

Rocky Mountain Power
Docket No. 13-035-184
Witness: Stacey J. Kusters

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

REDACTED
Direct Testimony of Stacey J. Kusters

REC Revenues

January 2014

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp dba Rocky Mountain Power (“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 professional 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 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
22 the sale of RECs not used to meet compliance requirements.

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

24 A. My testimony addresses the level of revenue in this case related to the sale of
25 RECs. First, I provide and support the basis for the REC revenue forecast of \$3.67
26 million or \$2.0 million on a Utah-allocated basis for the test period in this case,
27 the 12 months ending June 30, 2015 (“the Test Period”). Second, I explain why
28 the REC revenue in the Test Period is lower than both the actual revenue booked
29 in the Base Period (the 12 months ending June 30, 2013) and the amount of REC
30 revenue currently in base rates established in Docket No. 11-035-200 (the “2012
31 GRC”). Third, I explain the current REC market, and provide additional insights
32 into the expectations for future REC sales. And finally, I explain why the
33 Company is forecasting a small amount of REC revenue related to the Leaning
34 Juniper I wind project.

35 **Test Period REC Revenue**

36 **Q. What revenue from the sale of RECs is included in the Test Period?**

37 A. The Test Period includes \$3.67 million of REC revenue on a total-Company basis,
38 or \$2.0 million on a Utah-allocated basis. My testimony provides support for the
39 total Company level of REC sales and the REC revenue related to the Leaning
40 Juniper I wind project. Company witness Mr. Steven R. McDougal provides
41 details of the allocation of total Company REC revenue to Utah.

42 **Q. How did the Company calculate the forecast REC revenue in the Test**
43 **Period?**

44 A. The Company included expected REC revenue from [REDACTED] executed agreement that
45 was in place at the time this case was filed (“[REDACTED]”), additional REC

46 revenues at projected volumes and forecasted market prices in the Test Period,
47 and the forecast REC revenues related to the Leaning Juniper I wind project.

48 For purposes of this case, the Company has capped the sales volume of
49 additional projected REC sales at [REDACTED] per annum in 2014 and
50 [REDACTED] in 2015 (“Market REC Cap”), which I explain later
51 in my testimony. These projected sales over the Test Period are assumed to be
52 made at an average forecast REC price of \$ [REDACTED]
53 [REDACTED] Prorating the annual Market
54 REC Cap for the Test Period will result in a total of [REDACTED] during the
55 Test Period, in addition to [REDACTED]
56 [REDACTED] the [REDACTED] amounting to [REDACTED] MWhs, for a total of
57 [REDACTED] on a total-Company basis [REDACTED] on a Utah-allocated basis.
58 Confidential Exhibit RMP___(SJK-1) is a summary of total Test Period REC
59 sales, including the [REDACTED] and additional forecast REC sales.

60 **Q. Why did you impose the Market REC Cap to the Test Period REC sales**
61 **volumes?**

62 A. The REC market is not a transparent or liquid market. Market REC Caps make
63 sense for three reasons. First, in the most opportune REC market in the Western
64 Electric Coordinating Council (“WECC”), the California RPS compliance market,
65 the Investor Owned Utilities (“IOUs”) have projected that they will meet their
66 compliance requirements through December 31, 2016 (“Compliance Period 2”),
67 decreasing overall demand. Exhibit RMP___(SJK-5) demonstrates the IOUs’
68 progress towards 33 percent renewables on projected actuals and forecasted

69 basis.¹

70 Second, for the IOUs as well as all remaining buyers, including the energy
71 service providers (“ESP”) and the publicly-owned utilities (“POU”), the product
72 definitions adopted by the State under SB2 (“1X”) and under California’s Public
73 Utility Commission Renewable Portfolio Standard (“RPS”) Product Content
74 decision, specifically disadvantage out-of-state renewable energy. This has
75 limited the Company’s ability to sell RECs into the California market, since the
76 Company does not have renewable generation in the qualifying locations for
77 Bucket One product. The new RPS separates compliance products into three
78 buckets and sets limitations on what can be used for compliance: a premium
79 product delivered “bundled” from qualifying locations (“Bucket One”); a product
80 from generation from other locations subject to declining limits on compliance
81 use over time, called “firming and shaping” (“Bucket Two”); and, a REC-only
82 product also subject to declining limits on compliance use over time (“Bucket
83 Three”).

