Q. Please state your name, business address and position with PacifiCorp ("PacifiCorp" or "the Company").

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

Q. Please describe your education and business background.

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

Q. Please explain your responsibilities as PacifiCorp's Director of Origination.

A. I manage the procurement of new generation resources, long-term natural gas and power contracts, contract administration, wholesale market assessment, integrated resource planning, and structuring and pricing. Most relevant to this docket, I am responsible for the acquisition of long-term resources through negotiated wholesale commodity agreements, including those resulting from requests for proposals ("RFP") consistent with applicable law and guidelines.

Purpose of Testimony

Q. What is the purpose of your testimony?

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

Q. How is your testimony organized?

A. First, I will provide background on the Company's voluntary request application ("Voluntary Request"). Second, I will discuss the history of the 2012 Gas RFP and the reasons for the decision to issue the RFP. Third, I will discuss the 2012 Gas RFP evaluation process. Fourth, I will describe the bids in the initial shortlist and the process used by the Company to determine the final shortlist. Fifth, I will describe the bids in the final shortlist. Sixth, I will discuss the process the Company intends to use, after receiving approval from the Commission, to re-evaluate updated bids to pick the [redacted] from each of the [redacted] transaction groups. Seventh, I will discuss the expected date of execution of such transactions, including allowing a reasonable period after the date the Commission issues its order, within which the Company can execute the transactions in case a temporary short-term fluctuation causes natural gas prices to rise above the recommended thresholds. This would allow the temporary fluctuation to subsequently subside, and the Company could execute the transactions that meet the required parameters without having to go back to the Commission for approval. Finally, I will demonstrate why it is in the public interest to execute the [redacted] from each of the [redacted] transaction groups. Mr. Steve McDougal will provide testimony about the estimated effect of the Company's decision to pursue the recommended transactions on the Company's revenue requirement. Mr. Bruce Williams will provide testimony supporting the Company's financial ability to execute such transactions.

Background on Voluntary Request

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

A. The recommended transactions are long-term commitments that fall outside of the maximum forward contract period in the hedging guidelines that resulted from hedging collaborative workshops in Utah. Consistent with expressed Utah customer risk tolerances and preferences, the Company changed its hedging policy as a result of the hedging collaborative workshops held in Utah during a period of approximately six months, pursuant to the Commission's approval of the Settlement Stipulation in Docket Nos. 10-035-124, 09-035-15, 10-035-14, 11-035-46 and 11-035-47 (the "Settlement Stipulation"). The results of the hedging collaborative workshops were formalized in a report that was authored, with collaboration from other Utah stakeholders, by the Division of Public Utilities.[1] The report includes Principles which state, in part, that the Company may use the

[1] *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).

voluntary pre-approval procedures under Utah Code § 54-17-402 for long-term commitments that fall outside of the suggested guidelines.[2]

Q. Has the Company negotiated and executed final agreements with the [redacted] bidders in the final shortlist?

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

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

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

2012 Gas Request for Proposals

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

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

[2] *Id*., Exhibit A, pp. 14.

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

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

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

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

A. There were [redacted] types of bids including [redacted]

Q. How did the Company categorize the bids?

A. The Company categorized the bids by [redacted] The Company grouped the bids by [redacted] On [redacted], bids were separated based on whether they were [redacted]. Confidential Exhibit RMP___(SJK-3) contains detailed descriptions of each product.

Bid Evaluation Process

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

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

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

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

A. The Company excluded [redacted] The Company's volatility estimates are based on ~~Amerex~~ Goldman Sachs data for the first [redacted]. Longer term volatilities are then estimated by a modeled decay ~~rate~~ that starts at the ~~second year~~48th month ~~Amerex~~ Goldman Sachs ~~average~~volatility and typically [redacted]. It is possible that these estimated [redacted]

Q. Were all [redacted] bids excluded from the initial shortlist?

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

Q. Were [redacted] included in the initial shortlist? If not, why not?

A. No. [redacted] were not considered for the initial shortlist, as [redacted] accomplish the same price protection but without a premium payment. This is important because regardless of the relative economics between [redacted] the fact that the premium payment does not occur at the same time as the benefits to customers brings into question the recoverability of the premium payment, particularly if the [redacted].

Q. What happened next during the evaluation process?

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

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

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

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

Initial Shortlist

Q. What were the results of this analysis?

A. The initial shortlist contained [redacted] bids from [redacted] bidders. These bids consisted of [redacted] bids with terms of [redacted] bids with [redacted] with terms of [redacted] and [redacted] with a term of [redacted] years. The initial shortlist is provided in Confidential Exhibit RMP___(SJK-4).[3]

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

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

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3 [redacted]

[redacted]

Final Shortlist

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

A. The final short list consists of [redacted] selected transaction groups from [redacted] bidders: [redacted] Each of the [redacted] transaction groups includes a [redacted] and [redacted] product. All [redacted] transaction groups include proposals with the same assumed start date of April 1, 2013.[4] The Company is recommending execution of the [redacted] of [redacted] per day from each transaction group, assuming updated pricing meets the price parameters and market ratio discussed below. Confidential Exhibit RMP___(SJK-5) includes a list of the bids in the final shortlist.

Q. Does the Company recommend the rank order in which the Commission should approve the [redacted] from each of the [redacted] transaction groups?

A. Yes. If the Commission is not willing to approve the Company's recommendation that the [redacted] be approved, the Company recommends the Commission preapprove [redacted] from each transaction group, in the following rank order. [redacted]

[4] Updated pricing would be requested effective the date the Company receives preapproval and not April 1, 2013.

