Exhibit No.:	
Issue(s):	Natural Gas Prices
Witness/Type of Exhibit:	Busch/Direct
Sponsoring Party:	Public Counsel
Case No.:	ER-2001-672

DIRECT TESTIMONY

OF

JAMES A. BUSCH

Submitted on Behalf of the Office of the Public Counsel

UtiliCorp United Inc.

Case No. ER-2001-672

December 6, 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James A. Busch, of lawful age and being first duly sworn, deposes and states:

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 direct testimony consisting of pages 1 through 9 and Schedules JAB-1 through JAB-3.

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

Subscribed and sworn to me this 6th day of December, 2001.

Bonnie S. Howard, Notary Public

My commission expires May 3, 2005.

DIRECT 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. By whom are you employed and in what capacity?

A. I am a Public Utility Economist with the Missouri Office of the Public Counsel (Public Counsel).

Q. Please describe your educational and professional background.

A. In June 1993, I received a Bachelor of Science degree in Economics from Southern Illinois University at Edwardsville (SIUE), Edwardsville, Illinois. In May 1995, I received a Master of Science degree in Economics, also from SIUE. I am currently a member of the American Economic Association and Omicron Delta Epsilon, an honorary economics society. Prior to joining Public Counsel, I worked just over two years with the Missouri Public Service Commission as a Regulatory Economist in the Procurement Analysis Department and worked one year with the Missouri Department of Economic Development as a Research Analyst. I accepted my current position with Public Counsel in September 1999. Further, I also am a member of the adjunct faculty of Columbia College, Jefferson

City Campus, teaching Managerial Economics in the MBA program and Undergraduate courses in Economics.

Q. Have you previously testified before this Commission?

A. Yes. Attached is Schedule JAB-1 which is a list of the cases in which I have filed testimony before this Commission.

Q. What is the purpose of your testimony in Case No. ER-2001-672?

A. The purpose of my testimony is to present Public Counsel's recommendation for natural gas costs that should be included in UtiliCorp United, Inc.'s (UCU, UtiliCorp, or Company) rates.

Q. How is your testimony organized?

A. My testimony is organized in the following manner. First, I will briefly discuss the movement of the price of natural gas over the past year, current market conditions, and potential future movements in the price of natural gas. Then I will give Public Counsel's recommendation for setting the price of natural gas in this case that is used in the calculation of UtiliCorp's revenue requirement.

Natural Gas Price Movement during the Past Year

Q. What happened to the price of natural gas during the year 2001?

A. January 2001 saw the highest price of natural gas for a monthly settlement ever on the New York Mercantile Exchange (NYMEX). The price for natural gas settled at $9.98 per MMBtu. This price was over two times the previous highest January settlement price. Since then, the price of natural gas at the NYMEX has steadily dropped throughout the year with a minor bump in prices for the month of

November. The December 2001 contract just expired at the end of November at $2.316 per MMBtu. This price is almost $4.00 per MMBtu below last December's settle of $6.016 per MMBtu. The current price for the January contract (as of December 3, 2001) is $2.634 per MMBtu. Attached, as Schedule JAB-2 are graphs that show the monthly settlements for natural gas at the NYMEX for the year 2001 and for the past five years.

Q. What factors have contributed to the sustained decrease in the price of natural gas during the year 2001?

A. There were many factors that contributed to the sustained decrease in the price of natural gas during the year 2001. I will briefly describe some of the most important factors.

The first factor was the price of natural gas itself. Due to the extremely high prices of natural gas experienced during the second half of 2001, companies expanded their drilling activity for new natural gas wells in an effort to capture the higher prices that the nation was paying last year. As more rigs were coming on line, this helped to increase the overall availability of supply to the market. More supply will help lead to lower prices.

The second factor was the economy. The National Bureau of Economic Research states that the nation's economy has been in a recession since March. Due to the slowdown of our economy, industrial and electric generation demand for natural gas and oil has declined compared to previous years. A reduction in demand will help lead to lower prices.

