

Exhibit No.: _____

Issue(s):

Natural Gas Prices

Witness/Type of Exhibit:

Busch/Rebuttal

Sponsoring Party:

Public Counsel

Case No.:

ER-2001-299

REBUTTAL TESTIMONY **FILED**

OF

MAY 3 2001

JAMES A. BUSCH

Missouri Public
Service Commission

Submitted on Behalf of the Office of the Public Counsel

The Empire District Electric Company

Case No. ER-2001-299

May 3, 2001

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of The Empire District Electric)
Company's tariff sheets designed to implement)
a general rate increase for retail electric service)
provided to customers in the Missouri service)
area of the company.)

Case No. ER-2001-299

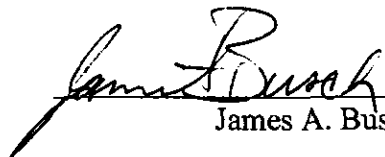
AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
)
COUNTY OF COLE)

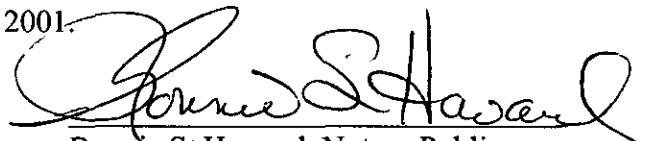
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James A. Busch, of lawful age and being first duly sworn, deposes and states:

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 rebuttal testimony consisting of pages 1 through 3 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

Subscribed and sworn to me this 3rd day of May, 2001.


Bonnie S. Howard, Notary Public

My Commission expires May 3, 2001.

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1 Q. Are there other points that you want to provide at this time regarding futures
2 prices?

3 A. Yes. As Mr. Kaplan states in his direct testimony, the price of natural gas is
4 volatile. The futures market for natural gas is extremely volatile at this time. The
5 use of a futures strip to establish permanent rates using such an index is
6 detrimental to the ratepayers because it exposes the ratepayers to the volatility
7 inherent in the futures market.

8 Q. Why is the use of the futures strip to determine permanent rates detrimental to the
9 ratepayers?

10 A. Depending upon the Company's motivation and time frame for overall rates, the
11 setting of natural gas costs in permanent rates by using the futures strip could
12 force ratepayers to pay rates higher than cost, while given the Company future
13 opportunity to profit. This would occur because the Company could lock in
14 prices based on the futures strip, guaranteeing it will not have to pay above the
15 amount put in rates. However, if the Company waits to see if the price falls, it
16 will then lock-in a lower rate, meaning the Company profits because the
17 ratepayers are paying the higher amount. The Company therefore has a
18 risk/reward opportunity, while the ratepayers who regardless of the Company's
19 actions are paying rates based on the futures market are thus put in the situation of
20 only having the risk of the futures market with no potential reward. Utilizing a
21 hybrid approach like the one I recommended in my direct testimony, equalizes
22 this risk/reward potential between the Company and the ratepayers.

1 Q. What has been the movement of the 12-months future strip over the past few
2 months?

3 A. On March 1, the 12-month futures strip price was \$5.313 per MMBtu. On April
4 2, the strip price was \$5.151 per MMBtu. On May 1, it was \$.4849 per MMBtu.
5 In fact, on April 24, one week prior to May 1, the price was \$5.261.

6 Q. What do these numbers show?

7 A. These prices show that the use of a futures strip by itself, to set permanent rates, is
8 highly unstable, and depending upon the date used to set the price could have a
9 big impact on the rates the ratepayers pay.

10 Q. Please describe schedule JAB-R1.

11 A. Schedule JAB-R1 is a graph showing the volatility of the 12-months future strip
12 price since the beginning of February compared with the relatively more stable
13 combination of historical data and the futures strip.

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

15 A. Yes it does.

OFFICE OF PUBLIC COUNSEL

Empire District Electric Company

ER-2001-299

Comparison Between 12-month and Combination

