

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. Revisions were made to KRS 278.460 in the 2012 session of the Kentucky General Assembly that affected the interest rate that utilities are required to pay on customer deposits.

2. **What is the rate utilities are to use for calendar year 2016?**

The Commission has calculated an interest rate of **0.37%** to be paid on customer deposits for calendar year **2016**.

3. **How was the new interest rate calculated?**

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

4. **How are utilities notified of the new rate?**

In early December of each year 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.

5. **Is there someone to contact if a utility has additional questions?**

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

Leah Faulkner (502) 782-2649

Daniel Hinton (502) 782-2626

David Spenard (502) 782-2580

ADDITIONAL INFORMATION FOR WATER DISTRICTS & WATER ASSOCIATIONS

6. **Did the new law affect water districts and water associations?**

It may or may not, as it depends upon the interest rate a district or association earned on its deposits.

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

In 2016 a water district or water association is required to pay interest on customer deposits at the rate it earned on its accounts in 2015 if the rate was 0.37% or less.

A water district or water association that earned more than 0.37% on its accounts in 2015 should only pay interest on customer deposits at a rate of 0.37% for calendar year 2016.

8. Can a water district or water association pay an interest rate on customer deposits at a rate less than it earns on its bank accounts?

Yes. A water district or water association that earned more than 0.37% on its bank accounts in 2015 would only pay interest on customer deposits at the rate of 0.37% for calendar year 2016.

9. Can you give an example?

If a water district or water association earned an interest rate of 0.05% on its bank accounts in 2015, then it would pay a rate of 0.05% interest on customer deposits for the calendar year 2016.

A water district or water association that earned an interest rate of 1.0% on its bank accounts in 2015 would only pay a rate of 0.37% interest on customer deposits for the calendar year 2016.

So for water districts and water associations, the interest on customer deposits for calendar year 2016 should be paid at a rate that will range from 0.01% to 0.37% depending upon the individual circumstances of the water district or water association.

10. 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.

11. If a water district or water association keeps its funds in a non-interest bearing account, what is the rate it should pay for interest on customer deposits?

If a water district or water association does not maintain a separate interest-bearing bank account used to deposit money collected from customer deposits, the water district or water association must pay interest to its customers on deposits at the rate that is the weighted average rate of all of its interest bearing accounts as of December 31, 2015, not to exceed 0.37%.

If a water district or water association does not have any funds in an interest bearing bank account, the water district or water association must pay interest to its customers on deposits at the rate that a basic savings account earns at the financial institution where the water district or water association maintains its operations and maintenance account, not to exceed 0.37%.