

1 **Q. Please state your name, business address and position with PacifiCorp**  
2 **(“PacifiCorp” or “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 positions  
13 at Powerex, which included business development, energy trading and  
14 origination. In addition to those positions, I also represented Powerex on the  
15 board of both the California Independent System Operator and the California  
16 Power Exchange 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, long-term natural gas and  
19 power contracts, contract administration, wholesale market assessment, integrated  
20 resource planning, and structuring and pricing. Most relevant to this docket, I am  
21 responsible for the acquisition of long-term resources through negotiated  
22 wholesale commodity agreements, including those resulting from requests for  
23 proposals (“RFP”) consistent with applicable law and guidelines.

24 **Purpose of Testimony**

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

26 A. The purpose of my testimony is to demonstrate that the Company's decision to  
27 execute the [REDACTED] from each of the [REDACTED] transaction groups that  
28 make up the final short list in the 2012 Gas Request for Proposals ("2012 Gas  
29 RFP"), attached to my testimony as Exhibit RMP\_\_\_(SJK-1), will result in the  
30 acquisition of natural gas resources at the lowest reasonable cost to help deliver  
31 low cost energy to the Company's customers.

32 **Q. How is your testimony organized?**

33 A. First, I will provide background on the Company's voluntary request  
34 application ("Voluntary Request"). Second, I will discuss the history of the 2012  
35 Gas RFP and the reasons for the decision to issue the RFP. Third, I will discuss  
36 the 2012 Gas RFP evaluation process. Fourth, I will describe the bids in the  
37 initial shortlist and the process used by the Company to determine the final  
38 shortlist. Fifth, I will describe the bids in the final shortlist. Sixth, I will discuss  
39 the process the Company intends to use, after receiving approval from the  
40 Commission, to re-evaluate updated bids to pick the [REDACTED] from  
41 each of the [REDACTED] transaction groups. Seventh, I will discuss the expected date of  
42 execution of such transactions, including allowing a reasonable period after the  
43 date the Commission issues its order, within which the Company can execute the  
44 transactions in case a temporary short-term fluctuation causes natural gas prices to  
45 rise above the recommended thresholds. This would allow the temporary  
46 fluctuation to subsequently subside, and the Company could execute the

47 transactions that meet the required parameters without having to go back to the  
48 Commission for approval. Finally, I will demonstrate why it is in the public  
49 interest to execute the [REDACTED] from each of the [REDACTED] transaction  
50 groups. Mr. Steve McDougal will provide testimony about the estimated effect  
51 of the Company's decision to pursue the recommended transactions on the  
52 Company's revenue requirement. Mr. Bruce Williams will provide testimony  
53 supporting the Company's financial ability to execute such transactions.

54 **Background on Voluntary Request**

55 **Q. Why is the Company using the voluntary request process under Utah Code**  
56 **Ann. § 54-17-401, to seek approval of the recommended transactions?**

57 A. The recommended transactions are long-term commitments that fall outside of the  
58 maximum forward contract period in the hedging guidelines that resulted from  
59 hedging collaborative workshops in Utah. Consistent with expressed Utah  
60 customer risk tolerances and preferences, the Company changed its hedging  
61 policy as a result of the hedging collaborative workshops held in Utah during a  
62 period of approximately six months, pursuant to the Commission's approval of  
63 the Settlement Stipulation in Docket Nos. 10-035-124, 09-035-15, 10-035-14, 11-  
64 035-46 and 11-035-47 (the "Settlement Stipulation"). The results of the hedging  
65 collaborative workshops were formalized in a report that was authored, with  
66 collaboration from other Utah stakeholders, by the Division of Public Utilities.<sup>1</sup>

67 The report includes Principles which state, in part, that the Company may use the

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<sup>1</sup> See "Collaborative Process to Discuss Appropriate Changes to PacifiCorp's Hedging Practices", Division of Public Utilities, Docket No. 10-035-124 (Utah PSC March 30, 2012).

