

KANSAS

CORPORATION COMMISSION

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MEMORANDUM

December 2, 2004

In the matter of the general investigation into)
the interest rate paid on deposits of customers) Docket No. 134,094-U
of municipal and privately owned utilities)

To: Chair Moline
Commissioner Krehbiel
Commissioner Moffet

From: Adam Gatewood

DATE SUBMITTED TO LEGAL: 12/13/04

DATE SUBMITTED TO COMMISSIONERS: 12/17/04

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:

The Department of the Treasury reports daily yields on public debt at its website under the heading Daily Treasury Yield Curve Rates. Staff believes this is a reasonable source for interest rate data on 1 Year Treasury Notes. The average yield on the 1 Year Treasury Notes has increased from 1.47% on December 3, 2003 to 2.60% on December 1, 2004.

Recommendation:

Staff recommends that Commission increase the interest rate on security deposits to 2.60% for calendar year 2004.

cc: Don Low
Susan Cunningham
Executive Director
PIO



INTEREST RATE STATISTICS

Daily Treasury Yield Curve Rates

Historical Data

December 2004

Date	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr
12/01/04	2.06	2.22	2.40	2.60	3.01	3.28	3.72	4.08	4.38	5.04

* 30-year Treasury constant maturity series was discontinued as of 2/18/02. See Long-Term Average Rate for more information.

Treasury Yield Curve Rates. These rates are commonly referred to as "Constant Maturity Treasury" rates, or CMTs. Yields are interpolated by the Treasury from the daily yield curve. 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 yield values are read from the yield curve at fixed maturities, currently 1, 3 and 6 months and 1, 2, 3, 5, 7, 10 and 20 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.

Treasury Yield Curve Methodology. The Treasury yield curve is estimated daily using a cubic spline model. Inputs to the model are primarily bid-side yields for on-the-run Treasury securities.

For more information regarding these statistics contact the Office of Debt Management (202) 622-2042.

For other Public Debt information contact (202) 219-3350.

- ▶ [Daily Treasury Yield Curve Rates](#)
- [Daily Treasury Long-Term Rates](#)
- [Daily Treasury Real Yield Curve Rates](#)
- [Daily Treasury Real Long-Term Rates](#)
- [Weekly Aa Corporate Bond Index](#)