

Memorandum

To: Brian J. Moline, Chair
Robert Krehbiel
John Wine

From: Adam Gatewood

Date: December 3, 2003

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. 134,094-U

Background:

K.S.A. §12-822 and related KCC rules and regulations allow utility companies to collect security deposits from consumers. The utility can hold these deposits for one year or until the consumer establishes a record of on time payments. Kansas Statutes require utilities to pay interest on security deposits.

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 up coming calendar year. The Commission reasoned that this is a sound methodology because it insures that consumers will receive interest on their deposits comparable to that paid on a risk free investment such as a one-year certificate of deposit.

Analysis:

Interest rates on one year Treasury Notes are about the same as in December of 2002. The Wall St. Journal reports that on December 1, 2003, one year Treasury Notes yielded 1.47%.

Recommendation:

Staff recommends that the interest rate on security deposits remain at 1.50% for calendar year 2004.