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

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

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

Q. Can you describe each [redacted] transaction group?

A. Yes. The Company's [redacted] transaction group is a [redacted]. The [redacted] bid is currently priced more competitively than the [redacted] bid. [redacted]

The Company's [redacted] transaction group is a [redacted] The [redacted] is currently priced [redacted] more [redacted]. The [redacted] product is [redacted] years at [redacted] for [redacted] MMBtu per day delivered at [redacted], and excludes [redacted] each year. The [redacted] product is [redacted] years at [redacted]/MMBtu at [redacted] MMBtu per day [redacted]

The Company's [redacted] transaction group is a [redacted]. The [redacted] is currently priced [redacted] The [redacted] product is [redacted] The [redacted] product is for [redacted] years at [redacted] delivered at [redacted]

Bid Update Process and Market Ratio and Price Parameter Tests

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

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

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

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

[5] 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.

Company will subsequently re-evaluate credit quality and determine which proposals, if any, meet the preapproved price ranges.[6]

Q. Will the updated bids be re-evaluated?

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

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

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

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

[6] 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.

[7] [redacted]

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

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

[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]	[redacted]	[redacted]	[redacted]	[redacted]

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

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

Table 2: Maximum Nominal Costs

[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]

Execution of Final Agreements

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

A. As mentioned above, the Company has already negotiated underlying agreements, transaction confirmations and credit requirements with each of the [redacted] final shortlist bidders in each category. If the updated bids meet the foregoing tests, the Company will execute contracts with the [redacted] that meets the two tests adjusted for any change in credit quality to acquire gas of up to [redacted] MMBtu/day per category and up to [redacted] MMBtu/day in total. Copies of the underlying agreements and transaction confirmations are attached to my testimony as Confidential Exhibit RMP __ (SJK- 6).

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

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

Demonstration of Public Interest

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

A. It is in the public interest because forward natural gas prices have fallen dramatically from their 2008 apex, as illustrated in Table 3 below, and the Company has utilized a robust competitive procurement solicitation process to identify the [redacted] products to hedge a [redacted] percentage of the Company's future natural gas requirements with a variety of product types and terms, consistent with the approach contemplated by the hedging guidelines that resulted from the recent hedging collaborative workshops in Utah.

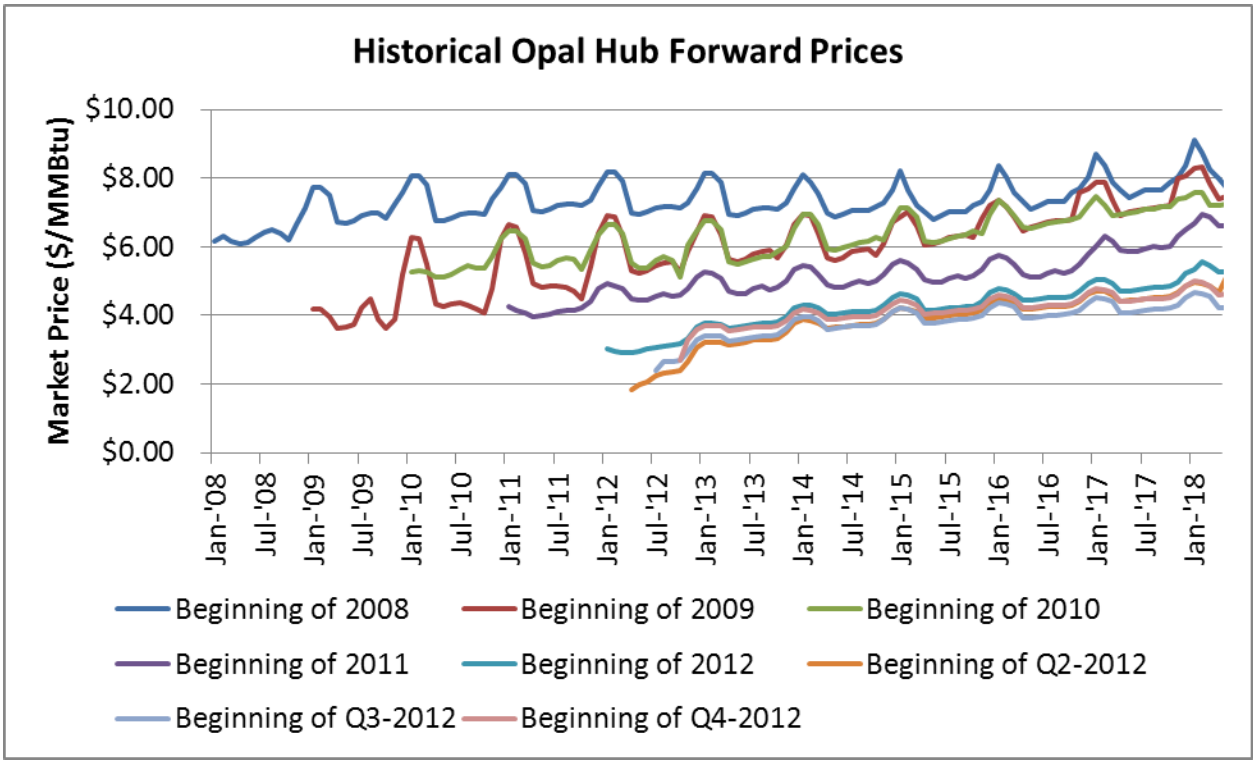
Q. Can you quantify the "[redacted] percentage" of the Company's future natural gas requirements that you refer to above?

A. Yes. The "[redacted] percentage," [redacted] MMBtu/day, represents approximately [redacted] of the current four-year forecast requirements of [redacted] MMBtu per day, which includes Lake Side 2 and all existing resource requirements.

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

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

Table 3. Historical Opal Hub Forward Prices



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

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

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]

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

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

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

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

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

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

Q. Does this conclude your direct testimony?

A. Yes.