FPL

Florida Power & Light Company, 215 S. Monroe St., Suite 810, Tallahassee, FL 32301

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March 1, 2009

VIA HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Tallahassee, Fl 32399-0850

RE: Docket No. 080677-EI: Florida Power & Light Company's Pre-Payment Study

Dear Ms. Cole:

In response to the Commission direction and Issue 170, of the above-referenced docket, I am enclosing an original plus seven (7) copies for filing of Florida Power & Light Company's Pre-Payment Study.

If there are any questions regarding this transmittal, please contact me at 561-304-5639.

Sincerely,

for John T. Butler

cc: Counsel for Parties of Record

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via regular U.S. Mail this 1st day of March, 2010, to the following:

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Florida Bar No. 283479

FPL

FLORIDA POWER & LIGHT COMPANY
PRE-PAYMENT STUDY

MARCH 1, 2010

Table of Contents

I. BACKGROUND

On January 13, 2010, the Commission approved Staff's recommendation regarding Issue No.170 in FPL's rate case proceeding, directing FPL to evaluate the merits of a discounted prepayment option in lieu of monthly billing for those customers who can benefit from such an alternative. Staff's analysis of Issue 170 describes a program advanced by Mr. Frank Balogh that would offer governmental agencies an arbitrage opportunity to receive a discount on prepaid service at a rate higher than their cost of capital. It is important to distinguish this discounted prepayment concept from a prepaid metering program that is similar to a prepaid cell phone or a calling card that allows customers to pay for their usage in advance a little at a time. This study is the result of FPL's evaluation of the discounted prepay concept.

II. EXECUTIVE SUMMARY

In November 2008, Florida Power & Light Company (FPL) representatives met with Mr. Frank Balogh (an independent consultant and former FPL employee) and his associate Mr. Don Morgan (hereinafter referred to as the "consultants") to discuss a potential concept which the consultants referred to as a "Government Prepay Program". The basic premise of the program was to allow governmental agencies the option of prepaying for their electric consumption a year in advance at a specified discount rate. The underlying assumption was that such a customer could borrow at an interest rate that would be less than the discount rate to be offered from FPL, thus providing a financial benefit to the customer while holding FPL and its customers harmless. FPL expressed a willingness to evaluate the feasibility of such a program, with the up-front caveat that the concept could not be detrimental to either the utility or its customers. There was no specific program or proposal made by the consultants at this initial meeting, and the need for detailed financial evaluation information and program specifications was requested from the consultant to enable FPL to proceed with the study and evaluation of this concept.

FPL subsequently sought input from the consultants on several occasions concerning details of their proposal, but was not provided any such information or program outline. Copies of FPL's communications with the consultants are contained in Appendix No.1.

As a result, FPL proceeded to develop the program concept and details. Specifically, FPL first contracted with E-Source, an independent firm, to research U.S. utilities that have implemented any type of prepay program. This research could find no program where governmental or other customers prepaid their bills annually and were provided a discount based on the utility's cost of capital. Pennsylvania did have some time-bound discounted prepayment programs related to pending deregulation in the state, but these were not based on a cost-based discount rate. The research done by E-Source is described in Section III and Appendix 2.

In the absence of input on program details from the consultants or guidance from any similar programs elsewhere, FPL has developed independently the description and mechanics of how such a prepay program would operate in order to perform our evaluation. This program description is discussed in Section IV below, along with an assessment of the administrative costs associated with the program. As detailed in Section IV, the administrative costs, including changes to FPL's billing system and ongoing operation of the program are significant, with a preliminary estimated annual revenue requirement of approximately $344,000. In addition, the appropriate discount rate for customers under such a program is FPL's short term debt rate which is currently 2.11%. Furthermore, since FPL does not have use of customer funds for a full year (time value of money) the annual rate for customers is approximately half of the 2.11% rate. FPL believes that this relatively low inherent rate would make such a discounted prepayment program generally unattractive to customers. This analysis is presented in Section IV below.

After a thorough and detailed evaluation of discounted prepayment, FPL cannot recommend moving forward with a prepay program.

III. ANALYSIS OF OTHER DISCOUNTED PREPAYMENT PROGRAMS

In support of developing a detailed program and to investigate the references to similar programs developed by other utilities, FPL contracted with E-Source, an independent firm, to research data regarding U.S. utilities that have implemented any type of pre-payment program. E-Source was directed to identify utilities with a business or residential pre-payment program, the purpose of such programs, and the mechanics by which these programs function. In particular, FPL requested an analysis of those pre-payment programs utilized by Pennsylvania electric companies and relied upon by the consultant . Overall, the results of the analysis show that none of the utility programs evaluated reflect a cost-based discounted prepay concept. Current prepaid programs consist of two types: (1) a prepaid metering program similar to prepaid calling cards or cell phones whereby service is paid for in advance, with no discount by the utility, and service is temporarily discontinued once the credits are exhausted; and (2) a short term non cost-based program implemented only in Pennsylvania to phase-in rate increases expected when price caps are removed. The Pennsylvania utilities paid an interest rate on the prepaid funds that was not based on a cost-justified economic analysis, but rather was an arbitrary decision by the utility. Additionally, the funds were held for a longer period of time, at least 12 months. Please see Appendix 2 for a detailed description of the programs evaluated by E-Source as well as a matrix of all other prepaid metering programs.

In summary, E-Source was unable to identify any utilities with discounted prepay programs that offered a cost based discount for prepayment of projected billings. It is important to note that just because a program title may include the term "prepay" does not mean it is a program that utilizes the approach being investigated, and thus may have been a source of confusion for the consultants.

IV. ISSUES AND ASSUMPTIONS OF A DISCOUNTED PREPAYMENT BILLING PROGRAM

Potential Prepay Program Description

As discussed above, the consultants did not provide details on their proposed discounted prepay program and FPL has not identified any comparable programs elsewhere in the company. Therefore, in order to review the merits of a discounted prepay program, FPL has independently developed the following specific steps detailed process under which a discounted prepayment billing option could be implemented:

- Each year, FPL would need to develop a forecast of the customer's estimated monthly bills and discount based on the estimated monthly consumption, currently approved billing rates, current approved short-term debt rate, and the number of days the bill is being prepaid. Customer growth or reductions in electric consumption must also be considered due to customer-specific and general economic conditions and factors.
- The customer's discounted prepayment amount would be determined based on the sum of the estimated monthly bills less the sum of the monthly discount. In addition, in order to avoid subsidization by FPL's non-participating customers, the participating customer(s) would be required to pay a nonrefundable administrative adder designed to recover the administrative costs of the discounted prepayment billing program.

- Each month, FPL would determine the actual bill amount and actual discount and would calculate the balance available for future payments. The monthly reconciliation would be provided to the customer.
- If at any time during the year, the discounted prepayment balance is not sufficient to cover the current month's actual bill, the customer will be billed for the difference at the applicable non-discounted rate. With the depletion of the prepaid funds, the customer will continue to be billed on a monthly basis for the remainder of the year at the applicable non-discounted rate.
- If at the end of the year there is a remaining prepaid balance, the customer would be issued a credit.

The above is a very high-level approach to such a program, and there would be many additional details involved in the implementation of each step in the process. Further, FPL's current billing system is not designed to support this program, and as a result there are costs involved in the development of the billing system as well as the ongoing resources needed to support the program and the customers on an ongoing basis.

Program Assessment

While a discounted prepayment program for governmental customers may be an attractive concept in theory , our evaluation identified a number of fundamental barriers to the implementation of such a program. These barriers are addressed below.

- The recommended discount rate of 8.35% used in the consultant's proposal is not the appropriate rate to use in such a program. This rate apparently references FPL's overall weighted cost of capital, which is currently actually 6.65% as approved in FPL's recent rate case, not 8.35%. In any event, FPL's overall weighted cost of capital is not the appropriate discount rate to use in such a program, as this cost of capital is traditionally used for the financing of capital projects in excess of one year and includes both a long-term debt component and an equity component. In contrast, the discounted prepay program contemplates short-term discounted prepayments, and the participants would not be bearing any equity risk associated with the program. Simply stated, pre-payments to FPL would essentially provide FPL the equivalent of short term financing with the principal repaid ratably over a one-year period. It is not an equity investment nor is it long term debt, so paying participants at FPL's overall weighted cost of capital would result in a substantial subsidy by non-participants. The appropriate rate to use for a discounted prepayment program is FPL's short term debt rate which is currently 2.11% and is generally unattractive for any potential pre-pay participants;

- The consultants original concept assumed that participating customers would pay their annual electric bill one time prior to the start of the year but then incorrectly assumes that FPL has use of the funds (and therefore pays interest on) the entire balance throughout the year. This assumption results in a discount calculation equivalent to: Annual Estimated Electric Cost x FPL Weighted Average Cost of Capital (WACC) = Discount. However, since the participating customer's monthly bill would be deducted from the prepaid amount, thereby drawing down the prepaid sum, the above calculation has overstated the value of the discount by failing to consider the time value of money. For example, had cash flow timing been considered in the consultant's Lee County exhibit in Appendix 1, the proposed discount rate would result in a discount of $499,000, and not the $952,000 referenced. Furthermore, if the appropriate short-term rate of 2.11% was used, the resulting discount is actually $129,000. This is a key point in this analysis, and is illustrated by the following analogy: if on January 1 an individual deposits $1,200 into a passbook savings account paying 2% interest per year, he/she would expect to earn $24 by the end of the year. If, however, the individual withdraws $100 from the account every month (analogous to paying a customer's monthly bill every month out of the prepaid amount paid to the utility), the earnings would only average about 1%, approximately half of the annual rate, due to the declining balance in the account. Thus, using the appropriate short term rate of 2.11% for this program, the actual discount that would be paid to the customer would be about 1.055% (half of 2.11%) – any rate greater than that results in a subsidy for the participating customer by FPL's other customers through their electric rates;

- There are incremental costs that would be incurred by FPL to implement and administer a program for discounted prepayment and there are no identifiable cost reductions (savings) to the company. These additional costs that would need to be funded by participants in the program include additional information systems requirements, costs associated with the accounting and reconciliation process, legal contracting, as well as customer service support. There would be no reduction in monthly meter reading and billing attributable to such program as it would be necessary for the reconciliation process. A more detailed cost assessment is provided in "Projected Program Costs" . below.

Projected Program Costs

FPL has developed a very high level estimate of the costs to implement a discounted prepay program. This estimate includes billing system development costs, and ongoing billing costs, but does not include additional legal or customer service support costs that would need to be included as well.

i. Billing System Costs: FPL has estimated the cost to implement changes to the billing system to enable the discounted prepayment option to be between $817,000 and $917,000, requiring approximately nine months to implement.

ii. Operational Costs: Initial set up costs are estimated to be $134,000. Ongoing operational costs are estimated at approximately $54,000 per year. This would be a highly specialized program requiring specific skills covering finance and customer service.

iii. As shown in Appendix 3, the estimated first year annual revenue requirements associated with the prepaid billing program are $344,000. This represents a preliminary estimate of the revenue requirement that would have to be paid by the participating customers.

Based on an analysis of the potential customers listed in the consultant's correspondence, FPL calculated the average discount per account net of the administrative charge to be 0.9% of the average annual revenue. See Appendix .3. As stated above, there may be additional unexpected costs and/or resource requirements that will be incurred that have not been included in this estimate.

V. CONCLUSIONS AND RECOMMENDATIONS

The discounted prepayment concept evaluated by the company does not appear to be feasible from a customer perspective given the low discount rate that is driven by FPL's short term debt rate as well as the costs to develop and operate such a program. FPL has identified no other utilities in the nation that have developed such a program, most likely due to these substantial constraints. As a result, we do not recommend any further development of this concept. FPL has a record of identifying and developing many customer-focused initiatives that made sense for both the participating customers and FPL while holding other customers harmless, and has always been receptive to customer requests for consideration of new and innovative approaches. However, this prepay concept cannot be justified on its own merits.