The combination of the first two factors led to a third factor. The combination of increasing supply and decreasing demand lead to record levels of natural gas being injected into storage during most of the summer. This can be seen from two perspectives. One, during the price run-up of 2000, the industry was reluctant to put natural gas into storage when the price initially spiked over $4.00 per MMBtu in early May 2000. This year, after seeing the price go up to $10.00 per MMBtu, a storage price of $4.00 per MMBtu did not seem so bad. Therefore, the industry was putting natural gas in storage at what normally would have been high prices. Two, with little demand for natural gas due to the sluggish economy, there was more natural gas available to be put in storage without exerting pressure on the price to go higher. These two factors have contributed to the highest levels of storage as reported by the American Gas Association.

A fourth factor is the current warm weather being experienced around most of the nation. Gas storage was at near record high levels at the start of the current winter heating season (November – March). The weather has been relatively warm throughout the country, especially considering that last November and December had near record cold weather throughout most of the nation. This has meant very little demand for natural gas so far this winter. In fact, there has not been a net withdrawal from storage so far this season, with net injections occurring instead. This has added to the pressures to keep prices lower.

Current Conditions in the Natural Gas Market

Q. What are the current conditions in the natural gas market?

A. Currently, the natural gas market is one month into the five-month winter heating season. Storage levels are at all-time highs, and the weather has been extremely mild with little cold weather forecasted in the near future. The December contract on the NYMEX closed substantially lower than the November contract. The cash price at the Henry Hub, the physical location where NYMEX gas is traded, is around $2.00 per MMBtu.

Potential Future Movement of the Price of Natural Gas

Q. What is the outlook for the price of natural gas for the rest of this winter's heating season?

A. I believe the price of natural gas is probably going to remain constant or fall for the rest of this winter heating season. I base this outlook on the record high levels of storage, the relatively mild winter weather throughout the country, and the slumping economy. If a significant change in weather, i.e. a sustained period of arctic air over much of the country, occurs in the next month or so, there may be some pressure on prices to increase. Assuming normal weather, I believe the fundamentals in the market point to generally falling prices over the next few months.

Q. What is the outlook for the price of natural gas for the year 2002 and beyond?

A. Assuming normal winter weather and relatively low natural gas prices, the market should enter the injection season in pretty good shape. The outlook will depend upon how the overall economy is doing at that time and the forecast for summer weather. If the economy is starting to perk up by this summer, that will put

upward pressure on the price of natural gas. However, normal winter weather coupled with initial high storage should leave plenty of natural gas in storage entering the injection season. That should help offset an increase in demand by the industrial sector, or an increase due to an increase in the need for electric generation. I would project that the natural gas industry is entering a period when the price of natural gas will fluctuate between $2.00 per MMBtu and $4.00 per MMBtu, depending upon short-term fluctuations due to weather and other factors. This is a slightly higher band than what the industry had experienced prior to the year 2000.

Public Counsel's Recommendation

Q. Based on your above discussion, what is Public Counsel's recommendation for the price of natural gas to be imbedded in rates in this case?

A. In this case, I believe that the price of natural gas to be associated with electric generation and purchased power fuel costs should be based on a three-year average of natural gas prices adjusted for any basis differential. The three years that I have utilized to calculate this average are the actual settlement prices based on the NYMEX for the two years ended December 31, 2000 and the 12-month futures strip price. Therefore, the underlying price of natural gas would be $2.78 per MMBtu as adjusted for the basis differential between Williams Natural Gas Pipeline (WNG) and the NYMEX.

Q. What is basis differential?

A. Basis differential is the price difference between two separate delivery points for natural gas. In this instance, UCU receives its natural gas supplies off of the WNG pipeline. This pipeline is based primarily in the Mid-continent area (Kansas and Oklahoma). The NYMEX prices are based on the Henry Hub index in Louisiana. Since these areas are different, each has its own pricing variations. However, these prices move in relatively the same manner. However, to get a clearer picture of the price that the Company will actually pay for natural gas, the NYMEX prices should be adjusted by the historical price differential between the Henry Hub and the actual location where the Company receives its supplies.

Q. Why did you utilize this type of three-year average for the basis of Public Counsel's recommendation?

A. I utilized this hybrid approach of historical and future data in recognition of the volatility of the natural gas market. Although the past is important for realizing the actual activity of the Company and the market, the past may not be a good predictor of future price movements. However, simply picking a date and using the 12-month strip of futures prices for natural gas prices lacks reliability. I believe that combining the past with the future provides a better basis for establishing the price level for natural gas the Commission should utilize in determining the Company's overall rates.

