Exhibit No.:
Issues: Natural Gas Prices
Witness: Timothy D. Finnell
Sponsoring Party: Union Electric
Type of Exhibit: Cross-Surrebuttal Testimony
Case No.: EC-2002-1
Date Testimony Prepared: June 24, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EC-2002-1

CROSS-SURREBUTTAL TESTIMONY

OF

TIIMOTHY D. FINNELL

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
June, 2002

CROSS-SURREBUTTAL TESTIMONY

OF

TIMOTHY D. FINNELL

CASE NO. EC-2002-1

Q. Please state your name and business address.

A. My name is Timothy D. Finnell. My business address is 1901 Choteau Avenue St. Louis, Missouri 63103.

Q. Are you the same Timothy D. Finnell who previously filed rebuttal testimony in this proceeding?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the testimony of Missouri Office of the Public Counsel witness James A. Busch, which addresses the price of natural gas used by the company to generate electricity.

Q. What is Mr. Busch's recommendation?

A. Mr. Busch recommends that the price of natural gas used by the Company to generate electricity should be based on a three-year average, consisting of two years of historic price data and a third year of future price data.

Q. Do you agree with Mr. Busch's approach to calculating natural gas prices?

A. No, I disagree with Mr. Busch's approach for four reasons. First, Mr. Busch has provided no evidence that the gas costs actually incurred by the Company during the test year and update period were unusually high or in any way unreasonable.

Second, even if it were appropriate to normalize gas prices, it is not appropriate to use gas prices beyond the end of the update period in a normalization calculation. Mr. Busch's calculation violates the Commission's ordered test year. Third, Mr. Busch has inappropriately adjusted the price of gas during five of the months of the three year period he selected, simply because he believes that the gas prices were too high during those months. This selective adjustment of gas prices is opportunistic and unreasonable, even if it was otherwise appropriate to use a three-year average. Finally, Mr. Busch's analysis inappropriately fails to account for variations in the volume of gas used by the Company for electric generation from month to month. Instead Mr. Busch's use of an unweighted three-year average of monthly gas prices implicitly assumes that the Company uses the same amount of gas for electric generation for each month, which is simply not true. For all of these reasons, Mr. Busch's adjustment to gas prices incurred by the Company during the test year and update period for this case should be rejected.

Q. Please explain in more detail your first criticism of Mr. Busch's proposed adjustment?

A. In order for Mr. Busch to support any kind of an adjustment to the costs that the Company actually incurred in purchasing natural gas used for electric generation during the test year and update period in this case, it is incumbent upon Mr. Busch to show that the costs the Company incurred are not appropriate for use in this case. Mr. Busch's testimony completely fails to address this issue. Although Mr. Busch provides a general review of the changes in natural gas prices over the past few years, he does not even mention the costs the Company actually incurred for gas. Obviously the amount of cost the Company incurred depends on when and how much gas the Company

actually purchased, as well as the prevailing price of gas at the time the purchases were made. Since the Company's decision to purchase gas for electric generation depends, in part, on the price of the gas, the mere existence of high gas prices in the marketplace during certain periods does not mean that the Company actually paid high prices for gas used to generate electricity. In short, since Mr. Busch's testimony did not address the cost the Company actually incurred for gas used for electric generation, he has not provided the foundation to support any kind of adjustment to normalize that cost.

Q. Please explain in more detail your second criticism of Mr. Busch's proposed adjustment.

A. My second criticism of Mr. Busch's proposed adjustment is that he uses data in his three-year average from far past the end of the update period ordered by the Commission in this case (September 30, 2001). The two years of historic data that Mr. Busch uses extend to May 31, 2002—a full eight months beyond the update period. In addition, Mr. Busch incorporates a full additional future year in his calculation—June 2002 through May 2003—based on NYMEX futures strip prices. Mr. Busch's use of data almost two years past the update period for this case should not be permitted regardless of the other deficiencies in his proposal.

Q. Please explain in more detail your third criticism of Mr. Busch's proposed adjustment.

A. Incredibly, Mr. Busch made "adjustments" to the gas prices prevailing in five months of the 36-month period he himself selected, because he felt that the gas prices in those months were simply too high. Although Mr. Busch's entire adjustment is flawed for many reasons, his selective adjustment of gas prices during these months is

perhaps the most opportunistic and unreasonable aspect of his proposal. Moreover, since the five months that Mr. Busch adjusted all occurred during the test year for this case, Mr. Busch's calculation effectively eliminates gas prices prevailing in almost half of the months in the test year for this case. These adjustments are patently unreasonable and should obviously be rejected by the Commission.

Q. Please explain in more detail your fourth criticism of Mr. Busch's proposed adjustment.

A. Mr. Busch's proposed use of an average price for natural gas is flawed because it ignores the fact that the Company's use of natural gas for generation fluctuates from month to month. Some months the Company may use little or no natural gas for generation for a variety of reasons, including the relatively high cost of natural gas. In other months gas-fired generation may occur at a significantly higher level. Mr. Busch ignores this important aspect of the Company's use of natural gas in his calculation of natural gas costs, and for this reason as well his proposed adjustment should be rejected.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

The Staff of the Missouri Public Service Commission, Complainant,	)	
vs.	)	Case No. EC-2002-1
Union Electric Company, d/b/a AmerenUE, Respondent.	)	

AFFIDAVIT OF TIMOTHY D. FINNELL

STATE OF MISSOURI)
) **ss**
CITY OF ST. LOUIS)

Timothy D. Finnell, being first duly sworn on his oath, states:

1. My name is Timothy D. Finnell. I work in St. Louis, Missouri and I am employed by Ameren Services Company as Supervising Engineer of the Operations Analysis Group.

2. Attached hereto and made a part hereof for all purposes is my Cross-Surrebuttal Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 4 pages, which has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Timothy D. Finnell

Subscribed and sworn to before me this 21st day of June, 2002.

Notary Public

My commission expires:

DEBBY ANZALONE
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: April 18, 2006