It is conceivable that some customers may have an interest in prepaying their FPL bill (using "cash on hand") versus other short-term investment opportunities available to them. There are a number of policy questions around whether this is an appropriate venture for an electric utility to undertake. In any event, FPL currently does not have the market research available to determine the number of customers that might be interested in such an approach.

FPL recommends that the discounted prepayment program not be implemented. If it is pursued, the policy questions should be addressed and a study done to determine if a sufficient number of customers would commit to the program to ensure that the programming and ongoing administrative costs are recovered appropriately from the prepaid billing program participants.

APPENDIX NO.1

Communication With Consultant

The history of FPL's interaction with Mr. Balogh is as follows:

- November, 2008 – Initial meeting with Mr. Balogh and Mr. Morgan regarding their proposal for a government prepay option. FPL requested additional information in order to conduct a feasibility study.

- January 2009 - FPL received a one-page letter (undated) from Mr. Balogh and Mr. Morgan describing the proposal again, but that failed to provide sufficient information to enable FPL to conduct a comprehensive evaluation.

- January 23, 2009 - FPL sent a list of eleven clarifying questions (with subparts) in order to facilitate receipt of the information needed by FPL for its evaluation of the proposal. Mr. Balogh failed to provide FPL with the requested information.

- May 15, 2009 – Mr. Balogh sends a letter to the Commission outlining his prepayment proposal. The letter does not contain the information needed by FPL to perform an evaluation.

- June 19, 2009 - At the Fort Myers Quality of Service Hearing associated with FPL's base rate increase request, Mr. Balogh presented his prepayment concept. He provided the Commission and Intervenors with what was referred to as "documentation" supporting the prepay concept. FPL was not provided a copy of this documentation at the hearing.

- June 24, 2009 – A letter is sent to the Commission from the City of Fort Myers expressing interest in the prepayment option.

- July 15, 2009 - Via email to Mr. Balogh, FPL requested that he forward a copy of the documents provided at the Fort Myers hearing to FPL Mr. Balogh failed to respond to our request; however, we were able to obtain copies from the Commission . Upon review, it was determined that these documents did not provide FPL with sufficient details to enable an evaluation.

- August 28, 2009 – Marlene Santos, FPL's Vice President of Customer Service, testified at the technical hearing for FPL's base rate increase request. Mrs. Santos testified that while FPL is interested in evaluating the possibility of a prepayment plan, and had already developed a cross-functional team to address the proposal, FPL had not yet received sufficient information from Mr. Balogh to conduct its evaluation. She further testified that FPL would provide a report to the Commission during the second quarter of 2010.

- On September 17, 2009, FPL sent another letter to Mr. Balogh which incorporated the list of questions that were originally sent to him in January. FPL did not receive a response from Mr. Balogh.

- October 12, 2009 – Mr. Balogh emailed the Commission regarding his prepayment concept. The email did not include the necessary information for FPL to conduct its study.

- October 13, 2009 – Mr. Balogh emailed newly seated Commissioner, Commissioner Klement, regarding his prepayment proposal. The email did not include the information requested by FPL.

- November 3, 2009 – Mr. Balogh emailed the Commission regarding his prepayment proposal and attached a list of "Prepayment Advantages". The email did not contain the information requested by FPL.

- November 19, 2009 – Mr. Balogh emailed the Commission with a list of programs in other states that he alleged were similar to his prepayment concept. The email did not contain the information requested by FPL.

- November 20, 2009 – FPL sent another letter to Mr. Balogh which incorporated the list of questions that were originally sent to him in January. FPL never received a response from Mr. Balogh.

- December 2009 – Mr. Balogh sent an undated letter to the Commission regarding FPL's November 20th correspondence, and again failed to provide the information needed by FPL to conduct a thorough study of the proposal.

- January 9, 2010 – Mr. Balogh emailed the Commission regarding his prepayment concept in light of the new Commissioners having joined. The email failed to provide the information necessary for FPL to perform an evaluation of his proposal.

January 2009

COST REDUCTION METHODOLOGY FOR ELECTRICAL ENERGY USERS IN THE FLORIDA POWER & LIGHT SERVICE AREA

Request immediate reduction in electricity costs by FP&L to support and assist government budgets which are being severely affected by the unprecedented economic crisis. Some of these government entities provide life sustaining services that if adversely affected could be disastrous. Electrical energy cost is usually the second largest budget item, second only to personnel, for most municipalities. In southwest Florida, the counties of Lee and Collier along with the school boards, municipalities, FGCU and Edison State College spend over $65 million a year for electrical energy.

The recommendation, if implemented (pilot), ex. could save these eight utility customers approximately $2.6 million annually in electrical energy costs while possibly maintaining revenue neutrality for the utility company.

The cost reduction methodology is to allow the customer the option to (prepay) their electrical energy bill. Florida Power and Lights discount rate is 8.35% municipal funding rates are currently 4% or lower. If the customer was allowed to (prepay) their electrical energy bills for 12 months or some other negotiated time period there would be a possible 4% or greater savings realized in just how the utility bill is paid.

The recommendation proposed was previously considered when deregulation was an issue. The purpose at that time was to help the utility company secure and protect their larger customers from outside competition by allowing the customer to (prepay) their electrical energy bill. With a contract in place outside competition would be unable to cherry pick the utilities larger customers.

Pennsylvania Electric and Metropolitan Edison are currently allowing their customers to (prepay) up to 9.6% in addition to their monthly energy cost. State regulators capped energy increases until 2010. The utilities are paying 7% interest on their prepay portion which will be distributed back in credits to offset the expected 34% increase when the cap is lifted.

In addition to the normal fuel adjustments and rate increases the customer is now being charged for future facility cost (prepay). Previously utilities could not charge for facilities not in operation.

This recommendation could be implemented with a tremendous savings to the customer and we believe it will be revenue neutral to Florida Power & Light. We would develop the impact on budgets, protocol and contracts as a third party for this concept.

Don Morgan CPA
8950 Penzance Blvd.
Fort Myers, Florida 33912

Frank Balogh CEM CEP
1639 Llewellyn Drive
Fort Myers, Florida 33901

January 23, 2009

Frank Balogh, CEM, CEP
1639 Llewellyn Drive
Fort Myers, Florida 33901

Re: Government Agencies Pre-payment Proposal

Dear ~~Mr. Balogh~~ Frank:

Florida Power & Light ("FPL") is in receipt of your recent inquiry regarding a proposal which would allow governmental agencies the option of paying their electric bills in advance. We have reviewed your one-page proposal; however, to fully understand the proposed construct for the pre-payment arrangement, we request that you provide additional information. Specifically, we would appreciate a response to the following questions.

1. Please elaborate on the structure of the proposed pre-payment program.
   a. What is the specific transaction being proposed?
   b. Which customers would be eligible for the program?
2. What are the proposed program and/or contract term(s)?
   a. Which parties would be subject to the program agreements?
3. How would the proposed pre-payment be administered?
   a. What is the proposed pre-payment period and frequency of prepayments?
   b. How is the prepayment amount determined? Please provide the proposed pre-payment calculation.
   c. How is the monthly bill impacted by the pre-payment process?
4. How would the proposed discount be administered? (I.E. via bill credit, rebate check, etc?)
   a. How frequently and for what period would the discount be applied?
   b. How is the discount amount determined? Please provide the proposed discount calculation.
   c. What is the suggested discount rate?
   d. How is the monthly bill impacted by the discount process?
5. How would program true-ups be administered?
   a. How frequently would program true-ups occur? Monthly, quarterly, annually, etc?
   b. Are there financing impacts related to true-ups for the customer? For FPL?

c. How is the monthly bill impacted by the true-up process?

6. What is the reconciliation process and associated penalties/billing impacts if a customer enrolled in the proposed program leaves the FPL service territory prior to consuming electricity related to the prepayment?

7. Does the proposed pre-payment program have additional impacts on the monthly bill process? (i.e. related to fuel adjustments, rate increases, etc?)

8. What is the proposed treatment of administrative and infrastructure expenses related to the implementation and management of the prepayment program?

   a. How frequently and over what period would the expenses be (not be) recovered?

9. Please identify the pre-payment program benefits/detriments from the customer perspective.

   a. What is the financial impact to the customer? Please include tax considerations.

   b. What are the risks to the customer?

10. Please identify the pre-payment program benefits/detriments from FPL's perspective.

   a. What is the financial impact to FPL?

   b. What are the risks to FPL?

11. If available, please provide any program modeling, flow charts, program examples, etc. that illustrate the mechanics of the proposed pre-payment program.

Again, we are looking forward to working with you on this proposal. Should you have any questions regarding this request, please feel free to contact me at (305) 552-2825. I will serve as your FPL point of contact for this project. Upon receipt of your responses which will enable us to fully evaluate your proposal; we will schedule a meeting with you and your associate, Mr. Morgan. Thank you in advance for your assistance.

Sincerely,

Gene E. Beck
Manager, Corporate Governmental Accounts
Florida Power & Light

May 15, 2009

Several months ago we contacted several SW Florida FPL customers to determine if there would be interest if allowed by the utility to have the option of prepaying for electric service in order to receive a discount. The response was overwhelming in favor of the concept.

First, let us explain that our recommendation has nothing to do with rate structure. We are requesting that FP&L allow its customers the option to prepay their utility bills and receive a discount for the prepayment.
The enclosed spread sheet is a calculation using Lee County Governments last year's actual numbers.

The customer would contract with FP&L to prepay for a block of kilowatt hours, based on their historical usage. This amount would be discounted using FP&L's published discount rate, which at this time is 8.35%. The customer would secure their cash needs through bonding, third parties, banks, etc. In some cases the customer would not have to secure outside financing but pay cash Under this circumstance the customer would receive the full benefit.
We believe this would be basically revenue neutral to FP&L based on the fact that they have received payment in advance to invest, hedge etc. (attached FPL advantages)

On January 1st of this year for the first time in history utilities in the state of Florida started collecting from their customer base the "Capacity Clause Recovery Charge" which is a prepayment for future facilities that may or may not be constructed.

Pennsylvania state regulators capped energy increases until 2010. Pennsylvania Electric and Metropolitan Edison are currently allowing their customers to prepay up to 10% of their monthly energy cost. The utilities then pay 7% interest on the prepay portion which will be distributed back in credits to offset the expected increases when the cap is lifted.

In 2003 IRS rulings opened the door to tax-exempt bond financing for long term energy contracts. Public utilities have prepaid 33 gas and electric energy contracts worth billions for the wholesale side of the business.

In sum prepayment is being offered in different form and structure within the energy landscape the Florida electric customer should be allowed the same courtesy. FPL considered this concept in the mid 90's (deregulation era) to prevent other utilities from cherry picking their customers by entering into a prepay contract.

This concept is revenue neutral to FPL and could be offered to all rate payer classifications.

