

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Natural Gas Prices

Busch/Rebuttal

Public Counsel

ER-2001-672

REBUTTAL TESTIMONY
OF

FILED³

JAN 08 2002

JAMES A. BUSCH

Missouri Public
Service Commission

Submitted on Behalf of the Office of the Public Counsel

UtiliCorp United Inc.


Case No. ER-2001-672


January 8, 2002

In the Matter of the tariff filing of)
 UtiliCorp United Inc., ("UtiliCorp") to)
 implement a general rate increase for) Case No. ER-2001-672
 retail electric service provided to customers)
 in the Missouri service area.)

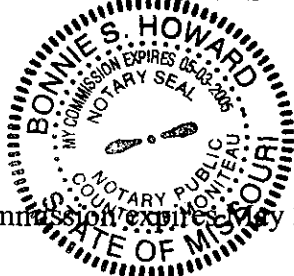
STATE OF MISSOURI)
)
COUNTY OF COLE) SS

1. My name is James A. Busch. I am the Public Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 4 and Schedule JAB-R1.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


James A. Busch


Bonnie S. Howard, Notary Public

My commission expires May 3, 2005.



REBUTTAL TESTIMONY

OF

JAMES A. BUSCH

CASE NO. ER-2001-672

UTILICORP UNITED, INC.

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 7800, Jefferson City, MO 65102.

Q. Are you the same James A. Busch who filed direct testimony in this case?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to comment on UtiliCorp's proposed methodology for determining the appropriate price to use for natural gas in the ultimate determination of rates in this case.

Q. What methodology did the Company support in its direct testimony in this proceeding?

A. In the Company's direct testimony, Mr. Stephen Ferry developed monthly prices of natural gas to input into the fuel model by utilizing actual NYMEX (New York Mercantile Exchange) prices for January, February, and March of 2001. Then, as a proxy for the months of April through December, he inflated the future prices for April – December 2001 by 30%. The time frame he used to determine the

1 futures prices was early spring 2001. This methodology comes up with an
2 exaggerated average price for natural gas of \$7.277 per MMBtu.

3 Q. What is the current 12-month futures strip for natural gas on the NYMEX?

4 A. The current 12-month futures strip for natural gas on the NYMEX as of January
5 4, 2002, is \$2.566 per MMBtu.

6 Q. Does UtiliCorp acknowledge that a true-up is needed to account for changes in
7 the price of natural gas compared to its \$7.277 per MMBtu natural gas price in its
8 model?

9 A. Yes. Mr. Gary Clemens in his direct testimony indicates that fuel costs are one of
10 the items that would be included in a true-up hearing.

11 Q. Do you believe that a true-up methodology is better than the system Mr. Ferry
12 used in his direct testimony to determine the price of natural gas?

13 A. It is better, but it is still deficient in determining an appropriate estimate price for
14 natural gas.

15 Q. Please explain.

16 A. As even Mr. Ferry indicated in his direct testimony, the initial numbers that
17 UtiliCorp used in developing its fuel run were artificially inflated. The stated
18 reason that UtiliCorp artificially inflated natural gas costs was that natural gas
19 costs are volatile and if natural gas prices rose after UtiliCorp's initial filing, the
20 Company would not be allowed to ask for any additional revenue if natural gas
21 prices increased. However, utilizing one-year's worth of data for determining the
22 appropriate natural gas price to include in the fuel run is not a reasonable
23 approach. As everyone saw during last winter's natural gas price run-up, the

1 price for natural gas over the short-term can increase dramatically. Basing the
2 price of natural gas to use in a fuel run on an one-year period can lead to prices far
3 above or below what can reasonably be expected to occur in the future. A better
4 approach used to some extent by both Public Counsel and Staff utilizes a longer
5 time frame. I used a combination of both historical prices and futures prices.
6 Staff used a four-year historical average. The combination method has the
7 advantage of looking at both the past to determine what the price has actually
8 been in the past and the futures market to determine what the market may be in
9 the future. I believe Public Counsel's methodology is the most reasonable
10 approach to determine the price of natural gas.

11 Q. What price did you recommend for natural gas in your direct testimony?

12 A. My recommendation was \$2.78 per MMBtu.

13 Q. What impact would your recommendation have on UtiliCorp's filed case if the
14 Commission accepts your number instead of UtiliCorp's \$7.00 figure?

15 A. On page 16 of his direct testimony, Mr. Ferry indicates that if UtiliCorp had filed
16 its case with a \$4 price for natural gas instead of its \$7 price, the filed case would
17 have been approximately \$25 million instead of the requested \$49 million. This
18 difference assumes that each \$1 of natural gas costs is equivalent to an \$8 million
19 revenue requirement adjustment ($\$49 \text{ mil} - \$25 \text{ mil} = \$24 \text{ mil}$ divided by \$3 (\$7 -
20 \$4)). Based on this assumption, dropping the price to less than \$3.00 per
21 MMBtu, based on Public Counsel's recommendation, would bring the filed case
22 down to approximately \$17 million, holding all other issues constant.

23 Q. What would the price of natural gas be if trued-up to actuals as of January 2002?

1 A. Attached as Schedule JAB-R1 is a chart that shows the actual NYMEX monthly
2 settlements for the 12-months February 2001 – January 2002. The chart indicates
3 that the average price of natural gas for those 12 months is \$3.654 per MMBtu.
4 Considering that the current 12-month futures strip is around \$2.60 per MMBtu,
5 allowing the Company to utilize a price that is \$1 above the current price would
6 lead to substantial excess profit opportunities for the Company.

7 Q. How could the Company exploit these excessive profit opportunities if the price
8 used in the fuel run to determine rates is \$1 greater than current prices?

9 A. The Company could benefit substantially by merely locking in a price of natural
10 gas on the futures market that is below the price level built into rates.

11 Q. Does this conclude your rebuttal testimony at this time?

12 A. Yes it does.

OFFICE OF PUBLIC COUNSEL

UtiliCorp United, Inc

Case No. ER-2001-672

Actual NYMEX Settled Prices February 2001 - January 2002

<u>Month</u>	<u>NYMEX Settle</u>
Feb-01	\$ 6.293
Mar-01	\$ 4.998
Apr-01	\$ 5.384
May-01	\$ 4.891
Jun-01	\$ 3.738
Jul-01	\$ 3.182
Aug-01	\$ 3.167
Sep-01	\$ 2.295
Oct-01	\$ 1.830
Nov-01	\$ 3.202
Dec-01	\$ 2.316
Jan-02	\$ 2.555
Average	\$ 3.654