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APR 29 2004  
Missouri Public  
Service Commission

Exhibit No.: 3

Issues: Deposit Interest Rate;  
Late Payment Charge

Witness: William L. McDuffey  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: ER-2004-0034 &  
HR-2004-0024

Date Testimony Prepared: December 18, 2003

**MISSOURI PUBLIC SERVICE COMMISSION  
UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**WILLIAM L. MCDUFFEY**

**AQUILA, INC.  
D/B/A AQUILA NETWORKS--MPS  
AND AQUILA NETWORKS--L&P**

**CASE NO. ER-2004-0034 & HR-2004-0024  
(CONSOLIDATED)**

Jefferson City, Missouri  
December 2003

Exhibit No. 131  
Case No(s) ER-2004-0034  
Date 2/23/05 Rptr XF

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

In The Matter Of Aquila, Inc. D/B/A Aquila )  
Networks L&P And Aquila Networks MPS )  
To Implement A General Rate Increase In ) Case No. ER-2004-0034 &  
Electricity ) HR-2004-0024 (Consolidated)

**AFFIDAVIT OF WILLIAM L. MCDUFFEY**

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF COLE        )

William L. McDuffey, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 5 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

*William L. McDuffey*  
\_\_\_\_\_  
William L. McDuffey

Subscribed and sworn to before me this 17<sup>th</sup> day of December, 2003.

My commission expires \_\_\_\_\_  
*Dawn L. Hake*  
\_\_\_\_\_  
Notary Public  
Dawn L. Hake  
Notary Public - State of Missouri  
County of Cole  
Jan 9, 2005

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**DIRECT TESTIMONY**  
**OF**  
**WILLIAM L. MCDUFFEY**  
**AQUILA, INC.**  
**D/B/A AQUILA NETWORKS-MPS**  
**AND AQUILA NETWORKS-L&P**  
**CASE NOS. ER-2004-0034 AND HR-2004-0024**  
**(CONSOLIDATED)**

Q. Please state your name and business address.

A. William "Mack" L. McDuffey, 200 Madison Street, Jefferson City, Missouri 65101.

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

A. I am employed by the Missouri Public Service Commission (Commission) as a Rate & Tariff Examiner in the Energy Department of the Utility Operations Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since October, 1978.

Q. Have you previously testified before this Commission?

A. Yes, I have filed expert testimony in fourteen contested cases. In addition, I have been responsible for preparing Staff's recommendations in memorandum form in numerous tariff filings and tariff cases.

Q. Please describe your experience, education and qualifications.

Direct Testimony of  
William L. McDuffey

1           A.     I have 25 years of experience working with electric, gas, and steam utility  
2 tariff issues. I review filed tariffs for technical and clerical changes, work with regulated  
3 electric and steam utilities on rules and regulations revisions, address customer  
4 complaints, compile statistical data, respond to document requests, prepare records for  
5 microfilming, update various internal Commission records and maps, and verify service  
6 area descriptions in territorial agreements cases and present testimony in formal  
7 proceedings before the Commission.

8           In 1971, I received a Bachelor of Science degree in Business Administration from  
9 Southwestern State College of Weatherford, Oklahoma. Upon graduation, I worked one  
10 year for Caddo Electric Cooperative of Binger, Oklahoma, in the Engineering  
11 Department. I assumed an Engineering Technician position with Oklahoma Gas and  
12 Electric Company of Oklahoma City, for five years prior to my employment with the  
13 Commission.

14           Q.     What is the purpose of your direct testimony in this case?

15           A.     The purpose of my direct testimony is to present the Staff's proposed  
16 changes to the interest paid on customer deposits and the late payment charges applicable  
17 to the electric operations of Aquila, Inc. ("Aquila") d/b/a Aquila Networks-L&P ("L&P")  
18 and Aquila Networks-MPS ("MPS").

19           **DEPOSIT INTEREST RATE**

20           Q.     What is the Staff's recommendation regarding the interest rate the  
21 Company should pay on customer deposits?

