

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Before Commissioners: Jay Scott Emler, Chairman
 Shari Feist Albrecht
 Pat Apple

In The Matter Of The General Investigation)
Into The Interest Rate Paid On Deposits Of) Docket No. 98-GIMX-348-GIV
Customers Of Municipal And Privately)
Owned Utilities)

ORDER

Now, the above-captioned matter comes on for consideration and determination before the State Corporation Commission of the State of Kansas (Commission) on its own motion to determine the appropriate interest rate to be paid on customer deposits. Having reviewed its files and being duly advised in the premises, the Commission finds and concludes as follows:

I. INTRODUCTION

1. By Commission Order dated December 3, 1982, the Commission established the minimum interest rate to be paid on security deposits pursuant to K.S.A. 12-822. The Commission further directed its Staff to review the established interest rate each November to determine the appropriate interest rate to be paid on customer deposits for the next 12 months. Additionally, the Commission directed interested parties to submit recommendations to the Commission no later than November 30th of each year.

2. In its December 18, 1991, memorandum to the Commission, Staff recommended that the interest rate paid on security deposits should match the interest rates available to consumers on investments which are of very low risk and one year in duration. One-year Treasury Notes (T-Notes) and one year certificates of deposit (CD) are the investment vehicles Staff had relied on in the past two investigations.

3. In its January 12, 1993, Order, the Commission determined that the interest rate paid per annum on security deposits shall be indexed to the yield on one year T-Notes and adjusted each December 1st for the upcoming calendar year.

II. ANALYSIS

4. On December 1, 2016, the yield to maturity on One Year T-Notes closed at 0.82% as reported in the Federal Reserve Board publication *Selected Interest Rates (Daily) - H.15*.

5. Staff recommends the minimum interest rate paid on customer security deposits for calendar year 2017 be set at 0.82%.

IT IS, THEREFORE, BY THE COMMISSION ORDERED:

- A. The minimum interest rate paid on security deposits pursuant to K.S.A. 12-822 shall be 0.82% for calendar year 2017.
- B. The parties have 15 days, plus three days if service of this Order is by mail, from the date of this Order in which to request rehearing on any matter decided herein.
- C. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

BY THE COMMISSION IT IS SO ORDERED.

Emler, Chairman; Albrecht, Commissioner; Apple, Commissioner

Dated: _____

JF

Amy L. Green
Secretary to the Commission

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Jay Scott Emler
Commissioner Shari Feist Albrecht
Commissioner Pat Apple

FROM: Adam Gatewood, Managing Financial Analyst
Justin Grady, Chief Auditor of Accounting
Jeff McClanahan, Director of Utilities

DATE: December 8, 2016

SUBJECT: In the Matter of the General Investigation into the Interest Rate Paid on
Deposits of Customers of Municipal and Privately Owned Utilities
Docket No. 98-GIMX-348-GIV

EXECUTIVE SUMMARY:

Staff recommends an interest rate on security deposits of 0.82% for calendar year 2017.

BACKGROUND:

K.S.A. §12-822, along with related KCC rules and regulations, allows utility companies, cities and municipalities in Kansas to collect security deposits from consumers. Whenever a utility holds a security deposit, it is required to pay interest to the consumer. The KCC is charged with setting that interest rate.

In January of 1993, the Commission adopted Staff's recommendation to index the interest rate on security deposits to the interest rate of the One-Year United States Treasury Note. The Commission's Order directed Staff to reset the interest rate on December 1st for the upcoming calendar year. The Commission reasoned that this is a sound methodology because it ensures consumers will receive interest on their deposits that is comparable to the prevailing interest rate available on a risk-free investment. The 98-GIMX-348-GIV Docket is the repository for Memorandums and Orders on this issue.

ANALYSIS:

The Federal Reserve Board reports daily yields on public debt at its website through its publication *Selected Interest Rates (Daily) - H.15* (see attachment). On December 1, 2016, the yield to maturity on One-Year Treasury Notes closed at 0.82% (see attachment).