68 voluntary pre-approval procedures under Utah Code § 54-17-402 for long-term  
69 commitments that fall outside of the suggested guidelines.<sup>2</sup>

70 **Q. Has the Company negotiated and executed final agreements with the [REDACTED]**  
71 **bidders in the final shortlist?**

72 A. The Company has negotiated, but not executed, final agreements with the bidders  
73 in the final shortlist. Subject to Commission approval of the Voluntary Request  
74 and updated bids consistent with the conditions described in my testimony, the  
75 Company's management has approved all final agreements for execution,  
76 consistent with executed Special Delegations of Authority, attached to my  
77 testimony as Confidential Exhibit RMP\_\_\_(SJK-2); however, for good reasons  
78 that I will describe later in my testimony, the final agreements have not been  
79 executed.

80 **Q. Does this mean that the Company is not committed to executing the [REDACTED]**  
81 **[REDACTED] from each of the [REDACTED] transaction groups?**

82 A. No. If the updated bids meet certain parameters that I will also discuss later in my  
83 testimony, the Company intends to execute the [REDACTED] from each of  
84 the [REDACTED] transaction groups in the final shortlist, subject to the Commission's  
85 approval of the Company's Voluntary Request.

## 86 **2012 Gas Request for Proposals**

87 **Q. Please provide the history of the 2012 Gas RFP.**

88 A. During the hedging collaborative workshops held pursuant to the Commission's  
89 approval of the Settlement Stipulation, stakeholders recognized that then-current

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<sup>2</sup> *Id.*, Exhibit A, pp. 14.

90 natural gas market conditions warranted exploring long-term transactions for the  
91 acquisition of natural gas resources, and indicated that the Company should do so.  
92 Forward natural gas prices have been generally declining steadily since 2008,  
93 with a period of volatility including forward price increases in 2009 and 2010, and  
94 reaching new lows earlier in 2012. Heeding stakeholders' requests, on May 14,  
95 2012, the Company issued a natural gas resource request for proposals seeking up  
96 to [REDACTED] MMBtu/day of firm [REDACTED] and [REDACTED] natural gas products  
97 deliverable to various receipt points starting in April 2013, with terms of up to [REDACTED]  
98 [REDACTED] years for transactions consisting of a minimum of [REDACTED] MMBtu/day each.  
99 A bidder workshop was held May 24, 2012 with bids due June 28, 2012.

100 **Q. Was there a robust response to the 2012 Gas RFP?**

101 A. Yes. A total of [REDACTED] bids were received and the Company analyzed [REDACTED] of them.  
102 The Company only analyzed [REDACTED] because [REDACTED] of the [REDACTED] bids received were  
103 deemed non-conforming since they were for products such as asset management  
104 agreements, natural gas transport, etc., that were not part of the Company's  
105 request for proposals. The remaining [REDACTED] bids that were not analyzed were  
106 [REDACTED] or [REDACTED] supply transactions that the Company determined were not  
107 competitive with market.

108 **Q. Please describe the different types of bids that were presented.**

109 A. There were [REDACTED] types of bids including [REDACTED]  
110 [REDACTED]  
111 [REDACTED]  
112 [REDACTED]

113 **Q. How did the Company categorize the bids?**

114 A. The Company categorized the bids by [REDACTED]  
115 The Company grouped the bids by [REDACTED]  
116 [REDACTED] On [REDACTED], bids were separated  
117 based on whether they were [REDACTED].  
118 Confidential Exhibit RMP\_\_\_(SJK-3) contains detailed descriptions of each  
119 product.

120 **Bid Evaluation Process**

121 **Q. Please describe the process the Company followed in evaluating the bids**  
122 **received to develop an initial shortlist.**

123 A. The proposals were evaluated against the Company's forward price curve to  
124 develop an initial shortlist. The initial shortlist was created by calculating the  
125 market ratio of each bid, defined as bid cost divided by bid market value.

126 The bids were grouped [REDACTED]  
127 [REDACTED]  
128 [REDACTED] The initial shortlist was established by evaluating all  
129 bids against the current market, as represented by the Company's forward price  
130 and price volatility curves. All [REDACTED] bids and [REDACTED] bids that  
131 evaluated favorable to market, as well as [REDACTED] bid received in the  
132 RFP, [REDACTED] on the initial shortlist. [REDACTED] were initially  
133 included on the initial shortlist.