Respectfully

Don Morgan CPA	Frank Balogh CEM CEP
239-340-5138	239-223-0956

Calculations for potential savings if allowed to prepay energy bills

Lee County

Lee County		Month	Monthly Principle Payment	Remaining balance	Interest @ 2% Paid Monthly	Interest @3% Paid Monthly	Interest @ 4% Paid Monthly	Interest @ 5% Paid Monthly
Last year,'s energy costs	$11,400,000.00							
Discount 8.35%	$951,900.00							
	$10,448,100.00			$10,448,100.00				
		1	$870,675.00	$9,577,425.00	$17,413.50	$23,943.56	$31,924.75	$39,905.94
		2	$870,675.00	$8,706,750.00	$14,511.25	$21,766.88	$29,022.50	$36,278.13
		3	$870,675.00	$7,836,075.00	$13,060.13	$19,590.19	$26,120.25	$32,650.31
Calculations shown as if 100% financed		4	$870,675.00	$6,965,400.00	$11,609.00	$17,413.50	$23,218.00	$29,022.50
		5	$870,675.00	$6,094,725.00	$10,157.88	$15,236.81	$20,315.75	$25,394.69
		6	$870,675.00	$5,224,050.00	$8,706.75	$13,060.13	$17,413.50	$21,766.88
		7	$870,675.00	$4,353,375.00	$7,255.63	$10,883.44	$14,511.25	$18,139.06
		8	$870,675.00	$3,482,700.00	$5,804.50	$8,706.75	$11,609.00	$14,511.25
		9	$870,675.00	$2,612,025.00	$4,353.38	$6,530.06	$8,706.75	$10,883.44
		10	$870,675.00	$1,741,350.00	$2,902.25	$4,353.38	$5,804.50	$7,255.63
		11	$870,675.00	$870,675.00	$1,451.13	$2,176.69	$2,902.25	$3,627.81
		12	$870,675.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total			$10,448,100.00		$97,226.38	$143,661.38	$191,548.50	$239,435.63
Discount allowed for prepayment					$951,900.00	$951,900.00	$951,900.00	$951,900.00
Potential savings using different interest rates					$854,674.63	$808,238.63	$760,351.50	$712,464.38
Frank Balogh CEM CEP				Don Morgan CPA				
1639 Llewellyn Drive				8950 Penzance Blvd.				
Fort Myers, Florida 33901				Fort Myers, Florida 33912				
frankvb@comcast.com				donmorgan1@hotmail.com				

Calculations for potential savings
if allowed to prepay energy bills

City of Naples

Collier County		Month	Monthly Principle Payment	Remaining balance	Interest @ 2% Paid Monthly	Interest @3% Paid Monthly	Interest @ 4% Paid Monthly	Interest @ 5% Paid Monthly
Last year,'s energy costs	$13,300,000.00							
Discount 8.35%	$1,110,550.00							
	$12,189,450.00			$12,189,450.00				
		1	$1,015,787.50	$11,173,662.50	$20,315.75	$27,934.16	$37,245.54	$46,556.93
		2	$1,015,787.50	$10,157,875.00	$16,929.79	$25,394.69	$33,858.58	$42,324.48
		3	$1,015,787.50	$9,142,087.50	$15,236.81	$22,855.22	$30,473.83	$38,092.03
Calculations shown as if 100% financed		4	$1,015,787.50	$8,126,300.00	$13,543.83	$20,315.75	$27,087.87	$33,859.58
		5	$1,015,787.50	$7,110,512.50	$11,850.85	$17,776.28	$23,701.71	$29,627.14
		6	$1,015,787.50	$6,094,725.00	$10,157.88	$15,236.81	$20,315.75	$25,394.69
		7	$1,015,787.50	$5,078,937.50	$8,464.90	$12,697.34	$16,929.79	$21,162.24
		8	$1,015,787.50	$4,063,150.00	$6,771.92	$10,157.88	$13,543.83	$16,929.79
		9	$1,015,787.50	$3,047,362.50	$5,078.94	$7,618.41	$10,157.88	$12,697.34
		10	$1,015,787.50	$2,031,575.00	$3,385.96	$5,078.94	$6,771.92	$8,464.90
		11	$1,015,787.50	$1,015,787.50	$1,692.98	$2,539.47	$3,385.96	$4,232.45
		12	$1,015,787.50	$0.00	$0.00	$0.00	$0.00	$0.00
Total			$12,189,450.00		$113,429.60	$167,604.94	$223,473.26	$279,341.56
Discount allowed for prepayment					$1,110,550.00	$1,110,550.00	$1,110,550.00	$1,110,550.00
Potential savings using different interest rates					$997,120.40	$942,945.06	$887,076.74	$831,208.44

Frank Balogh CEM CEP
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Fort Myers, Florida 33901
frankwb@comcast.com

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Prepay Mechanics

The Prepay concept could be easily incorporated into the FPL Customer Information System (CIS) and billing system, below is how the concept could be initiated to save FPL customer's significant savings and be revenue neutral to the utility.

The customer would only need to contact FPL and request the option to Prepay their yearly electric consumption for one year to receive the FPL discount rate.
(Customer prepays for a set amount of energy for one year, the calculated energy buy in kwh/$$ is retrieved from the FPL Customer Information System (CIS) and Strategic Account Management System (SAMS) data base which can be produced within seconds showing historical monthly/yearly average kwh/$$ use.

Customer elects to enter Prepaid contract for one year and decides to fund yearly energy buy via cash or third party financing.
(Third party financing, Libor rate quoted yearly for customers requiring third party assistance, FPL and customer subject to Prepay agreements)

Contract obligation would include tru-up terms for energy credit/debit prior to contract termination.
(Customer could receive an actual monthly billing statement with DO NOT PAY comparing actual sales applied to prepaid balance, amortized and unamortized balance, tru-ups would occur toward the end of the contract term,
customer dynamics adding/terminating sqft. accts. etc.during contract term)

Contract language to include language for early termination if customer leaves FPL service territory or FPL utility ceases operations
(Balance prorated to contract termination, plus any early out credits/debits)

Monthly billing process would not be significantly impacted.
(FPL systems handle rider codes, deposit interest and facility rental agreement lump sum payments at present, in non-governmental accounts the prepay amount would be similar to existing deposit tracking)

FPL rate schedules would not be affected.
(Prepay is only a payment methodology)

FPL infrastructure or administrative expenses should not exceed investment income derived from investing the prepaid cash.
(FPL discount rate plus earned income from prepaid cash should offset any programming expenses required, FPL systems currently are capable of tracking more complex accounting customer interactions)

The prepay concept is not detrimental to the Customer or FPL
The prepay concept is simply using the incremental cost of capital using FPL's published discount rate. Customer receives significant reduction on yearly energy buy with no capital expenditure, FPL receives a yearly energy sale (cash)up front for investment, FPL and customer relations are enhanced)

Prepay concept was originally targeted for governmental customers however after meeting with large non-governmental utility customers and listening to their needs the concept should be open to all rate payers who want the Prepay option
(For customers requiring third party involvement bank officials foresee 250-300basis points over Libor with Prepay contracts)

Please contact us if you have any questions

Memo with Exhibits from
Frank Balogh
Don Morgan

Exhibit
3

Mathew M. Carter 11 Chairman Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Fl. 32399

Re: Public Service Commission Hearing June 19th Ft. Myers, Florida

Dear Mr. Carter

Prepay Concept

Several months ago we contacted several SW Florida FPL customers to determine if there would be interest if allowed by the utility to have the option of prepaying for electric service if a discount was available. The response was overwhelming in favor of the concept. There is a general feeling within the customers we contacted that there are few options within the service area of a vertically integrated electric provider.

First, let us explain that our recommendation has nothing to do with rate structure. We are requesting that FP&L allow its customers the option to prepay their utility bills and receive a discount for the prepayment.
The customer would contract with FP&L to prepay for a block of kilowatt hours, based on their historical usage. This amount would be discounted using FP&L's published discount rate, which at this time is 8.35%. The customer would secure their cash needs through bonding, third parties, banks, etc. In some cases the customer would not have to secure outside financing but pay cash. Under this circumstance the customer would receive the full benefit. Protocol on true up would be negotiated with FP&L for any/all energy usage outside the contractual amount via a debit credit arrangement for the contract period. (Lee Co./Collier Co. spread sheets attached)
We believe this would be basically revenue neutral to FP&L based on the fact that they have received payment in advance to invest, hedge etc. (FPL advantages attached)

On January 1st of this year for the first time in history utilities in the state of Florida started collecting from their customer base the "Capacity Clause Recovery Charge" which is a prepayment for future facilities that may or may not be constructed.

Prepayment for electricity via smart meters, prepaid cards etc, are rapidly catching on across the country. You can prepay or contract for your energy needs with other energy utilities.

Pennsylvania Public Utility Commission capped energy increases until 2010. Pennsylvania Electric and Metropolitan Edison filed a joint mitigation which allows their customers to prepay up to 10% of their monthly energy cost. The utilities then pay 7.5% interest on the prepay portion which will be distributed back in credits to offset the expected increases when the cap is lifted in 2011.

In 2003 IRS rulings opened the door to tax-exempt bond financing for long term energy contracts. Public utilities have prepaid 33 gas and electric energy contracts worth billions for the wholesale side of the business.

FPL considered the Prepay concept in the mid 90's (deregulation era). The Prepay contract would prevent other utilities from leaving FP&L in a deregulated environment via contractual obligations.

In sum prepayment is being offered in different form and structure within the energy landscape, the Florida electric customer should be allowed this option.

This concept should be revenue neutral to FPL and could be offered to all rate payer classifications. We would propose a short term pilot with the SW Florida customers who have shown interest in this payment methodology. (Prepay advantages attached)

FPL Base Rate Increase

We are living in an extraordinary time with all customer budgets depressed, the economy and unemployment in distress. FPL is a good company and were mindful that FPL has obligatory pressures however with annual adjustments (pass through cost) of the fuel *portion of the electric bill combined with FPL's first quarter earnings up 14% and* recently raising its profit forecast it doesn't appear that a 30% base rate increase and 12.5% return on equity can be justified in this recessionary time.

Respectfully

Don Morgan CPA	Frank Balogh CEM CEP
239-340-5138	239-223-0956

**Calculations for potential savings
if allowed to prepay energy bills**

Lee County

Lee County		Month	Monthly Principle Payment	Remaining balance	Interest @ 2% Paid Monthly	Interest @3% Paid Monthly	Interest @ 4% Paid Monthly	Interest @ 5% Paid Monthly
Last year's energy costs	$11,400,000.00							
Discount 8.35%	$951,900.00							
	$10,448,100.00			$10,448,100.00				
		1	$870,675.00	$9,577,425.00	$17,413.50	$23,948.66	$31,924.75	$39,905.94
		2	$870,675.00	$8,706,750.00	$14,511.25	$21,766.88	$29,022.50	$36,278.13
		3	$870,675.00	$7,836,075.00	$13,060.13	$19,590.19	$26,120.25	$32,650.31
Calculations shown as if 100% financed		4	$870,675.00	$6,965,400.00	$11,609.00	$17,413.50	$23,218.00	$29,022.50
		5	$870,675.00	$6,094,725.00	$10,157.88	$15,236.81	$20,315.75	$25,394.69
		6	$870,675.00	$5,224,050.00	$8,706.75	$13,060.13	$17,413.50	$21,766.88
		7	$870,675.00	$4,353,375.00	$7,255.63	$10,883.44	$14,511.25	$18,139.06
		8	$870,675.00	$3,482,700.00	$5,804.50	$8,706.75	$11,609.00	$14,511.25
		9	$870,675.00	$2,612,025.00	$4,353.38	$6,530.06	$8,706.75	$10,883.44
		10	$870,675.00	$1,741,350.00	$2,902.25	$4,353.38	$5,804.50	$7,255.63
		11	$870,675.00	$870,675.00	$1,451.13	$2,176.69	$2,902.25	$3,627.81
		12	$870,675.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total			$10,448,100.00		$97,225.35	$143,661.38	$191,548.50	$239,435.63
Discount allowed for prepayment					$951,900.00	$951,900.00	$951,900.00	$951,900.00
Potential savings using different interest rates					$854,674.63	$808,238.63	$760,351.50	$712,464.38
Frank Balogh CEM CEP				Don Morgan CPA				
1839 Llewellyn Drive				8950 Penzance Blvd.				
Fort Myers, Florida 33901				Fort Myers, Florida 33912				
franbalo@comcast.net				dgmorgan1@hotmail.com				

Calculations for potential savings
if allowed to prepay energy bills.