84 Third, Compliance Period 2 requires 65 percent of the renewable
85 compliance purchases, for all compliance entities, effectively to be from resources
86 in qualifying in-state locations, or to come from Bucket One, a product the
87 Company is unable to provide. This reduces the future demand for the products
88 the Company can provide. In addition, because buyers can purchase their
89 compliance requirements for the next three years any time over those next three
90 years, it is impossible to know when compliance entities will make their

¹<http://www.cpuc.ca.gov/NR/rdonlyres/68D58BFE-E350-4D49-B3D6-DAB43B806A5F/0/2013Q2RPSReportFINAL.PDF>

91 compliance purchases of those products the Company can provide.

92 **Q. How did the Company determine the level of megawatts associated with the**
93 **Market REC Cap in 2014 and 2015 above the Existing Contract?**

94 A. The size of the Market REC Cap is based on the Company's historical experience
95 in marketing and selling RECs. The Market REC Cap is based on the potential
96 marketability of two separate product categories of RECs. The unstructured REC
97 markets ("Unstructured REC Market") are RECs that are sold in the WECC
98 which are purchased for either compliance or voluntary programs and that do not
99 include energy. The Unstructured REC Market is capped at [REDACTED],
100 consistent with the Company's REC sales volumes prior to the compliance
101 requirements in 2009. Structured REC markets ("Structured REC Market") are
102 structured transactions which meet Bucket Two compliance requirements in
103 California or Structured REC transactions in Nevada or Arizona. The Structured
104 REC Market is capped at [REDACTED] MWhs for calendar year 2014 and [REDACTED]
105 MWhs for calendar year 2015. In California, the Compliance Period 2 ends
106 December 31, 2016 and has increased Bucket One purchase requirements for
107 compliance entities from 50 percent to 65 percent of their total compliance
108 portfolio, further reducing the market demand for resources not situated in
109 qualifying areas of California. In addition, it is unclear when, over their multi-
110 year compliance period, buyers will procure to meet their requirements. For the
111 Test Period, the Structured REC Market is capped at [REDACTED] MWhs based on the
112 actual sales of Bucket Two of [REDACTED] MWhs for [REDACTED] in the Base

113 Period. Unlike in the past, no additional opportunities to sell Structured REC
114 products in Nevada and or Arizona exist at this time.

115 **Q. What was the REC volume the Company sold in the Base Period?**

116 A. In the Base Period, the total REC MWh sold was [REDACTED] MWh. Confidential
117 Exhibit RMP___(SJK-2) provides actual REC sale volumes and revenue by
118 counterparty and transaction.

119 **Q. What unique circumstances led to higher revenues in the Base Period than
120 those expected or forecasted in the Test Period?**

121 A. [REDACTED] primary contracts (“Primary Contracts”) were executed under unique
122 circumstances and account for \$[REDACTED] of the total [REDACTED] in
123 revenues. These Primary Contracts contribute [REDACTED] percent of the total revenue in
124 Base Period, as shown in Confidential Exhibit RMP___(SJK-2). It is highly
125 unlikely the Company will see similar circumstances in the future.

126 **Q. If an opportunity arose that pushed sales over the Market REC Cap would
127 the Company sell its marketable RECs?**

128 A. Yes. The Company would sell RECs available for sale after RPS Banking
129 Requirements consistent with its policy on forward REC sales; however, based on
130 current experience and market outlook, the Company is unlikely to be able to sell
131 the projected RECs in the Test Period above the Market REC Caps.

132 **Q. If an additional sale was made over the Market REC Cap, would customers
133 still receive credit for the additional REC revenues not included in the Test
134 Period in this case?**

135 A. Yes. The Commission established a REC Balancing Account (“RBA”) in Docket

136 No. 10-035-124, which provides for a true-up of REC revenue in base rates to
137 actual REC revenue booked for the same time period. This ensures Utah
138 customers are not harmed should unforeseen REC sales materialize.