134 **Q. Can you elaborate on the bids that were excluded from the initial shortlist?**

135 A. The Company excluded [REDACTED]  
136 [REDACTED]  
137 [REDACTED] The Company's volatility estimates are based on  
138 Amerex data for the first [REDACTED]. Longer term volatilities are then  
139 estimated by a modeled decay rate that starts at the second-year Amerex average  
140 and [REDACTED]. It is possible that these estimated [REDACTED]  
141 [REDACTED]  
142 [REDACTED]  
143 [REDACTED]

144 **Q. Were all [REDACTED] bids excluded from the initial shortlist?**

145 A. No. [REDACTED] were included because [REDACTED] to the  
146 Company's estimates of market value, and some evaluated [REDACTED]. This  
147 would be the expected outcome if the Company's calculation of market value is  
148 unbiased by volatility assumptions. Due to the uncertainty of [REDACTED]  
149 [REDACTED], the Company's evaluation placed [REDACTED]  
150 [REDACTED] on the use of the market ratio tool to establish relative value among  
151 bids within the [REDACTED] as opposed to using  
152 [REDACTED] above or below  
153 the [REDACTED] transaction groups.

154 **Q. Were [REDACTED] included in the initial shortlist? If not, why**  
155 **not?**

156 A. No. [REDACTED] were not considered for the initial shortlist, as [REDACTED]  
157 accomplish the same price protection but without a premium payment. This is

158 important because regardless of the relative economics between [REDACTED]  
159 [REDACTED] the fact that the premium payment does not occur at the same time as  
160 the benefits to customers brings into question the recoverability of the premium  
161 payment, particularly if the [REDACTED].

162 **Q. What happened next during the evaluation process?**

163 A. Products on each shortlist were ranked by comparing the value of the product to  
164 the Company's (explicit or implicit) cost or fee requested by the counterparty.  
165 The way the value of the product is determined depends on the product itself, and  
166 is described in Confidential Exhibit RMP\_\_(SJK-3). Once the value is  
167 determined, a cost-to-value ratio known as the market ratio is calculated and used  
168 to compare differing bids:

$$\text{Market Ratio} = \frac{\text{Cost}}{\text{Value}}$$

169  
170 The lower the market ratio, the more attractive the product. The benefit of  
171 comparing bids based on their market ratios is that ranking the bids using market  
172 ratios allows comparisons of bids with different terms, location of natural gas  
173 delivery, settlement, or product type. For example, use of the market ratio allows  
174 for a direct comparison of a [REDACTED] deal with a market ratio  
175 of [REDACTED] to a [REDACTED] option deal with a market ratio of [REDACTED] to determine that  
176 the [REDACTED] transaction is the better alternative,  
177 notwithstanding other factors. Market ratios are shown in the last column of the  
178 short-listed bid tables in Confidential Exhibits RMP\_\_(SJK-4 and SJK-5).



179 [REDACTED] and [REDACTED] as well as [REDACTED] were excluded from  
180 the initial shortlist. Further, cost of credit was not considered in the determination  
181 of the initial shortlist but was evaluated in the final shortlist.

182 **Initial Shortlist**

183 **Q. What were the results of this analysis?**

184 A. The initial shortlist contained [REDACTED] bids from [REDACTED] bidders. These bids consisted of [REDACTED]  
185 [REDACTED] bids with terms of [REDACTED]  
186 [REDACTED] bids with [REDACTED]  
187 [REDACTED] with terms of [REDACTED] and [REDACTED]  
188 with a term of [REDACTED] years. The initial shortlist is provided in Confidential Exhibit  
189 RMP\_\_(SJK-4).<sup>3</sup>

190 **Q. What did you do after determining the initial shortlist?**

191 A. The initial shortlist was further evaluated to determine the cost of credit, and  
192 credit terms and conditions for each of the bids on the initial shortlist. After the  
193 cost of credit was determined, it was subtracted from the value of each bid, and a  
194 new market ratio was calculated for bids with market ratios that continued to be  
195 less than 100%. The cost of credit for each bid was determined based on the bid  
196 terms, bidder credit rating, and any specific negotiated credit terms.

