100143EI

CONSUMER

Ann Cole

From: Ann Cole
Sent: Tuesday, March 30, 2010 8:46 AM
To: Commissioners Advisors; Administrative Assistants - Commission Suite
Cc: Dorothy Menasco
Subject: FW: FPL Pre-Payment Study March 1st, 2010
Attachments: pvcleeco.xls

P.S. Please find the attachment which was omitted from the prior e-mail. Thank you.

From: Ann Cole
Sent: Tuesday, March 30, 2010 8:35 AM
To: Commissioners Advisors; Administrative Assistants - Commission Suite
Cc: Office of Commissioner Stevens; Dorothy Menasco
Subject: FW: FPL Pre-Payment Study March 1st, 2010
Please see correspondence e-mail below, for your information.

From: Diamond Williams
Sent: Tuesday, March 30, 2010 8:09 AM
To: Office of Commissioner Stevens
Cc: Dorothy Menasco; Ann Cole
Subject: RE: FPL Pre-Payment Study March 1st, 2010

Thank you for this information. This attachment has been printed and will be placed in **Docket Correspondence - Consumers and their Representatives,** in Docket 100143 EI.

Thank you,

Diamond Williams
Staff Assistant
Office of Commission Clerk
Florida Public Service Commission
Email: diwillia@psc.state.fl.us
Phone: 850-413-6094

From: Melanie Shanks **On Behalf Of** Office of Commissioner Stevens
Sent: Monday, March 29, 2010 3:20 PM
To: Diamond Williams
Cc: Dorothy Menasco; Ann Cole
Subject: FW: FPL Pre-Payment Study March 1st, 2010

Diamond,

I believe this correspondence should go to you if you ahve not already received it.

Ann or Dorothy,
Please place in Docket #100143-EI

Thanks!
Melanie

From: Frank Balogh [mailto:frankwb@comcast.net]
Sent: Monday, March 29, 2010 10:07 AM
To: commissioner.skopf@psc.state.fl.us; Office of Commissioner Klement; Office of Commissioner Stevens; Office Of Commissioner Edgar; Office of Commissioner Argenziano
Cc: *Charles Beck; jacshr@msn.com;* KELLY.JR
Subject: FPL Pre-Payment Study March 1st, 2010

Dear Commissioners

We are in receipt of the FPL Pre-Payment Study dated March 1st, 2010 and offer the following comments for your review. Dockett#100143-E1

In review we simply questioned whether there was any interest in a concept that was devised several years ago by the utility to retain customers. By meeting with several large customers in Southwest Florida we quickly discovered that most have routinely participated in several FPL energy conservation programs while the counties also have waste to energy or methane generators either in use or under construction to assist with total energy cost.. Many have participated in every energy conservation opportunity and rate schedule change their capital restraints would allow.
The FPL customers we interviewed were almost unanimously in favor of any program that would give them some relief from their energy cost without the requirement of a capital expenditure. FPL has several good energy conservation programs, but the capital required to participate is often not available. The customers we interviewed would consent to enter a contract with FPL if they were allowed to Prepay. A yearly true-up would be needed because of the dynamics with any customer however the contract design could be year by year for a long term utility revenue stream. The customer in the FPL service territory simply has no alternative supplier.

We agree with the basic premise in the executive summary of the FPL Pre-Payment Study that if the utility would allow the electrical customer the option of prepaying for electrical consumption in advance and the customer would have funds available or third party financing necessary at less than the discount rate, savings would be realized.
It is important and timely to remember the Prepay concept was conceived by FPL and then brought to the field by corporate staff. The purpose at that time was to stop large governmental customers (municipalities, school systems, county governments etc.) from leaving FPL by contractual obligation if deregulation occurred. FPL did not want these large customers to be cherry picked by other utilities. During this time period deregulation pressures eased combined with FPL restructuring every other year. Corporate employees that were involved with this program left FPL and are now in three different states. Bonded cash availability during this time period when deregulation was considered would allow a 4-5% spread to the governmental customer, arbitrage opportunity. This spread was the selling point to the customer to enter a contractual obligation (not 2.11% FPL mentions with short term cost of capital). After conversations with governmental customers today some have reserve margins that

could possibly be used to eliminate any financing. Also Prepay doesn't have to be limited to government accounts when financing is available today at 250 to 300basis points over Libor for a Prepay program.
Prepay was thought viable several years ago for customer retention now it could save significant dollars to cash strapped customers in this recessionary environment.