Collier County

			Monthly		Interest @ 2%	Interest @ 3%	Interest @ 4%	Interest @ 5%
Collier County		Month	Principle Payment	Remaining balance	Paid Monthly	Paid Monthly	Paid Monthly	Paid Monthly
Last year's energy costs	$13,300,000.00							
Discount 8.35%	$1,110,550.00							
	$12,189,450.00			$12,189,450.00				
		1	$1,015,787.50	$11,173,662.50	$20,316.75	$27,934.16	$37,245.54	$46,556.93
		2	$1,015,787.50	$10,157,875.00	$16,929.79	$25,394.69	$33,859.58	$42,324.48
		3	$1,015,787.50	$9,142,087.50	$15,236.81	$22,855.22	$30,473.63	$38,092.03
Calculations shown as if 100% financed		4	$1,015,787.50	$8,126,300.00	$13,543.83	$20,315.75	$27,087.67	$33,859.58
		5	$1,015,787.50	$7,110,512.50	$11,850.85	$17,776.28	$23,701.71	$29,627.14
		6	$1,015,787.50	$6,094,725.00	$10,157.88	$15,236.81	$20,315.75	$25,394.69
		7	$1,015,787.50	$5,078,937.50	$8,464.90	$12,697.34	$16,929.79	$21,162.24
		8	$1,015,787.50	$4,063,150.00	$6,771.92	$10,157.88	$13,543.83	$16,929.79
		9	$1,015,787.50	$3,047,362.50	$5,078.94	$7,618.41	$10,157.88	$12,697.34
		10	$1,015,787.50	$2,031,575.00	$3,385.96	$5,078.94	$6,771.92	$8,464.90
		11	$1,015,787.50	$1,015,787.50	$1,692.98	$2,539.47	$3,385.96	$4,232.45
		12	$1,015,787.50	$0.00	$0.00	$0.00	$0.00	$0.00
Total			$12,189,450.00		$113,429.60	$167,604.94	$223,473.26	$279,341.56
Discount allowed for prepayment					$1,110,550.00	$1,110,550.00	$1,110,550.00	$1,110,550.00
Potential savings using different interest rates					$997,120.48	$942,945.06	$887,076.75	$831,208.44

Frank Balogh CEM CEP
1838 Llewellyn Drive
Fort Myers, Florida 33901
[illegible]

Don Morgan CPA
8950 Penzance Blvd.
Fort Myers, Florida 33912
[illegible]

FPL Advantages with Prepayment of Electric Utility Bills

Promotes energy conservation

Drastic reduction in monthly meter reading cost

Reduction in back office monthly billing cost

Increase working capital

Call center activity reduced

Reduced back office cost in tracking and payment of deposits

Utility can better manage credit risk

Float for utility

Built in hedge against weather conditions

No late payment or reconnect fees expenses

Reduce credit and collection costs

Improved safety and productivity with reduction in disconnects and reconnects

No capital expenditure

Elimination of time between delivery and receipt of revenue

Prepay Advantages

No capital expenditure required to receive savings

Promotes energy conservation

Immediate cash infusion into depressed budgets

Option of payment methodology increased customer Satisfaction

Assists in positive image of vertically integrated company

Utility has existing in-house IM systems to accommodate Prepay

Other energy companies allow prepay in different forms

Utilities prepay on the wholesale side of the business, IRS ruling 2003 opened door for tax-exempt bond financing for long term energy contracts

FPL already accepts prepayment for facilities which may or may not be built starting in January 2009 with Capacity Clause Recovery Charge

Customers who pay on fixed billing amounts are more satisfied (JD Power Survey 2008)

Ultimately customer choice program

Customer can more accurately budget for services

City of Fort Myers
William P. Mitchell
City Manager

City of Palms

June 24, 2009

Mr. Matthew M. Carter
Chairman Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399

Re: Public Service Hearing June 19th Fort Myers, Florida

Dear Mr. Carter:

Outlined below are concerns the City of Fort Myers has with the proposed changes to the rate structure, which FPL filed an application for on March 18, 2009 with the Public Service Commission, scheduled for implementation in January 2010.

FPL Base Rate Increase:

The proposed application filed with the Florida Public Service Commission is requesting authority to increase their customer's base electric rates by about 30%. This equates to $1.3 billion annually and is a 12.5% return on equity.

The Florida Office of Public Counsel, which represents the state's utility customers, has stated that the national average return on investment (ROI) for utilities is approximately 10.5%. Recent regulator decisions around the country have resulted in equity returns averaging 10.3%. In comparison, the recent Tampa Electric Company (TECO) request on a return on equity of 9.75% was deemed fair and reasonable by the Office of Public Counsel. The Office of Public Counsel is recommending a rate reduction or no increase. Additionally, on January 1, 2009 the State of Florida started collecting the "Capacity Clause Recovery Charge" which is a prepayment for future facilities that may or may not be constructed from their customer base.

The base rate increase has a serious impact on our street light costs and cost of producing water and treating wastewater. FPL has been marketing this as an overall decrease to the total bill for large kilowatt users when in reality the only savings that will be realized is related to the price of fuel should it remain at lower levels than the current pass through. Their application is based on a fuel rate of $2.11. The price of fuel currently is $2.73. Therefore, the original savings presented to us are not valid. If the rate increase is approved and there are no savings generated by a reduced fuel pass through, the City's FPL charges would increase by over $2.3 million over the current year budget.

2200 Second Street • Fort Myers, Florida 33901 • (239) 321-7022 • Fax (239) 344-5909
Mailing Address: P.O. Box 2217 • Fort Myers, Florida 33902

Unfortunately, our City would not be able to build our budget around proposed savings given the current volatility of the petroleum market. We would need to somehow absorb the increases through efficiencies or pass it on to our taxpayers and rate payers burdening them with higher bills.

The City of Fort Myers would like to go on record as opposing the 30% base bill increase. While FPL has been a good business partner, proposing a 12.5% return on investment in the current recessionary times is excessive.

Prepay Concept:

It has come to our attention that FPL has considered a prepay option in the past. The City of Fort Myers is budgeted to spend $7.6 million this year on electrical consumption. There could be financial benefits to the City if they could prepay for their average historical usage at the FPL discount rate of 8.35%. The City has the potential of saving the difference between the FPL discount rate and the amount it would have earned on the cash. The savings that could be achieved in the current rate environment could be as much as $400,000. Different forms of prepayment are being offered throughout the energy industry. We urge the Public Service Commission to request FPL to offer a prepayment option.

Sincerely,

William P. Mitchell

William P. Mitchell
City Manager

WPM: SK: sb

cc: Honorable Mayor and City Council
Florida League of Cities
Saeed Kazemi, PE, Public Works Director

JUN 30 2009

STATE OF FLORIDA

DIVISION OF SERVICE, SAFETY & CONSUMER ASSISTANCE
DANIEL M. HOPPE, DIRECTOR
(850) 413-6480

Public Service Commission

July 6, 2009

Mr. William P. Mitchell, City Manager
City of Fort Myers
P.O. Box 2217
Fort Myers, FL 33902

RE: PSC Inquiry 865837C

Dear Mr. Mitchell:

This is in response to your letter to Chairman Matthew M. Carter II, Florida Public Service Commission, regarding Florida Power & Light Company (FPL). Given the nature of your concerns, Chairman Carter feels it would be appropriate for specialized staff of the Division of Service, Safety and Consumer Assistance to respond directly to you.

You expressed a concern about FPL's petition for an increase in its base rate. We appreciate your comments regarding the petition and will add your correspondence to Docket No. 080677-EI.

If you have any questions or concerns please call Ellen Plendl at 1-800-342-3552 or by fax at 1-800-511-0809.

Sincerely,

Daniel M. Hoppe

Daniel M. Hoppe, Director
Division of Service, Safety &
Consumer Assistance

DMH:mep

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD • TALLAHASSEE, FL 32399-0850
An Affirmative Action / Equal Opportunity Employer
PSC Website: http://www.floridapsc.com
Internet E-mail: contact@psc.state.fl.us

9250 West Flagler Street, Miami, Florida 33174
305-552-2825 • 305-552-4955 fax

FPL

September 22, 2009

Frank Balogh, CEM, CEP
1639 Llewellyn Drive
Fort Myers, Florida 33901

Dear Mr. Balogh: Frank

In June of this year, you attended the Florida Power & Light Quality of Service Hearing held in Fort Myers. You presented to the Commission your desire for the implementation of a government prepay program, and supplied them with written documentation in support. Although you did not supply us with copies upon request, we were nevertheless able to acquire copies through alternative channels. Upon review of the documents, we have determined that they lack sufficient information to allow us to perform a detailed analysis to determine if this concept is feasible.

Therefore, we are still in need of the following information before we can conduct a complete feasibility study on your proposal. Please provide us with the following:

1. Please elaborate on the structure of the proposed pre-payment program.
   a. What is the specific transaction being proposed?
   b. Which customers would be eligible for the program?
2. What are the proposed program and/or contract term(s)?
   a. Which parties would be subject to the program agreements?
3. How would the proposed pre-payment be administered?
   a. What is the proposed pre-payment period and frequency of prepayments?
   b. How is the prepayment amount determined? Please provide the proposed pre-payment calculation.
   c. How is the monthly bill impacted by the pre-payment process?
4. How would the proposed discount be administered? (I.E. via bill credit, rebate check, etc?)
   a. How frequently and for what period would the discount be applied?
   b. How is the discount amount determined? Please provide the proposed discount calculation.
   c. What is the suggested discount rate?

d. How is the monthly bill impacted by the discount process?

5. How would program true-ups be administered?

   a. How frequently would program true-ups occur? Monthly, quarterly, annually, etc?

   b. Are there financing impacts related to true-ups for the customer? For FPL?

   c. How is the monthly bill impacted by the true-up process?

6. What is the reconciliation process and associated penalties/billing impacts if a customer enrolled in the proposed program leaves the FPL service territory prior to consuming electricity related to the prepayment?

7. Does the proposed pre-payment program have additional impacts on the monthly bill process? (i.e. related to fuel adjustments, rate increases, etc?)

8. What is the proposed treatment of administrative and infrastructure expenses related to the implementation and management of the prepayment program?

   a. How frequently and over what period would the expenses be (not be) recovered?

9. Please identify the pre-payment program benefits/detriments from the customer perspective.

   a. What is the financial impact to the customer? Please include tax considerations.

   b. What are the risks to the customer?

10. Please identify the pre-payment program benefits/detriments from FPL's perspective.

    a. What is the financial impact to FPL?

    b. What are the risks to FPL?

11. If available, please provide any program modeling, flow charts, program examples, etc. that illustrate the mechanics of the proposed pre-payment program.

We are in receipt of the email you sent to the Commission on September 14, 2009. Again, we are looking forward to working with you on this proposal, but are unable to evaluate it without your cooperation in supplying the much needed missing information. Should you have any questions regarding our request, please feel free to contact me at (305) 552-2825. I will continue to serve as your FPL point of contact for the duration of this project. Once FPL has received your responses, and fully evaluated your proposal, we will schedule a meeting with you to discuss.

Sincerely,

Gene E. Beck

Manager, Corporate Governmental Accounts

From: Frank Balogh
To: commissioner.skop@psc.state.fl.us ; commissioner.mcmurrian@psc.state.fl.us ; commissioner.edgar@psc.state.fl.us ; commissioner.argenziano@psc.state.fl.us ; chairman@psc.stte.fl.us
Cc: jacshr@msn.com ; krelly.jr@leg.state.fl.us
Sent: Monday, October 12, 2009 9:46 AM
Subject: How Prepay could work in the FPL service territory

Dear Mr. Carter Chairman

The Prepay concept could be easily incorporated into the FPL Customer Information System (CIS) and billing system, below is how the concept could be initiated to save FPL customers significant savings and be revenue neutral to the utility.