Q. On what pricing information is Public Counsel's recommendation based?

A. The pricing information is based on the NYMEX monthly settlement prices for the months January 1999 – December 2000 and the 12-month futures strip, January 2002 – December 2002. The prices based on the NYMEX were utilized

because this data is readily available and an accurate reflection of actual market activity. Attached, as Schedule JAB-3 is a list of the monthly data that I used to make my recommendation.

Q. Did you adjust any of the historical data from the NYMEX?

A. Yes. When analyzing the monthly data from the year 2000 these prices were, for the most part, extremely high compared to past price levels. In fact, two months, October and December, seemed to be extreme outliers. October's settled price was $5.310 per MMBtu and December's settled price was $6.016. I believe these two prices are anomalies and I replaced them with the previous monthly highs for those months, $3.346 and $3.901 respectively.

Q. Have you performed a calculation to see how your recommended price of $2.78 per MMBtu would change if these anomalies in October and December prices were not adjusted to reflect the previous monthly highs for those two months?

A. Yes. If I had not made the adjustments to the data for October and December of 2000 then my recommended price would be $2.89 per MMBtu.

Q. Why did you remove the anomaly prices from your calculation?

A. The prices for the months of June – December 2000 that I used in my calculation were the highest ever for those particular months. The prices for September, October, and December were over 50% greater than the next highest price for those months, respectively. I changed October and December's prices because those prices were over $5.00 per MMBtu which is more than a dollar above my $2.00 to $4.00 per MMBtu band that I believe natural gas will be over the next few years.

Q. Does this conclude your direct testimony?

A. Yes it does.

Cases of Filed Testimony
James A. Busch

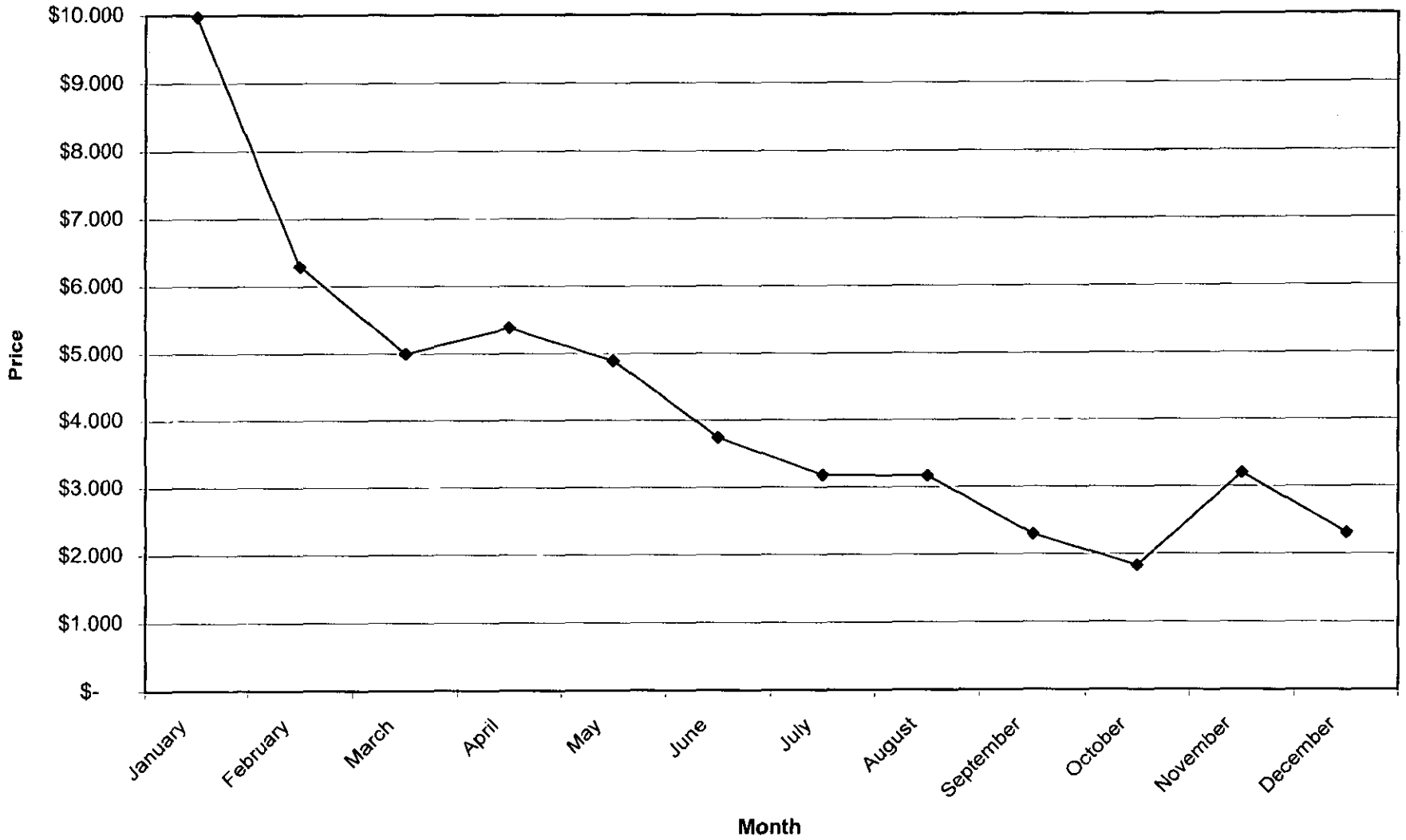
Company	Case No.
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629

