

Exhibit No.: 1,131

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

Date Testimony Prepared: December 18, 2003 as modified February 27, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

FILED³

MAY 10 2004

Missouri Public
Service Commission

DIRECT TESTIMONY

OF

WILLIAM L. MCDUFFEY

**AQUILA, INC.
D/B/A AQUILA NETWORKS--MPS**

CASE NO. ER-2004-0034

Jefferson City, Missouri
December 2003

Exhibit No. 1131
Case No(s) ER-2004-0034
Date 3-1-04 Rpt. JU

TABLE OF CONTENTS

1

2

3 Deposit Interest Rate..... 2

4 Late Payment Charge..... 4

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
18 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?

Direct Testimony of
William L. McDuffey

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).¹ 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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21

¹ 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.

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The Aquila Networks-MPS tariff currently provides for a fixed rate of interest of 9.50% on customer deposits.

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

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

LATE PAYMENT CHARGE

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

A. . MPS's current charge is 1.50% on unpaid bills. The current annual rate for MPS's late payment charge is equal to 18 percent and when compounded, could easily exceed the 18 percent per annum.

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

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