The customer would only need to contact FPL and request the option to Prepay their yearly electric consumption for one year to receive the FPL discount rate.
(Customer prepays for a set amount of energy for one year, the calculated energy buy in kwh/$$ is retrieved from the FPL Customer Information System (CIS) and Strategic Account Management System (SAMS) data base which can be produced within seconds showing historical monthly/yearly average kwh/$$ use.

Customer elects to enter Prepaid contract for one year and decides to fund yearly energy buy via cash or third party financing.

1

(Third party financing, Libor rate quoted yearly for customers requiring third party assistance, FPL and customer subject to Prepay agreements)

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Contract language to include language for early termination if customer leaves FPL service territory or FPL utility ceases operations
(Balance prorated to contract termination, plus any early out credits/debits)

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(Prepay is only a payment methodology)

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(FPL discount rate plus earned income from prepaid cash should offset any programming expenses required, FPL systems currently are capable of tracking more complex accounting customer interactions)

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The prepay concept is simply using the incremental cost of capital using FPL's published discount rate. Customer receives significant reduction on yearly energy buy with no capital expenditure, FPL receives a yearly energy sale (cash)up front for investment, FPL and customer relations are enhanced)

Prepay concept was originally targeted for governmental customers however after meeting with large non-governmental utility customers and listening to their needs the concept should be open to all rate payers who want the Prepay option
(For customers requiring third party involvement bank officials foresee 250-300basis points over Libor with Prepay contracts)

Please contact us if you have any questions
Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

Guiding Principles

Consultant Prepay Concept

Description

A consultant, who is also an ex-employee with several local governmental contacts on the west coast, is promoting a concept/program for FPL to provide a discount to certain customers via an arbitrage-type arrangement. The concept is simply that FPL allows a customer to prepay a full year's worth of estimated bills at the beginning of the year in exchange for discounting the amount due by the Company's average cost of capital. The customer may pay their prepayment via a bond issue or other means. For example, if FPL's average cost of capital is 8% and the local government customer can borrow at 4%, they could net a 4% discount. This concept was investigated several years ago but never implemented.

Consultant Objectives

- Grow business
- Explore customer payment options
- Reduce customer costs

Customer Objectives

- Reduce electric costs

Project Team

A team has been formed to evaluate the consultant's proposal noted above and develop a strategy to address its viability. The team consists of the following members and functional areas:

Name	Title	Functional Area
Jonathan Nemes	Manager of Financial Analysis	Finance
Kathy Beilhart	Assistant Treasurer	Corporate Finance
Steve Romig	Director	Regulatory
Roseanne Lucas	Consumer Issues Manager	Regulatory
Maile Sharff	Regulatory Issues Manager	Regulatory
Bob Valdez	Regulatory Issues Analyst	Regulatory
Pat Bryan	Senior Attorney	Legal
Ana Babcock	Director	CS Customer Billing
Rene Villa	Senior Supervisor	CS Electronic Billing & Payments
John Hall	Director	CS Revenue Recovery
Barbara Leary	Senior Director	Corporate Communications
Anita Sharma	Senior Director	IM Business Systems
Wayne Besley	Director	CS Field Operations

Tracie Bagans	Corporate Manager	CS Field Operations
Gene Beck	Corporate Manager	CS Field Operations

The representatives of Consultant are also listed below:

Name	Title	Company
Frank Balogh	Former FPLer	Consultant
Don Morgan	CPA	Consultant

At this time we are aware of the following customers as having been contacted by the consultant:

Name	Title	Customer
Alex Sink	Chief Financial Officer	State of Florida
Barbara Reynolds	Assistant to CEO	Publix
Jim DeLony	Public Works Administrator	Collier County

Other customers potentially contacted include:

- Collier County Schools
- Lee County
- Lee County Schools
- Florida Gulf Coast University
- Edison State College
- *Some municipalities*

The following table is a list of guiding principles to address specific issues related to these projects:

Principles	
1	Financial
2	Regulatory
3	Legal
4	Risk Assessment
5	Business Systems
6	Customer

The following provides a summary of the principles (listed above), owners/Subject Matter Expert, drivers, and the corresponding status for each item:

Principle #1	Financial
Owner	Jonathan Nemes & Kathy Beilhart
Drivers	Financial analysis to assess feasibility of concept
Status	Awaiting response from consultant to questions submitted regarding concept. Request submitted 1/23/09; however no

	direct response received to date. A spreadsheet, which was provided to the PSC at the FT Myers QSH, was deemed deficient in responding to our questions.

Principle #2	Regulatory
Owner	Steve Romig, Rosanne Lucas, Maile Sharff & Bob Valdez
Drivers	Regulatory review of concept, including tariff requirements and timetable
Status	Met with consultant, awaiting financial analysis

Principle #3	Legal
Owner	Pat Bryan
Drivers	Legal review of concept relative to Florida Statutes and FPSC Rules & Regulations
Status	Legal review prepared

Principle #4	Risk Assessment
Owner	John Hall
Drivers	Risks associated with concept, ie true-up, default, etc
Status	Pending analysis

Principle #5	Business Systems
Owner	Anita Sharma
Drivers	System changes necessitated if concept moves forward
Status	Awaiting corporate determination

Principle #6	Customer and Customer Relationship Impact
Owner	Wayne Besley, Ana Babcock, John Hall, Barbara Leary, Tracie Bagans & Gene Beck
Drivers	Customer communications
Status	Met with consultant, awaiting financial analysis

Project History

A similar concept was investigated in 1999 but not pursued.

Ann Cole 080477

From: Ann Cole
Sent: Thursday, November 12, 2009 1:20 PM
To: Office of Commissioner Klement
Cc: Commissioners Advisors; Administrative Assistants - Commission Suite; Connie Kummer
Subject: FW: Prepay
Attachments: Dear Mr Shreve doc; fp&lee cty xls; colliercospreadsheet xls; Prepay Mechanics.doc

Thank you for this information. The four attachments have been printed and will be placed in *Docket Correspondence - Consumers and their Representatives*, in Docket No. 080677-EI.

From: Office of Commissioner Klement
Sent: Thursday, November 12, 2009 12:11 PM
To: Ann Cole; Connie Kummer
Subject: FW: Prepay

Ann, please place this in the file for DN 080677-EI. Thank you.

From: Frank Balogh [mailto:frankwb@comcast.net]
Sent: Thursday, October 29, 2009 11:34 AM
To: Office of Commissioner Klement
Subject: Fw: Prepay

FPSC, CLK - CORRESPONDENCE
☐ Administrative ☐ Parties ☒ Consumer
DOCUMENT NO. 01514-09
DISTRIBUTION:

Dear Commissioner Klement

We previously forwarded the attachments to another email address, the ~~email below and attachments~~ explain the concept of customers saving significant dollars in the FPL customer service area Several large customers spoke in favor of this concept at the public hearing in Ft Myers.

----- Original Message -----
From: Frank Balogh
To: dklement@sar.usf.edu
Sent: Tuesday, October 13, 2009 8:30 AM
Subject: Prepay

Dear Mr. Klement

Congratulations on your appointment to the Public Service Commission

We are forwarding you information on a concept that is being considered during the rate cases now in front of the PSC. We have been working with large customers in SW Florida and presented the Prepay concept to the PSC during their hearings in Ft. Myers. Quickly, the Prepay concept is allowing the customer to prepay one years electric usage in order to receive the published FPL Discount Rate (8.35%). In meetings with bank officials they would support third party financing for Prepay and suggest 250-300basis points over Libor if the customer needed third party involvement. (please see attached savings spread sheets for Lee and Collier Co) FPL was going to use this concept in the 90's when deregulation was threatening the utilities, at that time the concept was to enter a one year contractual obligation to prevent the customer from switching utilities. Prepay gives significant savings without any capital expenditure from the customer The customer base we have met with need relief because of budget deficits.
We would answer any question you may have on this concept and again congratulate you on your appointment to the Public Service Commission.

11/12/2009

pg 4406 - 11/13/09-am

Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

Attachments:
Letters to PSC
Savings analysis

11/12/2009

Ann Cole 080677

From: Ann Cole
Sent: Thursday, November 12, 2009 1:26 PM
To: Office of Commissioner Klement
Cc: Commissioners Advisors; Administrative Assistants - Commission Suite; Connie Kummer
Subject: FW: Prepay Advantages
Attachments: Prepay advantages 2 doc

Thank you for this information. The attachment has been printed and will be placed in *Docket Correspondence - Consumers and their Representatives*, in Docket No. 080677-EI.

From: Office of Commissioner Klement
Sent: Thursday, November 12, 2009 12:10 PM
To: Ann Cole; Connie Kummer
Subject: FW: Prepay Advantages

Ann, please place this in the file for DN 080677-EI. Thank you.

From: Frank Balogh [mailto:frankwb@comcast.net]
Sent: Tuesday, November 03, 2009 10:05 AM
To: Office of Commissioner Skop; Office of Commissioner Klement; Office of the Chairman; Office Of Commissioner Edgar; commisioner.argenziano@psc.state.fl.us; KELLY.JR; jacshr@msn.com
Subject: Prepay Advantages

Dear Commissioners

Please see attached Prepay Advantages which will assist Florida consumers with minimal impact to the utility. The consumer should at least have the option to Prepay their electric bill and receive the utilities discount rate. This payment methodology would create cash for the utility customer without any capital expenditure and be revenue neutral to the utility

Please contact us with any questions you may have.

Thank you
Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

FPSC, CLK - CORRESPONDENCE
☐ Administrative ☐ Parties ☑ Consumer
DOCUMENT NO. 01574-09
DISTRIBUTION: ______

Prepay Advantages

No capital expenditure required to receive savings

Promotes energy conservation

Immediate cash infusion into depressed budgets

Option of payment methods increases customer satisfaction

Assists in positive image of vertically integrated company

Customers who pay on fixed billing amounts are more satisfied
(JD Power Survey 2008)

Ultimate customer choice program

Customers can more accurately budget for services

Third party financing would start at 250 basis points over Libor if required

From: Frank Balogh
To: commissioner.argenziano@psc.state.fl.us ; commissioner.edgar@psc.state.fl.us ; chairman@psc.state.fl.us ; commissioner.klement@psc.fl.us ; commissioner.skop@psc.state.fl.us
Cc: KELLY.JR ; jacshr@msn.com
Sent: Thursday, November 19, 2009 9:35 AM
Subject: Prepay (The Conservation Effect)

Dear Commissioners

The Conservation Effect with Prepay

The Salt River Project reports 12.8% reduction in energy use when customers switch from credit to Prepay

Northern Ireland States Prepay customers use 4.9% less energy

Oklahoma Electric Cooperative reports that customers lowered consumption 13% after switching to Prepay

Ontario Canada Woodstock Hydro customers use 15% less energy

Brunswick Electric Membership Coop Shallotte N.C. 12%

Customers are more cognizant of their consumption when monitored against their planned usage.
It is important to note that Prepay has many forms as previously forwarded we believe the that using software to run Prepayment rather than hardware offers the utility a single billing system for all customers.