OFFICE OF PUBLIC COUNSEL

UtiliCorp United Inc.

Case No. ER-2001-672

2001 Monthly NYMEX Settlement Prices



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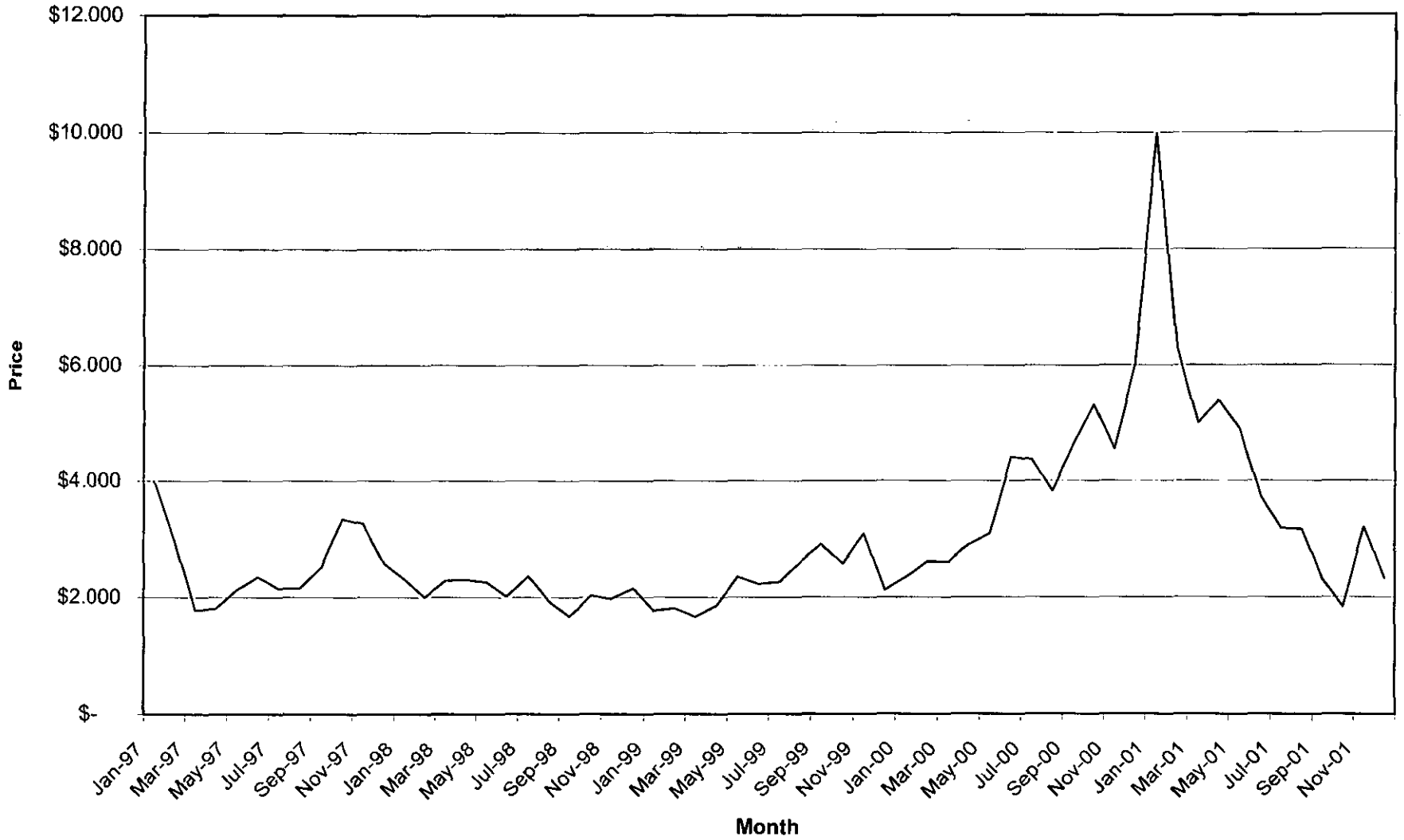
ER-2001-672