RECOMMENDATION:

Staff recommends that Commission set the interest rate on security deposits at 0.82% for calendar year 2017.

Selected Interest Rates (Daily) - H.15

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H.15 Selected Interest Rates

The release is posted daily Monday through Friday at 4:15pm. The release is not posted on holidays or in the event that the Board is closed.

December 8, 2016 Selected Interest Rates

Yields in percent per annum

| Instruments | 2016 Dec 1 | 2016 Dec 2 | 2016 Dec 5 | 2016 Dec 6 | 2016 Dec 7 |
|--|------------------|------------------|------------------|------------------|------------------|
| Federal funds (effective) ^{1 2 3} | 0.41 | 0.41 | 0.41 | 0.41 | 0.41 |
| Commercial Paper ^{3 4 5 6} | | | | | |
| Nonfinancial | | | | | |
| 1-month | 0.47 | 0.50 | 0.50 | 0.51 | 0.54 |
| 2-month | 0.56 | 0.62 | 0.58 | 0.62 | 0.64 |
| 3-month | 0.71 | 0.70 | 0.65 | 0.73 | 0.72 |
| Financial | | | | | |
| 1-month | 0.45 | n.a. | 0.50 | 0.46 | 0.50 |
| 2-month | 0.62 | n.a. | 0.63 | 0.61 | 0.59 |
| 3-month | 0.74 | 0.77 | 0.75 | 0.73 | 0.69 |
| Bank prime loan ^{2 3 7} | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| Discount window primary credit ^{2 8} | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| U.S. government securities | | | | | |
| Treasury bills (secondary market) ^{3 4} | | | | | |
| 4-week | 0.31 | 0.32 | 0.31 | 0.34 | 0.37 |
| 3-month | 0.47 | 0.48 | 0.49 | 0.49 | 0.51 |
| 6-month | 0.59 | 0.60 | 0.62 | 0.62 | 0.62 |
| 1-year | 0.78 | 0.76 | 0.78 | 0.81 | 0.83 |
| Treasury constant maturities | | | | | |
| Nominal ⁹ | | | | | |
| 1-month | 0.32 | 0.34 | 0.34 | 0.35 | 0.38 |
| 3-month | 0.48 | 0.49 | 0.49 | 0.49 | 0.52 |
| 6-month | 0.60 | 0.61 | 0.63 | 0.63 | 0.63 |
| * 1-year * | * 0.82 | 0.80 | 0.82 | 0.83 | 0.85 |

| Instruments | 2016 Dec 1 | 2016 Dec 2 | 2016 Dec 5 | 2016 Dec 6 | 2016 Dec 7 |
|--|------------------|------------------|------------------|------------------|------------------|
| 2-year | 1.14 | 1.11 | 1.13 | 1.12 | 1.10 |
| 3-year | 1.45 | 1.40 | 1.42 | 1.41 | 1.39 |
| 5-year | 1.90 | 1.84 | 1.84 | 1.84 | 1.80 |
| 7-year | 2.25 | 2.20 | 2.19 | 2.18 | 2.14 |
| 10-year | 2.45 | 2.40 | 2.39 | 2.39 | 2.34 |
| 20-year | 2.82 | 2.78 | 2.76 | 2.77 | 2.73 |
| 30-year | 3.10 | 3.08 | 3.05 | 3.08 | 3.02 |
| Inflation indexed ¹⁰ | | | | | |
| 5-year | 0.09 | 0.08 | 0.05 | 0.04 | 0.02 |
| 7-year | 0.28 | 0.28 | 0.25 | 0.23 | 0.22 |
| 10-year | 0.48 | 0.49 | 0.45 | 0.44 | 0.42 |
| 20-year | 0.81 | 0.82 | 0.78 | 0.79 | 0.76 |
| 30-year | 0.95 | 0.98 | 0.94 | 0.94 | 0.91 |
| Inflation-indexed long-term average ¹¹ | 0.83 | 0.85 | 0.81 | 0.81 | 0.78 |

n.a. Not available.