Please contact us with any questions

Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

Beck, Gene

From: Frank Balogh [frankwb@comcast.net]
Sent: Friday, November 20, 2009 7:40 AM
To: Beck, Gene
Subject: Fw: Prepay (The Conservation Effect)

----- Original Message -----
From: Frank Balogh
To: commissioner.argenziano@psc.state.fl.us ; commissioner.edgar@psc.state.fl.us ; chairman@psc.state.fl.us ; commissioner.klement@psc.fl.us ; commissioner.skop@psc.state.fl.us
Cc: KELLY.JR ; jacshr@msn.com
Sent: Thursday, November 19, 2009 9:35 AM
Subject: Prepay (The Conservation Effect)

Dear Commissioners

The Conservation Effect with Prepay

The Salt River Project reports 12.8% reduction in energy use when customers switch from credit to Prepay

Northern Ireland States Prepay customers use 4.9% less energy

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Customers are more cognizant of their consumption when monitored against their planned usage.
It is important to note that Prepay has many forms as previously forwarded we believe the that using software to run Prepayment rather than hardware offers the utility a single billing system for all customers.

Please contact us with any questions

Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

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FPL

Florida Power & Light Company

November 20, 2009

Frank Balogh, CEM, CEP
1639 Llewellyn Drive
Fort Myers, Florida 33901

Dear Mr. Balogh:

We are writing this letter to again request your assistance in providing the information needed to fully evaluate the prepay concept you have proposed to a number of customers as well as to the Florida Public Service Commission. You have indicated that this program would be cost-effective for FPL based on your analysis; however you have not provided any documentation that supports such cost-effectiveness.

In November 2008, Florida Power & Light ("FPL") representatives met with you to discuss your proposal for FPL to provide governmental agencies the option of paying their electric bills in advance. The history of our interaction with you regarding the prepay proposal is as follows:

- At the meeting in November, 2008, we shared that while we are willing to consider your proposal, we needed sufficient details to perform thorough feasibility analyses, ensuring that the concept would not be detrimental to either FPL or its customers.

- In January 2009, you provided a one-page description of your proposal which failed to provide sufficient information to enable FPL to conduct a comprehensive evaluation. See copy attached.

- On January 23, 2009, we sent you a list of eleven clarifying questions (with subparts) in order to facilitate receipt of the information needed by FPL for its evaluation of the proposal. You failed to provide FPL with the requested information. See copy attached.

- In June 2009, at the Fort Myers Quality of Service Hearing associated with FPL's base rate increase request, we heard from you once again regarding your prepay proposal. You provided the Commission and Intervenors what was referred to as "documentation" supporting the prepay concept. On July 15, 2009, via email, we requested that you forward to us a copy of the documents you provided at the hearing, hoping they would provide FPL with the needed information. You failed to respond to our request; however, we were able to obtain copies from the Commission for our use in evaluating your proposal. Upon review, it was determined that these documents did not provide FPL with sufficient details to enable an evaluation. See copy of email dated July 15, 2009, attached.

- On September 17, 2009, FPL sent you another letter which incorporated the list of questions that were originally sent to you in January. To date, we have received no response from you. See copy of letter attached.

Based on a preliminary review of your proposal, we have identified several fundamental flaws in your basic proposal. They are as follows:

- The recommended discount rate of 8.35% that is used in your analysis is FPL's current long-term incremental cost of capital. This cost of capital is traditionally used for the financing of capital projects in excess of one year and includes both a long-term debt component and an equity component. It is inappropriate for a proposed Prepayment program as the program contemplates short-term prepayments and participants would not be bearing any equity risk associated with the program;

- A program that utilizes FPL's long-term incremental weighted cost of capital would unfairly benefit program participants at the expense of non-participating customers who would subsidize the cost of the program. The proposal assumes that prepayments received from program participants would be used to reduce the amount of long-term debt and equity in FPL's capital structure. A reduction in the amount of equity in FPL's capital structure without any commensurate reduction in risk would by definition result in remaining equity holders bearing an increased level of risk for which they would require an increased level of equity return. As the proposal only encompasses short-term cash flows which are typically funded through the Company's issuance of commercial paper, it would be more appropriate to use the short-term debt rate to discount customer prepayments. FPL's short-term funding rate is currently forecasted to be 2.12% in 2010 excluding commitment fees. At this rate it is unlikely that many of our customers would derive benefit from this type of program;

- The proposal incorrectly assumes that FPL customers pay their electrical bill one time at the end of the year. This assumption results in a discount calculation equivalent to: <u>Annual Estimated Electric cost x FPL WACC = Discount</u>. In reality, FPL customers pay a monthly electric bill which means your example has overstated the value of the discount by failing to consider the time value of money. For example, had cash flow timing been considered in your Lee County exhibit, the proposed discount rate would result in a discount of $499K, and not the $952K referenced. If the appropriate short-term rate forecast of 2.12% was used, the resulting discount would be reduced to $129K.

- Your proposal assumes that there would be no incremental costs incurred by FPL to implement and administer a program for prepayment and that there would be several cost reductions. On the contrary, there would be additional costs incurred which would need to be funded by participants in the program such as additional information systems requirements, costs associated with the accounting and reconciliation process, legal contracting, as well as customer service support. There would be no reduction in monthly meter reading and billing attributable to such program as it would be necessary for the reconciliation process.; and

- There is significant exposure to FPL and its customers related to necessary true-up mechanisms.

As we have conveyed numerous times, we are fully willing to evaluate your proposal, but are unable to do so without your cooperation in providing us the details. To facilitate that full evaluation, please provide us with answers to the following:

1. Please elaborate on the structure of the proposed pre-payment program.

   a. What is the specific transaction being proposed?

   b. Which customers would be eligible for the program?

2. What are the proposed program and/or contract term(s)?

   a. Which parties would be subject to the program agreements?

3. How would the proposed pre-payment be administered?

   a. What is the proposed pre-payment period and frequency of prepayments?

   b. How is the prepayment amount determined? Please provide the proposed pre-payment calculation.

   c. How is the monthly bill impacted by the pre-payment process?

4. How would the proposed discount be administered? (i.e. via bill credit, rebate check, etc?)

   a. How frequently and for what period would the discount be applied?

   b. How is the discount amount determined? Please provide the proposed discount calculation.

   c. What is the suggested discount rate?

   d. How is the monthly bill impacted by the discount process?

5. How would program true-ups be administered?

a. How frequently would program true-ups occur? Monthly, quarterly, annually, etc?

b. Are there financing impacts related to true-ups for the customer? For FPL?

c. How is the monthly bill impacted by the true-up process?

6. What is the reconciliation process and associated penalties/billing impacts if a customer enrolled in the proposed program leaves the FPL service territory prior to consuming electricity related to the prepayment?

7. Does the proposed pre-payment program have additional impacts on the monthly bill process? (i.e., related to fuel adjustments, rate increases, etc?)

8. What is the proposed treatment of administrative and infrastructure expenses related to the implementation and management of the prepayment program?

   a. How frequently and over what period would the expenses be (not be) recovered?

9. Please identify the pre-payment program benefits/detriments from the perspective of the participating customer.

   a. What is the financial impact to the customer? Please include tax considerations.

   b. What are the risks to the customer?

10. Please identify the pre-payment program benefits/detriments from FPL's perspective.

   a. What is the financial impact to FPL?

   b. What are the risks to FPL?

11. If available, please provide any program modeling, flow charts, program examples, etc. that illustrate the mechanics of the proposed pre-payment program.

We have committed to the FPSC that we would conduct a thorough review and evaluation of your proposal and report back to the Commission regarding its overall cost-effectiveness and potential benefit to customers. The proposals you have submitted thus far are general concepts and lack sufficient detail to enable a thorough financial assessment. Such a proposal from you should include detailed calculations of all financial attributes, showing calculations and the sources for any assumptions (such as FPL's cost of capital). We remain available to work with you on this proposal, and would like to complete this study as soon as practical in order to be able to respond to the FPSC as well as the customers that have expressed interest as a result of your efforts. Should you have any questions regarding our request, please feel free to contact me at (305) 552-2825. Once FPL has received your responses, and fully evaluated your proposal, we will schedule a meeting with you to discuss.

Sincerely,

Gene Beck
FPL Customer Service

cc:

ANN COLE, Director of the Commission Clerk and Administrative Services, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Clerk).

LISA C. BENNETT, ESQUIRE, MARTHA CARTER BROWN, ESQUIRE, JEAN HARTMAN, ESQUIRE AND ANNA WILLIAMS, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (STAFF).

JOSEPH A. McGLOTHLIN, CHARLIE BECK, PATRICIA A. CHRISTENSEN, ESQUIRES, Office of the Public Counsel, c/o the Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of THE CITIZENS OF THE STATE OF FLORIDA (OPC).

STEPHANIE ALEXANDER, and TRIPP SCOTT, ESQUIRES, 200 West 200 West College Avenue, Suite 216, Tallahassee, Florida 32301
On behalf of the FLORIDA ASSOCIATION FOR FAIRNESS IN RATE MAKING (AFFIRM)

CECILIA BRADLEY, Office of the Attorney General, The Capitol – PL01, Tallahassee, FL 32399
On behalf of the ATTORNEY GENERAL FOR THE CITIZENS OF FLORIDA (AG)

TAMELA IVEY PERDUE, ESQUIRE, 516 North Adams Street, Tallahassee, Florida 32301, and
MARY F. SMALLWOOD, ESQUIRE, Ruden McClosky, Smith, Schuster & Russell, P.A., 215 South Monroe Street, Suite 815, Tallahassee, Florida 32301
On behalf of ASSOCIATED INDUSTRIES OF FLORIDA (AIF)

BRIAN P. ARMSTRONG, ESQUIRE, 1500 Mahan Drive, Suite 200, Tallahassee, Florida 32308
On behalf of the CITY OF SOUTH DAYTONA (CSD)

CAPTAIN SHAYLA L. MCNEILL, AFLOA/JACL-ULT, AFCESA, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, Florida 32403
On behalf of Federal Executive Agencies (FEA)

JON. MOYLE, JR, and VICKI GORDON KAUFMAN, ESQUIRES, 118 North Gadsden Street, Tallahassee, Florida 32312 and JOHN W. McWHIRTER, JR. P.O. Box 3350, Tampa, Florida
On behalf of the Florida Industrial Power Users Group (FIPUG)

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, 225 South Adams Street, Suite 200, Tallahassee, Florida 32301
On behalf of the Florida Retail Federation (FRF)

KENNETH L. WISEMAN, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; MARK F. SUNDBACK, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; JENNIFER L. SPINA, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; LISA M. PURDY Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; LINO MENDIOLA, Andrews Kurth LLP, 111 Congress Avenue, Suite 1700, Austin, Texas 78701; and MEGHAN E. GRIFFITHS, Andrews Kurth LLP, 111 Congress Avenue, Suite 1700, Austin, Texas 78701.
On behalf of the South Florida Hospital and Healthcare Association (SFHHA)

D. MARCUS BRASWELL, JR., ESQUIRE AND ROBERT A SUGARMAN, ESQUIRE, 100 Miracle Mile, Suite 300, Coral Gables, FL 33134
On behalf of IBEW System-Council U-4 (SCU-4)

STEPHEN STEWART Post Office Box 12878, Tallahassee, Florida 32317
On behalf of Mr. Richard Unger (UNGER)

Nov/Dec 2009

Dear Chairman and Commissioners

Re: Prepay electrical program

We are in receipt of a letter from FPL dated November 20th 2009. We would like to comment on the statements made.

This letter stated that FPL, at the meeting we requested, was willing to consider the Prepay proposal. We remember the meeting somewhat differently. In that meeting we were advised that we should visit other utilities for comment and that it takes 4-5years for any process to be approved by FPL and the Public Service Commission. Don Morgan asked directly if that was the case, no matter if the proposal was a great idea or poor idea it would take 4-5 years and you better have deep pockets. At present FPL is the utility company requesting the base rate change, not all the other utilities in the state.
To wait 4-5 years for any process to be change is ridiculous. In sum we realized the FPL folks we met with had no intention of working with us in this endeavor.

