E contracts, from each of eligible

1 resource pools associated with each of the contracts.

2 Allocations are made to the NV Energy contract first because unlike the  
3 PG&E and SCE contracts, the NV Energy contract is restrictive, allowing only  
4 RECs generated by the pool of resources in the same month as the system energy  
5 delivered. RECs deliveries for the PG&E and SCE contracts can use RECs that  
6 are generated in the same year as the delivered energy although limited to the  
7 timelines associated with Western Renewable Energy Generation Information  
8 System (WREGIS). After allocating the RECs for these three contracts, the  
9 Company allocates the RECs to comply with any remaining contracts.

10 **Q. Does this conclude your testimony?**

11 A. Yes.