197 [REDACTED]

198 [REDACTED]

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3 [REDACTED]

199

[REDACTED]

200

[REDACTED]

201 **Final Shortlist**

202 **Q. Please describe the bids included in the final shortlist.**

203 A. The final short list consists of [REDACTED] selected transaction groups from [REDACTED] bidders:

204

[REDACTED]

205

[REDACTED] Each of the [REDACTED] transaction

206

groups includes a [REDACTED] and [REDACTED] product. All [REDACTED] transaction groups

207

include proposals with the same assumed start date of April 1, 2013.<sup>4</sup> The

208

Company is recommending execution of the [REDACTED] of [REDACTED]

209

[REDACTED] per day from each transaction group, assuming updated pricing meets the

210

price parameters and market ratio discussed below. Confidential Exhibit

211

RMP\_\_\_(SJK-5) includes a list of the bids in the final shortlist.

212 **Q. Does the Company recommend the rank order in which the Commission**

213

**should approve the [REDACTED] from each of the [REDACTED]**

214

**transaction groups?**

215

A. Yes. If the Commission is not willing to approve the Company's

216

recommendation that the [REDACTED] be

217

approved, the Company recommends the Commission preapprove [REDACTED]

218

[REDACTED] [REDACTED] from each transaction group, in the following rank order. [REDACTED]

219

[REDACTED]

220

[REDACTED]

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<sup>4</sup> Updated pricing would be requested effective the date the Company receives preapproval and not April 1, 2013.

221 [REDACTED] in each  
222 transaction group will be determined by the updated market ratio and credit  
223 quality when bid prices are refreshed in 2013.

224 **Q. What is the rationale for the Company's ranking?**

225 A. [REDACTED]  
226 [REDACTED]  
227 [REDACTED]  
228 [REDACTED]  
229 [REDACTED]  
230 [REDACTED]  
231 [REDACTED]

232 [REDACTED] As a result, the Company has less  
233 confidence in the accuracy of its forward market price [REDACTED], whereas  
234 better price transparency and liquidity exists between [REDACTED]. This,  
235 however, is not as transparent or liquid as even shorter term markets. This  
236 reduced transparency for [REDACTED] year tenors is also evidenced by only [REDACTED] bids for  
237 [REDACTED] year terms in the initial shortlist, as compared [REDACTED] bids for [REDACTED] year  
238 terms in the initial shortlist in this RFP. Although the [REDACTED] year [REDACTED]  
239 transaction group proposals currently result in a [REDACTED] market ratio to the [REDACTED]  
240 [REDACTED] transaction group, this ranking must consider the more  
241 [REDACTED] nature of forward prices going out [REDACTED] years.

242 **Q. Can you describe each [REDACTED] transaction group?**

243 A. Yes. The Company's [REDACTED] transaction group is a [REDACTED]. The

244 [REDACTED] bid is currently priced more competitively than the [REDACTED]  
245 [REDACTED] bid. [REDACTED]  
246 [REDACTED]  
247 [REDACTED]  
248 [REDACTED]  
249 [REDACTED]  
250 [REDACTED]

251 The Company's [REDACTED] transaction group is a [REDACTED]  
252 [REDACTED]. The [REDACTED] is currently priced  
253 [REDACTED] more [REDACTED].  
254 The [REDACTED] product is [REDACTED] years at [REDACTED] for [REDACTED] MMBtu per day  
255 delivered at [REDACTED], and excludes [REDACTED] each year. The [REDACTED]  
256 product is [REDACTED] years at [REDACTED]/MMBtu at [REDACTED] MMBtu per day [REDACTED]  
257 [REDACTED]

258 The Company's [REDACTED] transaction group is a [REDACTED]  
259 [REDACTED]. The [REDACTED] is currently priced [REDACTED]  
260 [REDACTED]. The [REDACTED] product is [REDACTED]  
261 [REDACTED]  
262 [REDACTED]. The [REDACTED] product is for  
263 [REDACTED] years at [REDACTED] delivered at [REDACTED]

264 **Bid Update Process and Market Ratio and Price Parameter Tests**

265 **Q. Why has the Company taken the approach of having bidders not lock in**  
266 **prices in their bids and instead having bidders update their bid prices**  
267 **following Commission approval of the Voluntary Request?**

268 A. It is important to note that underlying agreements, transaction confirmations and  
269 credit requirements have already been negotiated with each of the [REDACTED] final  
270 shortlist bidders based on their final pricing. However, the 180-day process period  
271 provided under Utah Code Ann. § 54-17-402 is too long of a period, given the  
272 volatility of the natural gas market, for bidders to hold and lock in their pricing,  
273 without adding a significant risk premium resulting in additional costs to our  
274 customers. Instead, the Company requested that bidders in the final shortlist  
275 update their bids in the middle of May 2013, when the Commission is expected to  
276 issue its order on the Company's Voluntary Request. The Company deems this to  
277 be the best way to deliver the least-cost natural gas resources, in the best interests  
278 of our customers.