Footnotes

1. As of March 1, 2016, the daily effective federal funds rate (EFFR) is a volume-weighted median of transaction-level data collected from depository institutions in the Report of Selected Money Market Rates (FR 2420). Prior to March 1, 2016, the EFFR was a volume-weighted mean of rates on brokered trades.

2. Weekly figures are averages of 7 calendar days ending on Wednesday of the current week; monthly figures include each calendar day in the month.

3. Annualized using a 360-day year or bank interest.

4. On a discount basis.

5. Interest rates interpolated from data on certain commercial paper trades settled by The Depository Trust Company. The trades represent sales of commercial paper by dealers or direct issuers to investors (that is, the offer side). The 1-, 2-, and 3-month rates are equivalent to the 30-, 60-, and 90-day dates reported on the Board's Commercial Paper Web page (www.federalreserve.gov/releases/cp/).

6. Financial paper that is insured by the FDIC's Temporary Liquidity Guarantee Program is not excluded from relevant indexes, nor is any financial or nonfinancial commercial paper that may be directly or indirectly affected by one or more of the Federal Reserve's liquidity facilities. Thus the rates published after September 19, 2008, likely reflect the direct or indirect effects of the new temporary programs and, accordingly, likely are not comparable for some purposes to rates published prior to that period.

7. Rate posted by a majority of top 25 (by assets in domestic offices) insured U.S.-chartered commercial banks. Prime is one of several base rates used by banks to price short-term business loans.

8. The rate charged for discounts made and advances extended under the Federal Reserve's primary credit discount window program, which became effective January 9, 2003. This rate replaces that for adjustment credit, which was discontinued after January 8, 2003. For further information, see www.federalreserve.gov/boarddocs/press/bcreg/2002/200210312/default.htm. The rate reported is that for

the Federal Reserve Bank of New York. Historical series for the rate on adjustment credit as well as the rate on primary credit are available at www.federalreserve.gov/releases/h15/data.htm.

9. Yields on actively traded non-inflation-indexed issues adjusted to constant maturities. The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and reintroduced on February 9, 2006. From February 18, 2002, to February 9, 2006, the U.S. Treasury published a factor for adjusting the daily nominal 20-year constant maturity in order to estimate a 30-year nominal rate. The historical adjustment factor can be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/. Source: U.S. Treasury.

10. Yields on Treasury inflation protected securities (TIPS) adjusted to constant maturities. Source: U.S. Treasury. Additional information on both nominal and inflation-indexed yields may be found at www.treasury.gov/resource-center/data-chart-center/interest-rates/.

11. Based on the unweighted average bid yields for all TIPS with remaining terms to maturity of more than 10 years.

Note: Current and historical H.15 data, along with weekly, monthly, and annual averages, are available on the Board's Data Download Program (DDP) at www.federalreserve.gov/datadownload/Choose.aspx?rel=H15. Weekly, monthly and annual rates are averages of business days unless otherwise noted.

Description of the Treasury Nominal and Inflation-Indexed Constant Maturity Series

Yields on Treasury nominal securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve for non-inflation-indexed Treasury securities. This curve, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York. The constant maturity yield values are read from the yield curve at fixed maturities, currently 1, 3, and 6 months and 1, 2, 3, 5, 7, 10, 20, and 30 years. This method provides a yield for a 10-year maturity, for example, even if no outstanding security has exactly 10 years remaining to maturity. Similarly, yields on inflation-indexed securities at "constant maturity" are interpolated from the daily yield curve for Treasury inflation protected securities in the over-the-counter market. The inflation-indexed constant maturity yields are read from this yield curve at fixed maturities, currently 5, 7, 10, 20, and 30 years.