Keep in mind that this idea (Prepay Electricity Bills) was not our original idea. FPL was ready to move forward with the Prepay concept in the 90's and their purpose was to prevent large customers from leaving FPL by contractual obligation if some form of deregulation occurred in the state. A comprehensive evaluation of this process was completed and employees assigned to make it happen. Our question is why the Prepay evaluation process? The better question is why would FPL not want to move forward with a process that saves the customer dollars and gives FPL cash up front.

A discount rate is just that, a discount rate. I get a bill for $100.00 with a 10% discount, I pay $90.00. FPL's own definition "the incremental after tax cost of capital". FPL should not start redefining the approved accounting formats that the discount rate is an analysis of only long-term incremental cost of capital. Also to go on and say the discount rate is traditionally used for capital projects in excess of one year sounds like an internal operational decision and does not change basic accounting principles.

FPL also states that participants would not be bearing any equity risk associated with the program. The better question is who is protecting the customers equity risk, the customer is providing the upfront capital in hopes that the host utility (FPL) will stay in business for the contract term. Again, why would FPL not want their projected revenue stream paid up-front? Cash would be available for (hedging, increased working capital, float for utility, better manage credit risk, elimination of time between delivery and receipt of revenue, etc.)

The cost of implementing the Prepay Program would be minimal. FPL has the Strategic Account Management System (SAMS) combined with the Customer Information System (CIS) which allow the utility to track any and all financial transactions with the customer. Rider codes for specific customers along with payment schedules, deposit guides and payment amounts etc. are routinely collected and tracked by FPL. These systems are more sophisticated than would be required for any Prepayment program. There are several existing programs where FPL collects additional dollars to offset program cost which require special metering, this program would not require any special meter.

FPL incorrectly assumes the customer would pay at the end of the year. The Prepay *Program* would have FPL collect the contracted revenue at the beginning of the contract and have a true-up monthly, quarterly, semi-annually, whenever, to account for any changes by the customer during the contract term (debit/credit if customers adds or reduces consumption for various reasons).

FPL states that the Prepay program does not reflect the time value of money. They are correct. If we had considered time value of money FPL would be the winner again. We are perplexed why FPL would even mention time value of money when all revenue is paid up front. A dollar in hand today is worth more than one to be received sometime in the future. The positive benefits with prepayment all seem to be with the host utility (FPL) with any *time value of money calculation*.

FPL also mentions a short term rate which would cut Lee County's anticipated yearly savings $952,000 to $499,000/yr. Remember that Prepay is simply a payment methodology not a rate schedule so whatever discount rate FPL is eluding to now is not reflected in the PSC approved schedules. FPL currently pays 7% on deposits they hold.

In sum the exposure/risk mentioned is with the customer not the host utility. Pennsylvania allows a prepayment of 10% of the monthly electric bill which the utilities collect and then will return to the customers in 2011 along with 7% interest. Peculiar how one utility can accept a prepayment and in addition pay interest to the customer.

In Southwest Florida the two largest counties and universities along with FPL customers in the private sector are requesting to participate in or have the opportunity to participate in a Prepay program. In addition, inquires from outside the FPL service territory (ex. University of Florida, General Growth Atlanta) have requested information and are monitoring the proposal as it is being considered by the PSC. Just a straight forward Prepay proposal to secure savings via the FPL published discount rate is what the customers are requesting. Simply allow the customer to prepay one year's energy billing with a structured tru-up. The possibilities of such significant savings, without capital expenditure and minimal impact on the host utility, strengthens customer balance sheets. This savings could be used to assist in funding for alternate energy or energy conservation projects if the customer desired.

We would like to meet with FPL and PSC staff to further discuss, with an open mind, this concept.

Thank you

Don Morgan CPA
239-340-5138
Frank Balogh CEM CEP
239-223-0956

Attached: spread sheet with Lee County proposed savings.

Calculations for potential savings
if allowed to prepay energy bills

Lee County

Lee County		Month	Monthly Principle Payment	Remaining balance	Interest @ 2% Paid Monthly	Interest @3% Paid Monthly	Interest @ 4% Paid Monthly	Interest @ 5% Paid Monthly
Last year,'s energy costs	$11,400,000.00							
Discount 8.35%	$951,900.00							
	$10,448,100.00			$10,448,100.00				
		1	$870,675.00	$9,577,425.00	$17,413.50	$23,943.56	$31,924.75	$39,905.94
		2	$870,675.00	$8,706,750.00	$14,511.25	$21,766.88	$29,022.50	$36,278.13
		3	$870,675.00	$7,836,075.00	$13,060.13	$19,590.19	$26,120.25	$32,650.31
Calculations shown as if 100% financed		4	$870,675.00	$6,965,400.00	$11,609.00	$17,413.50	$23,218.00	$29,022.50
		5	$870,675.00	$6,094,725.00	$10,157.88	$15,236.81	$20,315.75	$25,394.69
		6	$870,675.00	$5,224,050.00	$8,706.75	$13,060.13	$17,413.50	$21,766.88
		7	$870,675.00	$4,353,375.00	$7,255.63	$10,883.44	$14,511.25	$18,139.06
		8	$870,675.00	$3,482,700.00	$5,804.50	$8,706.75	$11,609.00	$14,511.25
		9	$870,675.00	$2,612,025.00	$4,353.38	$6,530.06	$8,706.75	$10,883.44
		10	$870,675.00	$1,741,350.00	$2,902.25	$4,353.38	$5,804.50	$7,255.63
		11	$870,675.00	$870,675.00	$1,451.13	$2,176.69	$2,902.25	$3,627.81
		12	$870,675.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total			$10,448,100.00		$97,226.38	$143,661.38	$191,548.50	$239,435.63
Discount allowed for prepayment					$951,900.00	$951,900.00	$951,900.00	$951,900.00
Potential savings using different interest rates					$854,674.63	$808,238.63	$760,351.50	$712,464.38

Frank Balogh CEM CEP
1639 Llewellyn Drive
Fort Myers, Florida 33901
frankvb@comcast.com

Don Morgan CPA
8950 Penzance Blvd.
Fort Myers, Florida 33912
donmorgan1@hotmail.com

Ann Cole

From:	Frank Balogh [frankwb@comcast.net]
Sent:	Wednesday, January 13, 2010 2:28 PM
To:	Office of Commissioner Stevens
Subject:	Fw: Prepay Mechanics
Attachments:	Prepay Mechanics.doc

Commissioner Stevens

Please find attached information which we have been forwarding to the commissioners concerning the Prepay concept.
----- Original Message -----
From: Frank Balogh
To: commissioner.argenziano@psc.state.fl.us ; commissioner.edgar@psc.state.fl.us ; commissioner.klement@psc.state.fl.us ; commissioner.skop@psc.state.fl.us ; chairman@psc.state.fl.us
Cc: KELLY.JR ; jacshr@msn.com
Sent: Saturday, January 09, 2010 7:27 AM
Subject: Prepay Mechanics

Dear Commissioners

The Prepay program would allow significant savings to the FPL customer without any capital expenditure. Several FPL large electric users support Prepay and are ready to move forward. Prepay electric contracts are in place today in other areas. FPL should make this program available on a voluntary basis to those customers who wish to pay for their electric needs in advance to obtain the published discount rate.

We previously forwarded the Prepay Mechanics document, however with changes in the Commission we thought it timely to forward again for your review.

If you have any questions please contact us at your convenience.

Thank you
Frank Balogh CEM CEP
239-223-0956
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Prepay Mechanics

The Prepay concept could be easily incorporated into the FPL Customer Information System (CIS) and billing system, below is how the concept could be initiated to save FPL customer's significant savings and be revenue neutral to the utility.

The customer would only need to contact FPL and request the option to Prepay their yearly electric consumption to receive the FPL discount rate.
Customer prepays for a set amount of energy for one year; the calculated energy buy in kwh/$$ is retrieved from the FPL Customer Information System (CIS) and Strategic Account Management System (SAMS) data base which can be produced within seconds showing historical monthly/yearly average kwh/$$ use.

Customer elects to enter Prepaid contract for one year and decides to fund yearly energy buy via cash or third party financing.
(Third party financing, Libor rate quoted yearly for customers requiring third party assistance, FPL and customer subject to Prepay agreements)

Contract obligation would include tru-up terms for energy credit/debit prior to contract termination.
(Customer could receive an actual monthly billing statement with DO NOT PAY comparing actual sales applied to prepaid balance, amortized and unamortized balance, tru-ups would occur toward the end of the contract term,
customer dynamics adding/terminating sqft. accts. etc.during contract term)

Contract language to include language for early termination if customer leaves FPL service territory or FPL utility ceases operations
(Balance prorated to contract termination, plus any early out credits/debits)

Monthly billing process would not be significantly impacted.
(FPL systems handle rider codes, deposit interest and facility rental agreement lump sum payments at present, in non-governmental accounts the prepay amount would be similar to existing deposit tracking)

FPL rate schedules would not be affected.
(Prepay is only a payment methodology)

FPL infrastructure or administrative expenses should not exceed investment income derived from investing the prepaid cash.
(FPL discount rate plus earned income from prepaid cash should offset any programming expenses required, FPL systems currently are capable of tracking more complex accounting customer interactions)

The prepay concept is not detrimental to the Customer or FPL.
The prepay concept is simply using the incremental cost of capital using FPL's published discount rate. Customer receives significant reduction on yearly energy buy with no capital expenditure, FPL receives a yearly energy sale (cash) up front for investment, FPL and customer relations are enhanced.

Prepay concept was originally targeted for governmental customers however after meeting with large non-governmental utility customers and listening to their needs the concept should be open to all rate payers who want the Prepay option
(For customers requiring third party involvement bank officials foresee 250-300basis points over Libor with Prepay contracts)

Please contact us if you have any questions

Don Morgan CPA
239-340-5138
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APPENDIX NO.2

Prepayment Programs Spreadsheet

Appendix No.2

Following are the programs evaluated by E-Source:

Pre-Payment Phase-in Programs in Pennsylvania:

The prepay programs offered by Pennsylvania utilities, such as Pennsylvania Power and Light (PPL), are not prepaid metering solutions; they are programs designed to help customers phase-in the sudden rate hike that is expected to occur when rate caps associated with de-regulation expire. These phase-in programs allow customers to pay a little extra each month for a one or two year period that is set aside until the rate caps expire. The utility in turn pays a percentage of interest on the extra monies collected. Once rate caps expire, the money that the customer has set aside, and the interest they have earned from the utility, is then applied to offset a portion of the customer's bills over a two year period to help the customer phase-in to the new, higher rates. At PPL, all residential customers, except those in the On Track payment program, small business customers and street lighting customers on specified rate schedules were eligible to participate in the utility's phase-in program.

- Under PPL's phase-in option, customers could begin putting money aside starting in October 2008 and continuing through 2009. PPL electric utilities applied a 6 percent interest rate to these funds. During 2010 and 2011, these funds will be applied to customers' monthly bills. The incentive to participate in these programs is that customers would see smaller increases to their bills over time, instead of one large increase in 2010, and that due to the interest paid on the money they set aside, the customers using the phase-in option would actually pay a little less over the life of the program than customers who did not use the option. All residential customers were eligible, except those in a special On Track payment program. Also eligible were small business customers on rate schedules GS-1, GS-3, GH-1R and GH-2(R), and street lighting customers on rate schedule SE. Payment and credit amounts were based on customers' average monthly electric use and rate schedule.