139 **2012 GRC Revenue vs. Test Period Revenues**

140 **Q. How does the REC market impact the difference between the current base**
141 **level of REC revenues from the 2012 GRC and the amount projected for the**
142 **Test Period?**

143 A. As established in the 2012 GRC, Utah-allocated REC revenue was set at \$25
144 million for step one rates, effective October 12, 2012 and at \$10 million for step
145 two rates, effective September 1, 2013. By comparison, the revenue forecast for
146 the Test Period is \$3.67 million on a total-Company basis and \$2.0 million on a
147 Utah-allocated basis.

148 **Q. What are the main drivers that reduce the REC revenue from the base**
149 **amount in the RBA set in the 2012 GRC to the Test Period?**

150 A. First, the structured, [REDACTED] priced bundled Primary Contracts expired December
151 31, 2012. Second, due to the lack of market opportunity described in my
152 testimony, there is a limited market for additional structured [REDACTED] priced bundled
153 transactions, and prices for all REC transactions have decreased.

154 **Q. How much of the Test Period revenue is attributable to the [REDACTED] Contract**
155 **that will expire December 31, 2014?**

156 A. Approximately [REDACTED] of the \$3.67 million of REC revenue forecast in the
157 Test Period is from the [REDACTED] Contract. The remainder is from the projected

158 sales of Unstructured RECs [REDACTED] per MWh and Structured RECs [REDACTED] per
159 MWh, as shown in Confidential Exhibit RMP___(SJK-1).

160 **Q. Has the Company sold any RECs on a forward basis other than the [REDACTED]
161 Contract in the Test Period?**

162 A. No.

163 **Q. What is the Company's basis for the [REDACTED] price per MWh associated with the
164 Unstructured REC forecast and [REDACTED] per MWh for the Structured REC
165 market used in the Market REC Cap megawatts in 2014 and 2015?**

166 A. The Company has been following the activity on both the pricing and availability
167 of RECs in the Unstructured REC Market and the Structured REC Market and the
168 prices associated with the Company REC purchases executed under the voluntary
169 Blue Sky program. During 2012 and 2013, the Company participated in requests
170 for proposals from the market, issued a reverse request for proposals to the
171 market, and completed bilateral transactions, as described in the attached
172 Confidential Exhibits RMP___(SJK-2), (SJK-3) and (SJK-4).

173 **Q. Please explain the range of pricing in the transactions the Company executed
174 in the Base Period and explain the differences in those transactions
175 compared to revenues forecast in the Test Period.**

176 A. The Company executed [REDACTED] Structured REC transaction in July 2013, the [REDACTED]
177 transaction in the Test Period. Buyers were interested in buying to meet
178 Compliance Period 1 in California. However, they have not shown strong interest
179 in purchasing forward beyond 2013 for Compliance Period 2. The additional
180 contracts executed for revenues received in the Base Period are Structured REC

181 transactions and Unstructured REC transactions. Not including the [REDACTED] Primary
182 Contracts, the Company executed [REDACTED] Structured REC transactions and [REDACTED]
183 Unstructured REC transactions for REC revenues received in the Base Period, as
184 shown in Confidential Exhibit RMP___(SJK-2). The Company will continue to
185 issue requests for proposals on a minimum rolling quarterly basis for the sale of
186 RECs throughout 2014 and 2015 in addition to working on a bilateral basis and
187 with the broker market.

188 **Q. What was the response to the Company’s reverse request for proposals?**

189 A. The Company issued five reverse requests for proposals during the Base Period.
190 The reverse requests for proposals were emailed directly to over 150 potentially
191 interested parties. The Company completed [REDACTED] separate sale transactions as a
192 result of bids received from these reverse requests for proposals, which are more
193 particularly described in Confidential Exhibit RMP___(SJK-3).

194 **Q. What were the volumes and prices of the RECs the Company purchased to
195 meet the requirements under the Blue Sky program?**

196 A. The Company purchased [REDACTED] MWhs of RECs for the Blue Sky program in
197 2013 at an average price of [REDACTED] per MWh, as set forth in Confidential Exhibit
198 RMP___(SJK-4).