5-Year NYMEX Monthly Settlement Prices



OFFICE OF PUBLIC COUNSEL

UtiliCorp United Inc.
Case No. ER-2001-672
Historical and Future Prices

Month	Price	NYMEX Settles	WNG First-of-Month Price	Basis Differential
Jan-99	$ 1.765	$ 1.765	$ 1.78	(0.02)
Feb-99	$ 1.810	$ 1.810	$ 1.75	0.06
Mar-99	$ 1.666	$ 1.666	$ 1.57	0.10
Apr-99	$ 1.852	$ 1.852	$ 1.74	0.11
May-99	$ 2.348	$ 2.348	$ 2.22	0.13
Jun-99	$ 2.226	$ 2.226	$ 2.12	0.11
Jul-99	$ 2.262	$ 2.262	$ 2.17	0.09
Aug-99	$ 2.601	$ 2.601	$ 2.50	0.10
Sep-99	$ 2.912	$ 2.912	$ 2.77	0.14
Oct-99	$ 2.570	$ 2.570	$ 2.43	0.14
Nov-99	$ 3.092	$ 3.092	$ 2.94	0.15
Dec-99	$ 2.120	$ 2.120	$ 2.06	0.06
Jan-00	$ 2.344	$ 2.344	$ 2.25	0.09
Feb-00	$ 2.610	$ 2.610	$ 2.49	0.12
Mar-00	$ 2.603	$ 2.603	$ 2.47	0.13
Apr-00	$ 2.900	$ 2.900	$ 2.79	0.11
May-00	$ 3.089	$ 3.089	$ 2.94	0.15
Jun-00	$ 4.406	$ 4.406	$ 4.19	0.22
Jul-00	$ 4.369	$ 4.369	$ 4.20	0.17
Aug-00	$ 3.820	$ 3.820	$ 3.69	0.13
Sep-00	$ 4.618	$ 4.618	$ 4.50	0.12
Oct-00	**$ 3.346**	$ 5.310	$ 5.19	0.12
Nov-00	$ 4.541	$ 4.541	$ 4.43	0.11
Dec-00	**$ 3.901**	$ 6.016	$ 5.90	0.12
NG 01 02	$ 2.634	Basis Differential		0.12
NG 02 02	$ 2.746			
NG 03 02	$ 2.763			
NG 04 02	$ 2.730			
NG 05 02	$ 2.768			
NG 06 02	$ 2.818			
NG 07 02	$ 2.860			
NG 08 02	$ 2.903			
NG 09 02	$ 2.899			
NG 10 02	$ 2.922			
NG 11 02	$ 3.119			
NG 12 02	$ 3.306			
3-year avg	**$ 2.90**			
OPC Recommendation	**$ 2.78**			

Schedule JAB-3