279 **Q. What process will the Company use to update the bids following Commission**  
280 **approval?**

281 A. Two business days after receipt of Commission approval of the Company's  
282 Voluntary Request, the Company will ask the bidders to provide updated prices  
283 the following business day by 8 a.m.<sup>5</sup> The Company will also communicate any  
284 new requirements that may arise out of the Commission's approval. The

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<sup>5</sup> Currently the preapproval is anticipated to be received May 14, 2013, with the request to refresh May 16, 2013 and bidders refreshed prices due May 17, 2013.

285 Company will subsequently re-evaluate credit quality and determine which  
286 proposals, if any, meet the preapproved price ranges.<sup>6</sup>

287 **Q. Will the updated bids be re-evaluated?**

288 A. Yes. The Company will re-evaluate credit quality to determine if any updated  
289 credit analysis, or cost of credit, would be required in the analysis. The Company  
290 will also evaluate whether the updated bids meet the following market ratio and  
291 price parameter tests. Transactions will be eligible for execution only if:

292 (1) [REDACTED] bid updated pricing yields a market ratio inclusive of credit  
293 costs that is at or below 100% as calculated from the Company's most current  
294 forward price curve at the time bid prices are updated (since the forward price  
295 curve is updated daily, the curve from the day prior will be used ("Current  
296 Curve")) and [REDACTED] bid updated pricing yields [REDACTED] (inclusive  
297 of credit costs) of less than 100%; and

298 (2) the current forward price curve at the time bid prices are updated does  
299 not exceed [REDACTED]<sup>7</sup> of the Company's [REDACTED] official forward price curve that  
300 was used to evaluate bids for selection to the final shortlist.

301 The [REDACTED] market price threshold will apply to the specific terms and  
302 delivery points for bids within each transaction group. If, when the bidders

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<sup>6</sup> Bidders' updated market ratio must be at or below 100 percent of the Company's updated forward price curve, which cannot be more than [REDACTED] of the [REDACTED] official forward price curve.

<sup>7</sup> [REDACTED]

303 update their prices, the Current Curve exceeds [REDACTED] of the [REDACTED] official  
 304 forward price curve the Company will not proceed to execute any transaction,  
 305 subject to a [REDACTED]-month period for the Company to observe the market to determine  
 306 if the Company's forward curve is below [REDACTED] of the [REDACTED] official  
 307 forward price curve, at which time the Company could request updated pricing  
 308 from the bidders and re-run the 100% market ratio test.

309 Table 1 below shows the nominal levelized price for each of the specific  
 310 final shortlisted bids within the [REDACTED] transaction groups and the equivalent  
 311 forward price curve ceiling that is [REDACTED] of the Company's [REDACTED] official  
 312 forward price curve.

313 [REDACTED]

314

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

315

316 Prices summarized in Table 1 above do not explicitly match levelized  
 317 prices used to establish the market price ratio when evaluating bids for selection  
 318 to the final shortlist, which included adjustments for the cost of credit. [REDACTED]  
 319 [REDACTED]  
 320 [REDACTED]

321 The maximum nominal costs for each of the specific final shortlisted bids  
 322 within the [REDACTED] transaction groups, with the equivalent forward price curve  
 323 ceiling that is [REDACTED] official forward price curve,  
 324 are presented in Table 2 below.

325 **Table 2: Maximum Nominal Costs**

326

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

327

328 **Execution of Final Agreements**

329 **Q. Assuming the Commission approves the Voluntary Request and updated**  
 330 **bids meet the foregoing tests, what will the Company do?**

331 **A.** As mentioned above, the Company has already negotiated underlying agreements,  
 332 transaction confirmations and credit requirements with each of the [REDACTED] final



333 shortlist bidders in each category. If the updated bids meet the foregoing tests, the  
334 Company will execute contracts with the [REDACTED] that  
335 meets the two tests adjusted for any change in credit quality to acquire gas of up  
336 to [REDACTED] MMBtu/day per category and up to [REDACTED] MMBtu/day in total. Copies  
337 of the underlying agreements and transaction confirmations are attached to my  
338 testimony as Confidential Exhibit RMP \_\_ (SJK- 6).

