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FISCAL IMPACT REPORT

SPONSOR Cisneros DATE TYPED 2-4-04 HB _____

SHORT TITLE Interest Rates on Utility Deposits SB 258

ANALYST Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
		NFI		

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Response Received From

Public Regulatory Commission (PRC)

SUMMARY

Synopsis of Bill

Senate Bill 258 amends statute changing the interest rate paid by public utilities to customers from 9 to the federal five-year treasury note rate reported on the first day of the calendar year by the federal reserve board of governors.

Significant Issues

PRC notes that security deposits currently held by the utility are paid simple interest at a rate not less than the rate required by law. The current fixed interest rate to be paid annually for security deposits held is at a level which most utilities may not find economical to hold security deposits. Reducing that rate from the current level could result in more utilities holding security deposits from more customers. Tying the interest rate on deposits to a five-year Treasury Note rate as proposed will result in yearly changes in the interest rate paid on security deposits. While the practice of holding additional security deposits may provide added protection from non-paying or chronically delinquent accounts, the utility will have the added responsibility of tracking the

allowed interest rate and properly applying that required interest rate to held security deposits. As utilities require and hold more security deposits, the Public Regulation Commission could likely see a proportional increase in the number of complaints by customers regarding the use of deposits and the calculation of interest.

The PRC provided the additional substantive issues:

The U.S. Treasury Department constructs yields on treasury securities at constant, fixed maturity, based upon the most actively traded marketable treasury securities. Yields on these issues are based on composite quotes reported by U. S. Government Securities dealers to the Federal Reserve Bank of New York. To obtain the constant maturity yields, personnel at Treasury construct a yield curve each business day and yield values are then read from the curve at fixed maturities.

For the last five years, the first day of the year reported five-year Treasury Note rates have been:

01/03/2000	6.50%
01/02/2001	4.76%
01/02/2002	4.52%
01/02/2003	3.05%
01/02/2004	3.36%

Various newspapers publish Treasury Note rates. These rates are also available at the Federal Reserve's web-site, www.federalreserve.gov.

DG/lg:yr