1           A.     The Staff recommends that the annual applicable interest rate should be  
2 one percentage point above the prime rate published in the Wall Street Journal on the last  
3 December business day of the prior year with the exception that would be required by  
4 Commission rule. This approach is consistent with the Commission's rule regarding  
5 telephone utilities (4 CSR 240-33.050) and has previously been approved by the  
6 Commission for Laclede Gas Company, The Empire District Electric Company, and  
7 Union Electric Company, d/b/a AmerenUE (electric).<sup>1</sup> Staff has recently recommended  
8 and all parties have agreed to this treatment for Union Electric Company, d/b/a  
9 AmerenUE in its current natural gas rate case, Case No. GR-2003-0517.

10           Q.     What would be the currently effective interest rate based on Staff's  
11 proposal?

12           A.     The Staff's proposal would result in an interest rate of 5.25%. This equates  
13 to one percentage point above the prime rate of 4.25% effective on the last business day  
14 of December, 2002 as published in the Wall Street Journal.

15           Q.     What is the current prime rate?

16           A.     The current prime rate, as of December 18, 2003 is 4.00%. If the prime  
17 rate remains at 4.00% through the end of December, the Staff's proposal would result in  
18 5.00% interest being paid on customer deposits in 2004.

19           Q.     What interest rate does Aquila currently pay on customer deposits?

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<sup>1</sup> For AmerenUE, the rate of interest applicable in each year is one percentage point above the prime rate published in the Wall Street Journal as being in effect on the last business day of November of the prior year.

1           A.     The Aquila Networks-L&P tariff currently provides for a fixed rate of  
2 interest of 6.00% on customer deposits. The Aquila Networks-MPS tariff currently  
3 provides for a fixed rate of interest of 9.50%.on customer deposits.

4           Q.     Is there a financial impact of adopting this proposed change?

5           A.     Yes. The Staff's determination of MPS's and L&P's revenue shortfall  
6 incorporates this proposed change in the interest paid on customer deposits and is  
7 described in the direct testimony, filed on December 9, 2003, of Staff witness Lesley R.  
8 Preston.

9           **LATE PAYMENT CHARGE**

10          Q.     What are Aquila's current Late Payment Charges?

11          A.     L&P's current charge is 1.25% on unpaid bill. MPS's current charge is  
12 1.50% on unpaid bills. The current annual rate for MPS's late payment charge is equal to  
13 18 percent (15% for L&P), and when compounded, could easily exceed the 18 percent  
14 per annum (15% for L&P).

15          Q.     What change is Staff proposing to the late payment charges on delinquent  
16 bills?

17          A.     Staff is proposing that the late payment charges on delinquent bills be  
18 changed to a simple ½ percent per month of the original net amount due on the  
19 delinquent bill. In other words, the late payment charge would not be applied to a  
20 previous late charge balance, thus eliminating the compounding effect of the late  
21 payment charge. This proposed late payment charge rate would be a simple annual rate  
22 of 6 percent.

Direct Testimony of  
William L. McDuffey

1 Q. Why is Staff proposing this change?

2 A. Staff believes this change reduces the late penalty charge for delinquent  
3 bills to correctly reflect current interest rates and the cost to the Company to carry a  
4 customer's bill for an additional billing period. The Company is currently borrowing  
5 money at or below the 6 percent rate proposed by the Staff. As noted above, the current  
6 late payment charge rate could exceed 18 percent when computed on an annual basis.  
7 This compounds the difficulty customers have when paying their electric bills.

8 Q. Does Staff have a recommendation regarding the late penalty charge  
9 assessed to customers applying for assistance through the Low Income Home Energy  
10 Assistance Program (LIHEAP) or Energy Crisis Intervention Program (ECIP)?

11 A. Yes. The Staff recommends that any late payment charges that accrue  
12 during the time that the energy assistance money (LIHEAP or ECIP) is being credited  
13 against a customer's bill should be waived. The Staff recognizes that there exists a time  
14 lag between customer's bills and the distribution of the energy assistance grants. During  
15 this time lag, the Staff does not feel a customer should be required to pay late payment  
16 charges.

17 Q. Is there a financial impact of adopting these proposed changes?

18 A. These changes will have a financial impact on the effected customers;  
19 however, there will be no impact on Aquila. The proposed percentage increase in  
20 Aquila's rates will be adjusted to reflect any change in late payment charges.

21 Q. Does this conclude your direct testimony?

22 A. Yes, it does.