The fact that FPL was required to complete the study depicts the same willingness and relationship we encountered when attempting to work with FPL over a year ago. Consequently the report doesn't approach the evaluation process in a fair manner. They should have examined the Prepay concept in its entirety by mentioning that since the (2003 IRS Ruling) which opened the door to tax-exempt bond financing of Prepay energy contracts, worth billions. Utilities on the wholesale side of the energy business are entering with more Prepay wholesale energy contracts Memphis Light Gas & Water is the countries largest three service utility purchases power via Prepay contracts saving their customer base millions each year.

In their discovery the FPL consultant discovered several kinds of residential Prepay programs. This is not the program we have suggested. FPL's residential rate base is significantly higher than most utilities but they offer no prepay program to the residential base. We would think that they should be a leader in residential programs. It is very interesting to point out that the FPL study showed significant energy conservation occurs when customers are allowed to Prepay for their electric usage. We have mentioned the significant energy conservation effect in previous correspondence because the customer becomes more aware of their energy usage. This fact alone warrants a program to be piloted/implemented for the energy conservation opportunities. The report is channeled for residential customers only without mention of the Prepay wholesale energy contracts that utilities are completing. The fact that so many utilities have different forms of Prepay programs and FPL has none would make any customer ask the question why not. Do we wait for another utility to move forward with a Prepay program for large electrical users or assist the customers now with a program that was designed years ago but is needed now.

Any "cost basis" study needs to include all components, in a Prepay program funds collected up front by the utility are immediately available for use. The present value of money works in favor of the utility while all the risk is carried by the customer. The attached example shows how the Prepay dollars collected for Lee County would generate significant income to the utility by prepayment. An example is attached for Lee County, Prepay amount $10,448,100, discount to the customer $961,900 however $282,969 in accrued interest over a 12mo. period for the utility could be realized. (See attachment Lee County Present Value Calculation) The utility typically collects a month after the service is rendered and pays interest on all deposits. Economics change when the interest paid in deposits and related back office expenses are eliminated. Interest FPL pays on deposits is better than most any investment vehicle available today (6-7%).

Energy conservation numbers from their own report show reduction from the residential programs they examined. Typically the larger electric users have staff/departments dedicated to overseeing energy consumption which would maintain the energy conservation percentages reported. If numbers from energy conservation were included (grid kwh avoided) the "cost basis" FPL proposes would certainly be different. The contention that anything over 1.055% (half of 2.11%) would be subsidized for the participating customer by other customers just doesn't make sense. FPL attempts to build a disconnect between the discount rate used in their study and the Prepay contract terms suggested but allows a long term discount rate for example in their Facility Rental Agreements 8.35% which has a prepay component. When the Prepay program was introduced several years ago by FPL corporate staffers there was no mention of a short term debt rate compared to a long term debt rate. If the contract term has a yearly true-up to accommodate customer dynamics, the year by year customer involvement in the Prepay program would allow for any long term discount rates. Just what options does the customer have without any other electric supplier. FPL mentions that their present weighted cost of capital is 6.65% (recent rate increase) not 8.35%. The discount rate is reviewed in April every year. The discount rate used in calculations for the COG, QS2 etc. and facility rental agreements recently viewed on the website were 8.89%.