199 **Q. Please explain why the REC market in California is limited.**

200 A. Before California amended its RPS law in 2011 with SB2 (“1X”), the Company’s
201 renewable resources qualified for use by compliance entities without
202 discrimination by virtue of the California Energy Commission’s “firming and
203 shaping” delivery standard. This is no longer the case. As I mentioned earlier, the

204 new RPS eliminates that standard, and separates compliance products into three
205 buckets, and the new Bucket Two “firming and shaping” standard developed by
206 the California Public Utilities Commission under the new statute is substantially
207 different and capped. Bucket One is the highly desired product and requires real-
208 time, hourly scheduling of resources into a California balancing authority, which
209 the Company is unable to supply as the Company’s resources are not located in a
210 California balancing authority within the meaning of the California Public Utility
211 Commission’s rules. In fact, the Company’s balancing area territory in California
212 is specifically not a qualifying balancing authority. The amendments to the RPS
213 favor in-state resources over out-of-state resources by granting privileges, such as
214 enhanced bankability as well as no limitations on use for compliance, to Bucket
215 One products that are not granted to other products; whereas, Bucket Two and
216 Bucket Three products are subject to limitations on use for compliance purchases.

217 Further limiting the California market are the three-tiered compliance
218 periods related to the California RPS requirements. The first compliance period is
219 2011 through 2013, where at least 50 percent of renewable generation must be
220 from Bucket One for the period, rising to 65 percent in the second compliance
221 period from 2014 through 2016, and rising to 75 percent by the third compliance
222 period from 2017 through 2020. Up to 25 percent of procurement targets can be
223 satisfied with unbundled RECs in Compliance Period 1, decreasing to 15 percent
224 in Compliance Period 2, and 10 percent in Compliance Period 3. The out-of-state
225 energy imported into California that is firming and shaped can account for the
226 remainder of a utility’s RPS obligations in each compliance period. Currently, the

227 IOUs in California have indicated they have satisfied their ability to purchase
228 from the Buckets Two and Three product categories during the first and second
229 compliance periods.

230 **Q. Please describe why the Company is forecasting a small amount of REC**
231 **revenue related to the Leaning Juniper I wind project.**

232 A. The Company is forecasting a small amount of REC revenue related to the
233 Leaning Juniper I wind project due to a contract unique to that wind project, as
234 summarized in Confidential Exhibit RMP____(SJK-6).

235 **Q. What is the value of the RECs from the Leaning Juniper I wind project used**
236 **in the Test Period?**

237 A. The Company used a value of [REDACTED] per MWh in the Test Period.

238 **Q. How was the value determined?**

239 A. It was a negotiated value for the RECs between the parties for 2013 and used as
240 the forecast for the Test Period. The REC revenues related to the Leaning Juniper
241 I wind project are included in the Company's revenue requirement calculation
242 presented by Company witness Mr. McDougal.

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

244 A. Yes.

CONFIDENTIAL
Rocky Mountain Power
Exhibit RMP___(SJK-1)
Docket No. 13-035-184
Witness: Stacey J. Kusters

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Confidential Exhibit Accompanying Direct Testimony of Stacey J. Kusters

Test Period REC Revenue Forecast

January 2014

**THIS EXHIBIT IS CONFIDENTIAL
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SEPARATE COVER**

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Rocky Mountain Power
Exhibit RMP___(SJK-2)
Docket No. 13-035-184
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Confidential Exhibit Accompanying Direct Testimony of Stacey J. Kusters
Actual REC Sale Volumes and Revenue by Counterparty and Transaction

January 2014

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Rocky Mountain Power
Exhibit RMP___(SJK-3)
Docket No. 13-035-184
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BEFORE THE PUBLIC SERVICE COMMISSION
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ROCKY MOUNTAIN POWER

Confidential Exhibit Accompanying Direct Testimony of Stacey J. Kusters

Base Period REC Revenues

January 2014

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Exhibit RMP___(SJK-4)
Docket No. 13-035-184
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Confidential Exhibit Accompanying Direct Testimony of Stacey J. Kusters

Primary Base Period REC Contracts

January 2014

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Rocky Mountain Power
Exhibit RMP__(SJK-5)
Docket No. 13-035-184
Witness: Stacey J. Kusters