339 **Q. What happens if, after bidders update their bids, any of the transaction**  
340 **groups fails to yield [REDACTED] that falls within [REDACTED] of the [REDACTED] official**  
341 **forward price curve?**

342 A. If any of the transaction groups fails to yield [REDACTED] that falls within that threshold,  
343 the Company will monitor the market for up to [REDACTED] months to allow an opportunity  
344 to pursue the transactions if the forward market declines [REDACTED]. If  
345 such event occurs, the Company will request updated pricing for bidders in that  
346 transaction group and, subject to the 100% market ratio test, execute the  
347 [REDACTED] from that transaction group.

#### 348 **Demonstration of Public Interest**

349 **Q. Why is it in the public interest for the Commission to approve the**  
350 **Company's decision to execute the [REDACTED] from each of the**  
351 **[REDACTED] transaction groups, subject to the updated bids meeting the required**  
352 **thresholds discussed above?**

353 A. It is in the public interest because forward natural gas prices have fallen  
354 dramatically from their 2008 apex, as illustrated in Table 3 below, and the  
355 Company has utilized a robust competitive procurement solicitation process to

356 identify the [REDACTED] products to hedge a [REDACTED] percentage of the Company's  
357 future natural gas requirements with a variety of product types and terms,  
358 consistent with the approach contemplated by the hedging guidelines that resulted  
359 from the recent hedging collaborative workshops in Utah.

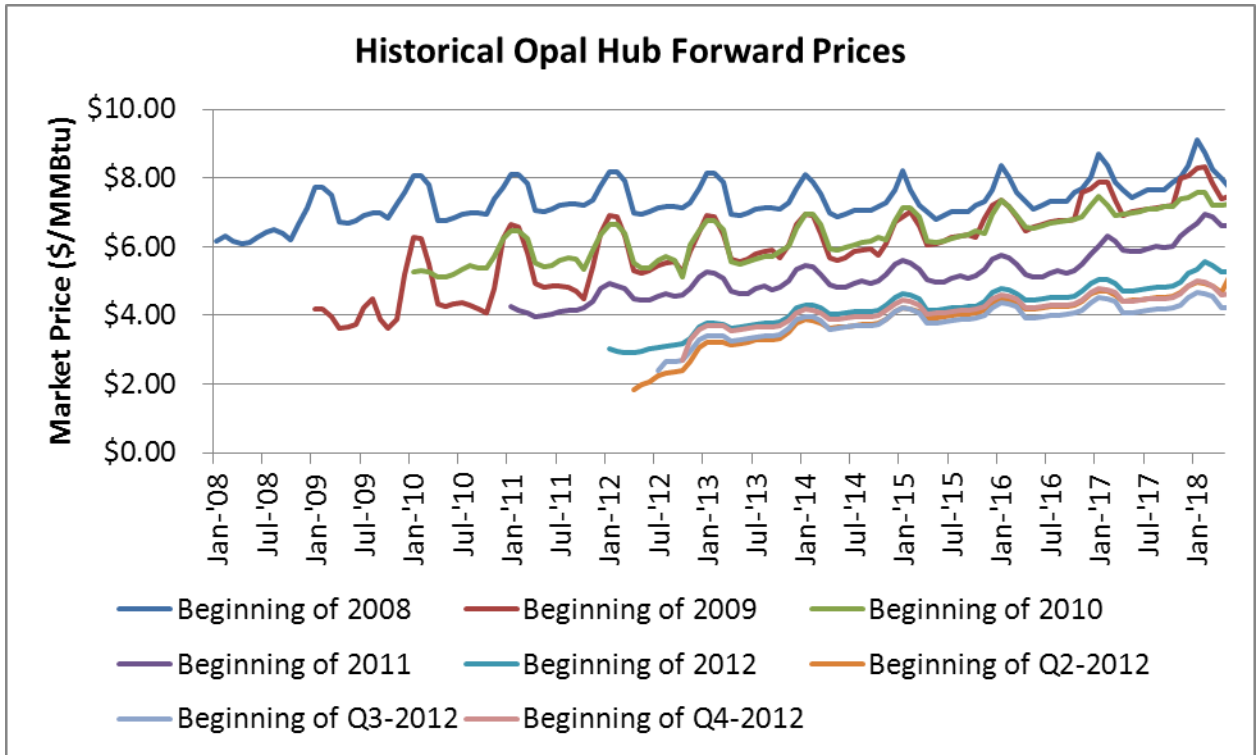
360 **Q. Can you quantify the “[REDACTED] percentage” of the Company’s future natural**  
361 **gas requirements that you refer to above?**

