

deposits be lowered to 5.00%, down from 7.00% paid during the previous years and proposed that for the future, the interest rate paid on customer deposits should be indexed to the yield on one year T-Notes and that it should be adjusted every six months on June 1st and December 1st.

3. On January 14, 1992, the Commission issued an order accepting Staff's recommendation to lower the interest rate paid on customer deposits to 5.00% for 1992, and allowed for a comment period for interested parties to address Staff's proposed indexation and biannual adjustment of the interest rate paid on customer deposits.

ANALYSIS

4. In a memorandum dated June 19, 1992, Staff noted that eleven parties, including publicly owned utilities, rural electric cooperatives, cities and municipal utilities, commented on their proposals.

5. As to the indexation to one year T-Notes, five of the eleven comments filed with the Commission agree with Staff's position that one year T-Notes would provide a good indication of the return paid by secure investment vehicles available to consumers generally. Four interested parties opposed the use of the one year T-Note but stated that they do not object to the concept of indexation. These opponents are all cities or municipal utilities who are restricted by statute to investing idle funds in T-Bills and short term certificates of deposit. These opponents propose indexing the interest rate paid on customer deposits to the 90 day T-Bill rate instead of the one year T-Note.

6. Staff's second proposal to adjust the interest rate paid on customer deposits biannually, each June and December, was opposed by eight of the eleven respondents. A problem noted by the opponents was the increased time spent on making calculations if biannual adjustments are adopted by the Commission.

7. Staff's investigation concludes that indexation to the 90 day T-Bill yield would not

adequately compensate the consumer for the opportunity cost of providing a security deposit because it reflects the required return or opportunity cost of investors committing funds for a much shorter time than the one year that security deposits are held by utilities. Staff notes the investment restrictions placed on the cities and municipalities, but does not believe that it would be appropriate to set the interest rate paid on security deposits at a rate lower than consumer's opportunity cost of providing a security deposit, thereby punishing the consumer for simply providing a security deposit.

8. In regards to its second proposal for Biannual Readjustments, Staff believes that although the additional time required would be minimal, they agree with the opponents' view that the effect on consumers' deposit would be small even with substantial changes in the yields on one year T- Notes during the year. Therefore, Staff withdraws its original recommendation of a biannual adjustment of the interest rate paid on security deposits and instead believes the current method of annual adjustment should continue.

9. Staff recommends to the Commission that the interest rate paid on customer deposits be indexed to the yield on one year T-Notes and that the Commission maintain its current policy of adjusting the interest rate paid on customer deposits each December 1st.

10. Staff further recommends that the Commission find that the interest rate on one year T-Notes dictates that the interest rate to be paid on customer deposits for 1993 shall be 4.00%.

IT IS, THEREFORE, BY THE COMMISSION ORDERED:

The interest rate paid per annum on security deposits shall be indexed to the yield on one year Treasury Notes and the current policy of adjusting the interest rate paid on security deposits each December 1st shall be maintained.

The minimum interest rate paid on security deposits pursuant to K.S.A. 12-822, shall be 4.00% per annum for the calendar year 1993.

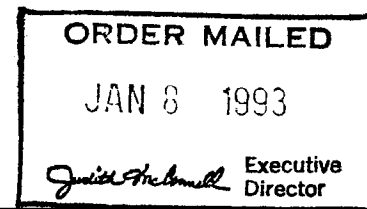
The Commission retains jurisdiction of the subject matter and the parties for the purpose of entering such further order or orders as it may deem necessary and proper.

A party may file a petition for reconsideration of this order within 15 days of service. If the order is mailed, service is made upon mailing and three (3) days are added to the above time period.

BY THE COMMISSION IT IS SO ORDERED.

Robinson, Chmn.; Alexander, Com.; Lipman, Com.

Dated: JAN 7, 1993



Judith McConnell
Executive Director

BJM: pvd