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

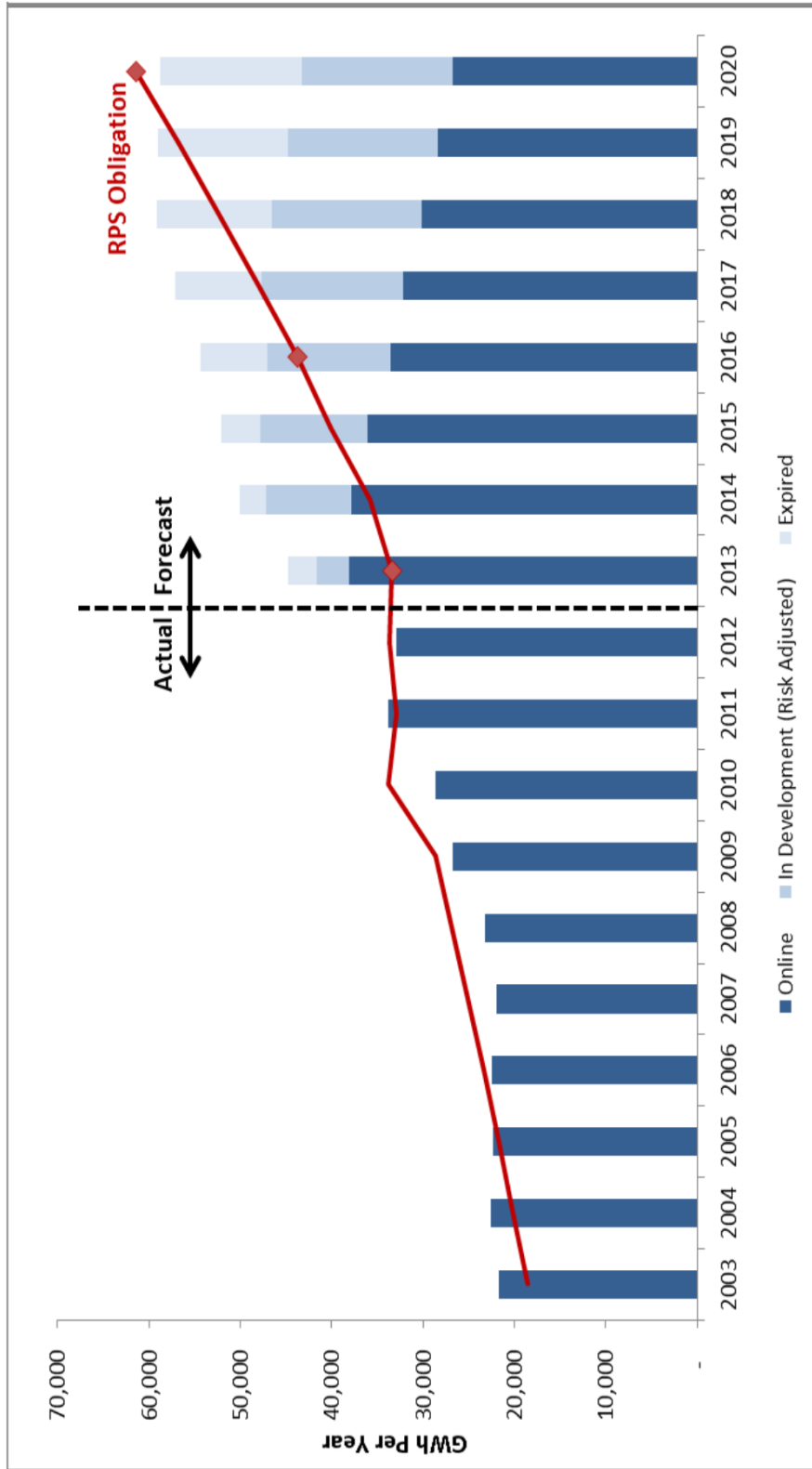
ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of Stacey J. Kusters

Existing & Projected REC Sales

January 2014

CALIFORNIA IOU PROGRESS TOWARDS 33% RENEWABLES, ACTUAL AND FORECASTED BY YEAR
 From California Public Utilities Commission Renewables Portfolio Standard Quarterly Report, 2nd Quarter 2013



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Rocky Mountain Power
Exhibit RMP___(SJK-6)
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ROCKY MOUNTAIN POWER

Confidential Exhibit Accompanying Direct Testimony of Stacey J. Kusters

Summary of the Leaning Juniper I Indemnity

January 2014

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