

## **To all Water Districts and Water Associations:**

There has been an update to the information previously provided regarding interest on deposits.

Contrary to statements contained in previous notices issued by the PSC, the revisions made to KRS 278.460 in the 2012 Regular Session of the Kentucky General Assembly **may** affect water districts and water associations.

Following the passage of the new law last year, it was initially determined that water districts and water associations would not be affected by the new law and that water districts and water associations would continue to pay interest on deposits at the amount each individual water district or water association earns.

However, upon further review of the new law, it has now been determined that:

- A water district or water association earning less than the Commission calculated rate will continue to pay interest on customer deposits at the rate earned by the utility.
- A water district or water association earning more than the Commission calculated rate will pay interest on customer deposits at the Commission calculated rate.

In other words, the interest rate paid by water districts and water associations on customer deposits is capped at the Commission calculated rate, which has been determined to be 0.18% per annum for calendar year 2013.

The capped amount is set annually by the PSC and is posted in December of each year on the PSC website.

Please see the attached Revised Notice and list of 12 frequently asked questions regarding interest on customer deposits.”

Should there be any questions, just let us know.

**REVISED NOTICE**

**INTEREST RATES ON CUSTOMER DEPOSITS**

During its 2012 Regular Session, the Kentucky General Assembly enacted House Bill 399, which revises KRS 278.460 to end the requirement that utilities pay an interest rate of six percent on amounts required to be deposited by patrons to secure utility service. KRS 278.460, as amended, requires the Public Service Commission to calculate the interest rate to be paid on an annual basis by averaging the one (1) year constant maturity treasury rate from September, October, and November of each year.

The Public Service Commission will determine the rate and post it to the website [www.psc.ky.gov](http://www.psc.ky.gov) no later than December 15 of each year.

Based upon the one (1) year constant maturity treasury rate from September, October, and November 2012, the Public Service Commission calculated **an interest rate of 0.18%** to be paid on deposits for the 2013 calendar year.

A copy of the revised KRS 278.460 is attached to this Revised Notice.

Each utility should carefully review its currently filed tariff. If a specific interest rate is set forth in the tariff, the tariff should be revised to reflect the Public Service Commission calculated rate of interest. No revisions are necessary if the tariff merely states that interest will be paid at the rate specified by law.

**Contrary to statements contained in previous notices that the Public Service Commission has issued, the revisions to KRS 278.460 may affect water districts and water associations. Unless the rate of interest that a water district or water association earns is less than 0.18%, the water district or water association is required to pay a rate of interest of 0.18% on its customer deposits.**

Direct any questions regarding this notice to:

Filings Division: Brent Kirtley (270) 782-2627

Office of General Counsel: Jonathan Beyer (270) 782-2581

Financial Analysis Division: Leah Faulkner (270) 782-2649

/s/Jeff Derouen

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AN ACT relating to utility interest rates.

***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

➔ Section 1. KRS 278.460 is amended to read as follows:

- (1) Except as provided in subsection (2) of this section, a utility, ***including an electric cooperative organized under KRS Chapter 279,*** shall pay interest ~~at six percent (6%) annually~~ on amounts required to be deposited by patrons to secure utility service. ***The commission shall calculate the interest rate on an annual basis by averaging the one (1) year constant maturity treasury rate from September, October, and November, and shall notify utilities in December of each year of the interest rate to be paid by utilities for the following calendar year.***
- (2) No water district organized under KRS Chapter 74 nor water association organized under KRS Chapter 273 shall pay interest that exceeds the rate it receives in interest, nor shall the interest payable to the customer at any time exceed six percent (6%) annually on amounts required to be deposited by patrons to secure water accounts.
- (3) The commission may promulgate administrative regulations in accordance with the provisions of KRS Chapter 13A to implement this section.

**WATER DISTRICTS AND ASSOCIATIONS  
FREQUENTLY ASKED QUESTIONS  
REGARDING INTEREST ON CUSTOMER DEPOSITS**

**1. Has something changed in the way that utilities are to pay interest on customer deposits?**

Yes. The General Assembly enacted a new law that affected the interest rate that utilities are required to pay on customer deposits.

**2. Does the new law apply to water districts and water associations?**

When the new law went into effect last year it was determined that it did not apply to water districts and water associations. The original determination was recently reviewed and it has now been determined that the new law may in fact affect water districts and water associations.

**3. How does a water district or water association know if it is affected by the new law?**

It depends upon the interest rate earned on its bank accounts.

A water district or water association is required to pay the rate it earns on its bank accounts if the rate it earns is 0.18% or less for calendar year 2013.

A water district or water association that earns more than 0.18% on its bank accounts should only pay interest on its customer deposit accounts at a rate of 0.18% for calendar year 2013.

**4. If a water district or water association maintains a separate interest-bearing account for customer deposits, at what rate should it pay interest on customer deposits?**

A water district or water association that maintains a separate interest-bearing bank account designated as the customer deposit account shall pay interest to its customers on the deposits held at the lesser of:

- The rate in effect either (1) at each customer's anniversary date, or (2) at December 31 of the previous year for the customer deposit account, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

5. If a water district or water association does not maintain a separate interest-bearing account for customer deposits, but does have other interest bearing accounts, at what rate should it pay interest on customer deposits?

A water district or association that does not maintain a separate interest-bearing bank account designated as the customer deposit account shall pay interest to its customers on the deposits held at the lesser of:

- A rate that is the weighted average rate of all of its interest-bearing accounts as of December 31 of the previous year, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

6. If a water district or water association does not have any funds in an interest-bearing account, does it have to pay interest on deposits, and if so, at what rate should it pay interest on customer deposits?

A water district or association that does not have any funds in an interest-bearing account shall pay interest to its customers on the deposits held at the lesser of:

- The rate in effect either (1) at each customer's anniversary date, (2) or at December 31 of the previous year for a basic savings account at the financial institution at which it maintains its operation and maintenance account, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

7. What is the basis of the 0.18% interest rate?

The new law requires the PSC to calculate an interest rate each December that utilities are to use in the next calendar year for paying interest on customer deposits.

In December of 2012 the PSC calculated an interest rate of 0.18% to be the maximum rate that water districts and water associations could pay on customer deposits for calendar year 2013.

So for water districts and water associations, the interest on customer deposits for calendar year 2013 should be paid at a rate that will range from 0.01% to 0.18% depending upon the individual circumstances of the water district or water association.

8. Why is 0.01% the minimum interest rate that water districts and associations can pay for interest on customer deposits?

The interest rate cannot go below 0.01% because water districts and water associations must pay interest on customer deposits.

**9. Will the 0.18% interest rate change for calendar year 2014?**

Probably. Each December the PSC will prepare a newly calculated interest rate to be used in the following calendar year, so the interest rate will in all probability differ from year to year.

**10. How will the utility be notified of the rate for calendar year 2014?**

The PSC will post the newly calculated interest rate on its website and will send an email to the official contact email address that each utility has on file with the PSC.

**11. How is the new interest rate calculated each December?**

The PSC calculates the customer deposit interest rate each December to be used in the upcoming calendar year by averaging the one year constant maturity treasury rate from September, October, and November.

**12. Is there someone to contact if a water district or water association has additional questions?**

The following PSC staff is available to answer questions regarding this new procedure:

Division of Filings:	Brent Kirtley	(502) 782-2627
Office of General Counsel:	Jonathan Beyer	(502) 782-2581
Financial Analysis Division:	Leah Faulkner	(502) 782-2649