362 A. Yes. The “[REDACTED] percentage,” [REDACTED] MMBtu/day, represents approximately  
363 [REDACTED] of the current four-year forecast requirements of [REDACTED] MMBtu per day,  
364 which includes Lake Side 2 and all existing resource requirements.

365 **Q. Please elaborate on your position that it is in the public interest for the**  
366 **Commission to approve the Company’s decision.**

367 A. Forward prices at Opal—the most liquid natural gas market in the Rockies region  
368 and the reference location for the bulk of the bids in the final shortlist of this  
369 RFP—peaked in mid-2008. Subsequently, forward prices fell through the end of  
370 2008, were volatile through 2009 and 2010 with periods of increases and  
371 decreases, and fell further in 2011 and 2012 reaching a low point in early 2012  
372 followed by more recent slight increases relative to the magnitude of declines  
373 since 2011.

**Table 3. Historical Opal Hub Forward Prices**



375

376 While there is potential for both upside and downside price risk, a review  
 377 of market fundamentals discussed in the Company’s semi-annual hedging report  
 378 dated October 31, 2012, attached as Confidential Exhibit RMP\_\_\_\_(SJK-7), shows  
 379 that there is a greater risk that natural gas prices will rise than decline in the  
 380 future.

381 Table 4 shows levelized prices at Opal from forecasts issued by [REDACTED]  
 382 [REDACTED]  
 383 [REDACTED]  
 384 [REDACTED] over tenors that align with final shortlist bids. The  
 385 table also shows how levelized prices from these third party forecasts compare to  
 386 levelized prices at [REDACTED] official forward price curve.

387  
388

**Table 4. Opal Nominal Levelized Prices from Third Party Forecasts as Compared to the [REDACTED] Official Forward Price Curve (\$/MMBtu)\***

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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\*Third party forecasters do not include in price projections for the Goshen market hub.  
\*\*Excludes second quarter deliveries.

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Table 4 shows the nominal prices from each third party forecast used in the table above over the period [REDACTED], and illustrates that there is a range of plausible alternative futures. [REDACTED] the only forecaster among the [REDACTED] services reviewed that routinely publishes high and low price scenarios around a “reference” price projection assigns 25% probability to its high case and a 30% probability to its low price scenario. Its low-price scenario assumes continued productivity gains through technology, increased volumes of associated gas, and minimal demands for liquefied natural gas and compressed natural gas from the export and/or transportation sectors. [REDACTED] high-price scenario is driven by heavy industrial, export, and transportation demands (especially under high oil prices) coupled with increasing exploration and development costs. [REDACTED] long-term reference forecast reflects a mix of downside pressures, such as increased well productivity and increased shale plays, with upside pressures from industry and the export and transportation sectors. The [REDACTED] price forecast is similar to [REDACTED] reference case, and [REDACTED] projection reflects a fundamental

406 view that is less bullish on future export and/or transportation demands.  
407 Therefore, the Company recommends that the Commission approve the  
408 Company's decision to execute the [REDACTED] from each of the  
409 [REDACTED] transaction groups, provided they meet the conditions described herein.

410 **Q. Has the Company performed an analysis of the estimated effect of the**  
411 **Company's decision to pursue the contemplated transactions on its revenue**  
412 **requirement?**

413 A. Yes. The analysis can be found in Mr. Steve McDougal's testimony.

414 **Q. Does the Company have the financial capability to finance the transactions**  
415 **being recommended for approval?**

416 A. Yes. Mr. Williams' testimony demonstrates that the Company has the financial  
417 capability to finance the transactions.

418 **Q. Does this conclude your direct testimony?**

419 A. Yes.