- Met-Ed and Penelec (both are FirstEnergy companies) utilized a phase-in program called the Voluntary Pre-payment Plan (VPP). Each month, customers who signed up on VPP prepaid an extra amount equal to approximately 9.6 percent of their electric bill for 2009. In 2010, that amount increases by an additional 9.6 percent-totaling approximately 20 percent. The utility will apply a 7.5 percent interest rate to funds prepaid through the VPP. The amount a customer accumulates over the two-year period will then be used to lower the customer's electric bills in 2011 and 2012. The program is available for residential and small business customers.

It is important to note that the interest rates paid to customers under these programs were **not** based on the utility's cost of capital. Rather these were arbitrary, non-cost-based rates to be paid for a limited period (approximately two years) and under significantly different circumstances, i.e., the implementation of deregulation and higher electric bills associated with this change. FPL's representatives contacted a representative from PPL who confirmed that the decision to pay the stated interest rate was not cost-based.

Salt River Project:

Salt River Project's (SRP's) prepaid metering program is available for commercial, business, professional, small industrial and recreational facilities, whose electric service is supplied through one point of delivery and measured through one meter; however, call center agents typically only market the program to low-income customers who are exhibiting delinquency. Prepaid metering programs like SRP's are generally utilized as a method to assist low-income customers (particularly under-banked or cash-only customers) better manage their electricity costs and usage. Many of SRP's prepaid customers are cash-only customers, many of whom make small cash payments 8 to 10 times per month. When a customer pre-purchases electricity it equates to a given amount of kWh credit; as they use the electricity it is deducted from their credit amount; once they consume all of the kWh credit, the power is turned off until the customer repeats the cycle. This program is designed to assist low-income customers rather than providing a prepayment discount for large governmental or business customers.

Oklahoma Electric Cooperative:

In 2006, Oklahoma Electric Cooperative (OEC) conducted a 90-day pilot program using Exceleron Software's Prepaid Account Management System (PAMS) – a software-based prepayment solution. The initial pilot program was a success and OEC consequently expanded the program. OEC has since been encouraging its customer service representatives to offer prepaid metering as an option for delinquent customers. As of November 2009, OEC had approximately 3,000 residential customers (around 6 percent of the base) on the prepaid metering program; OEC expects participation to reach as high as 20 percent by 2014. OEC believes that prepaid metering fits some of OEC's customers better because the customers can manage their electric costs and have the ability to track their usage. The prepayment process is similar to that described for the Salt

River Project program with the addition that thanks to the remote disconnect/reconnect capability, disconnected customers who make a payment can be reconnected within minutes. As with the Salt River Project program, this program is *not a "discounted early payment"* program.

The spreadsheet in Appendix 2 includes information about prepaid metering programs (where available) on years of operation, number of customers enrolled, savings claims for reduction in electricity consumption and/or peak demand per customer, method of payment for customers, and the supporting technology. Prepaid metering programs are available at the following companies, however none of these programs provide a cost-based financial discount for prepayment of customer bills:

- Oklahoma Electric Cooperative
- Salt River Project
- Tacoma Power
- Woodstock Hydro
- Louisville Gas and Electric (LG&E)
- Co-Mo Electric Cooperative
- Lake Region Electric Cooperative
- Pee Dee Electric Cooperative
- Sacramento Municipal Utility District (SMUD)
- Nevada Power
- Brunswick EMC
- Bryan Texas Utilities
- Cimarron Electric Co-op
- Barron Electric Co-op

Prepayment programs and pilots

Name of program / pilot	Sponsoring company	Years of operation	Number of customers enrolled	Savings claims for reduction in electricity consumption and/or peak demand per	Method of payment (how and where do customers pay)	Technology
Prepaid Metering	Oklahoma Electric Cooperative	90 day pilot project launched June 2006; program launched in Aug 2006	1600	Analysed customer usage in May 2007 vs May 2006; found approximately 12 percent decrease in energy consumption among participating customers	Accept payment at OEC offices and www.myusage.com website; also use two primary pay agents who accept payments by IVR, web (Choicepay.com) and kiosk machines (U.S. payments) located in several local grocery stores; no in-home swipe device	AMI System: TWACS metering system and Exceleron Prepaid Account Management System; customers can monitor balance by calling IVR or logging in to www.myusage.com; no in-home display unit or smart card
M-Power	Salt River Project	~15 years	> 50,000	About 12 percent reduction in consumption	Customers can use SRP M-Power® smart card to pay at over 60 PayCenter® automated payment terminals at grocery and convenience stores; can also pay with pay with cash or checking account via e-Chex Internet, or in-person at the business office	Transitioned from Motorola to AMPY equipment in the field; transitioned from Diebold kiosks to GECO International kiosks; testing cardless technology
Pay As You Go pilot	Tacoma Power	February through April 2007: phase 1 of a pilot program for 100 customers; Phase 2 runs from April 2007 through present (as of 6/08)	243 customers participate currently (the majority of which have learned about the pilot through word-of-mouth); marketing efforts will likely be launched Sept 08	Haven't done evaluation yet; most likely will be mid to late 2009 before evaluation is done.	Visa or Mastercard by phone or online; at any of the utility's pay stations with cash, check, money order, or Visa/MC; in person at Tacoma Power; or they can mail a check if they're good at planning ahead.	Click! fiber optic network and Invensys smart meters; Diebold kiosks; Dent Technologies in-home display units; cardless
Pay As You Go	Woodstock Hydro	1989 - January 2008	> 20% of customer base at height of program	At the end of 2002, Woodstock Hydro compared the consumption of prepay customers to the provincial average in Ontario and found that Pay As You Go customers used 20 percent less energy.	Customers bought power from cashiers at convenience stores, who recharged their smart cards; switched from CIC Global to Motorola to AMPY	Transitioned from PowerStat to AMPY metering system
Pay As You Go dual-fuel pilot	LG&E	2001	A total of 589 customers participated in the pilot	During the pilot period, participants reduced consumption by about 15 percent.	Customers could recharge the smart cards at the 2 Diebold kiosks	Motorola's PowerCom system with smart cards, Diebold kiosks
Prepaid Metering	Co-Mo Electric Cooperative	Pilot started June 2007; Program started October 15, 2007	218 accounts on prepay as of 6/30/08	Co-Mo has not researched savings yet, since program is still in its first year. They have not determined a date for analysis yet, although they may look at this again in Oct 2008 since it will be the first anniversary of the program.	Debit/credit card after hours or on weekends/holidays through the MyUsage.com website and/or IVR phone number; otherwise customers can pay in the office via cash, check, money order, debit or credit card; do not use kiosks or prepaid cards	Exceleron Software's Prepaid Account Management System (PAMS
	Lake Region Electric Cooperative	early 2007				Exceleron Software's Prepaid Account Management System (PAMS)
Pay It Forward	Pee Dee Electric Cooperative	early 2007			E-Bill/online, Pay by Phone, drop boxes, regular mail or in person at co-op offices	Exceleron Software's Prepaid Account Management System (PAMS)
Prepay pilot	SMUD	May 2006 until April 2008	84 unique customers	SMUD was not able to identify energy savings because there was insufficient data for statistical significance testing. Anecdotally, about half the participants used less electricity and about half used more.	Customers revalued their AMPY prepay metering system smart cards at the payment counter in the Customer Service Center. A few customers revalued by mail. SMUD also installed a payment kiosk at a local supermarket in summer 2007. However, they found it difficult to troubleshoot problems at a remote location and thus decided to remove the kiosk in the fall of 2007.	AMPY metering with smart cards
Prepaid Power pilot	Nevada Power	began January 2005	solicited 50 Nevada Power workers (Phase 1) and 50 residential volunteers (Phase 2).	In Phase 1, analyzed data for 22 participants and found that only 37% reduced total kWh consumption 16% increased consumption by 25% or more. and 5% increased consumption by 50%	Purchase credit for smart Card at Nevada Power business office	AMPY metering with smart cards, in-home display units
Pay As You Go	Brunswick EMC	began pilot in 1990; program started in 1991	6500 customers	In the process of analyzing average usage of prepay versus regular customers; hope to have results by August 2008. Anecdotally, have seen from 10-15% reduction in consumption in the beginning, but find that customers tend to return to previous level of consumption by the end of the first year.	Cash, check or credit cards at 1 of 9 bill payment terminals in community (will be transitioning from Diebold to TelEasy kiosks) ; cashier counters at utility offices; over phone by credit cards	Transitioning from PowerStat to DCSI TWACS system starting early July 2008 ; smart card used for identifying customer but not needed to purchase power
Power Trak	Bryan Texas Utilities				Customers can add money to smart card at BTU main office, 3 convenience stores, 1 grocery store, and 2 apt complexes	smart Card, in-home display
Prepaid Metering	Cimarron Electric Co-op					PowerStat (used to be manufactured by CIC Global, which was purchased by Distribution Control Systems. Inc.): smart card
PowerStat	Barron Electric Co-op				Smart cards can be purchased at Barron Electric's office in Barron, or at the Trego Travel Center	PowerStat (used to be manufactured by CIC Global, which was purchased by Distribution Control Systems. Inc.): smart card

* FPL, OUC, LG&E, Braintree Electric Light Dept and Woodstock Hydro no longer offer prepayment services. Woodstock Hydro ceased taking on new prepay customers due to mandated switch to smart meters in Ontario. Their prepaid metering technology is not compliant with the smart meter technology requirements. They intend to select a smart meter vendor this year, and are hopeful, but not certain, that prepayment will continue to be an option for customers

Prepared by Alex Behringer
E Source
6/30/2008

APPENDIX NO.3

Prepayment Revenue Requirement Calculation
&
Prepayment Billing Program Analysis

Prepayment Billing Program Analysis

Prepayment Billing Program Revenue Requirements	$344,000	
Estimated number of Accounts (2)	3285	
Estimated Annual Administrative Charge	$ 104.72	(revenue requirements / accounts)

Customer	# of Accts	Annual Revenue		$ / acct	Discounted Payment (3)	Discount	Less Admin	Net Savings	Net Savings%
A	1493	13,856,045		$ 9,280.67	$9,175.47	$105.21	$ 104.72	$0.49	0.0%
B	979	11,945,259		$ 12,201.49	$12,063.17	$138.32	$ 104.72	$33.60	0.3%
C	483	114,315,233		$ 236,677.50	$233,994.53	$2,682.98	$ 104.72	$2,578.28	1.1%
D	70	3,795,940		$ 54,227.71	$53,612.99	$614.73	$ 104.72	$510.01	0.9%
E	90	11,393,446		$ 126,593.84	$125,158.78	$1,435.07	$ 104.72	$1,330.35	1.1%
F	25	1,654,178		$ 66,167.12	$65,417.05	$750.07	$ 104.72	$645.35	1.0%
G	145	13,397,413		$ 92,395.95	$91,346.55	$1,047.40	$ 104.72	$942.68	1.0%
Total	3285	170,357,514	Average	$ 51,859.21	$51,271.34	$587.88	$ 104.72	$483.16	0.9%

(1) See prepayment revenue requirement worksheet
(2) Assumes all customers listed by the Consutant participate for all accounts as long as discount less Admin Charge is a net positive value.
Customers listed by the Consultant were Collier County, Collier County Schools, Edison State College, Publix, Fl. Gulf Coast Univ., Lee County, and Lee County Schools
(3) Present value of annual payment at 2.11% assuming 12 equal monthly payments.

Prepayment Revenue Requirement Calculation

$000s	Year 1	Year 2	Year 3
Capital Costs			
Plant	733	733	733
Accum Depreciation	73	220	367
Net Plant	660	513	367
Pre Tax ROI	9.60%	9.60%	9.60%
Plant Revenue Requirements	63	49	35
NOI Costs			
O&M Expense	134	54	54
Depreciation	147	147	147
Noi Revenue Requirements	281	201	201
Total Revenue Requirements	344	250	236

Note: Pre Tax ROI based on approved ROR of 6.65% in current rate case .