FPL in-house programs exist (CIS, SAMS) to monitor the plethora of account activities that the utility monitors (partial payments, deposit tracking, interest tracking, rider codes etc.) a simple Prepayment transaction would be insignificant. Within seconds any customers two year historical payment, energy usage etc. can be generated with existing in-house systems which compare year to year usage patterns. These systems exist today. FPL also has in place an account management system with personnel assigned to all large customers positioned throughout the service territory to handle any large customer issue. (any and all contracts, rate schedules etc.).

An important fact that should be remembered, the customer base in the FPL service territory started in January of 2009 prepaying for facilities FPL may or may not ever construct with the Capacity Clause Recovery Charge , this is the first time in history that the customer base was asked to (Prepay) for facilities that did not exist ($220million 2009, $418million 2010) which goes on year by year. It seems that if the utility can request prepayment for facilities not yet constructed the customer base should be allowed to Prepay for services not yet provided.

The FPL report found that other utilities are moving forward with different types of Prepay programs that assist their customer base and save energy without a "cost basis" justification. This combined with the fact that other utility programs offer Prepay contracts where the prepayment amount is even given an interest credit (Pennsylvania 7%) are indicators that FPL needs to implement a Prepay program as an option to assist the customer base with a new payment methodology. Today the Florida electric customer has no other option for an electrical service provider.
It is our contention that if the state would have moved forward with some form of deregulation a Prepay program would have been implemented by FPL for customer retention years ago. By interviewing the large electric customers we previously mentioned we completed a propensity model by asking the customers what their wants/needs were. Some of these customers have participated in every energy conservation project FPL offers. The customer hears the base rate hasn't increased since the 80's is meaningless when their electric cost goes up for all the pass through the utility is allowed. Other energy suppliers (gas, propane) have allowed customers to contract, prepay for discounts on future use, the electric utility should offer the same. The fact that large electrical customers attended the PSC meeting just in S.W. Florida and spoke in favor of implementing a Prepay program shows the interest the customer base has in the concept.

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

Present Value Calculation
(@ 5%)
on the Lee County Prepay of $10,448,100

Month	Monthly Principle Payment	Remaining balance	Interest earned
		$10,448,100.00	
1	$870,675.00	$9,577,425.00	$43,533.75
2	$870,675.00	$8,706,750.00	$39,905.94
3	$870,675.00	$7,836,075.00	$36,278.13
4	$870,675.00	$6,965,400.00	$32,650.31
5	$870,675.00	$6,094,725.00	$29,022.50
6	$870,675.00	$5,224,050.00	$25,394.69
7	$870,675.00	$4,353,375.00	$21,766.88
8	$870,675.00	$3,482,700.00	$18,139.06
9	$870,675.00	$2,612,025.00	$18,139.06
10	$870,675.00	$1,741,350.00	$10,883.44
11	$870,675.00	$870,675.00	$7,255.63
12	$870,675.00	$0.00	$3,627.81
	$10,448,100.00		$282,969.38

100143-EI

CONSUMER

Ann Cole

From: Ann Cole
Sent: Tuesday, March 30, 2010 7:56 AM
To: Office of Commissioner Klement
Cc: Commissioners Advisors; Administrative Assistants - Commission Suite
Subject: FW: FPL Pre-Payment Study March 1st, 2010
Attachments: pvcleeco.xls

Thank you for this information. The attachment has been printed and will be placed in *Correspondence* - Consumers and their Representatives, in Docket No. 100143-EI.

From: Office of Commissioner Klement
Sent: Tuesday, March 30, 2010 7:46 AM
To: Ann Cole
Subject: FW: FPL Pre-Payment Study March 1st, 2010

Please add to docket #100143.

From: Frank Balogh [mailto:frankwb@comcast.net]
Sent: Monday, March 29, 2010 10:07 AM
To: commissioner.skopf@psc.state.fl.us; Office of Commissioner Klement; Office of Commissioner Stevens; Office Of Commissioner Edgar; Office of Commissioner Argenziano
Cc: Charles Beck; jacshr@msn.com; KELLY.JR
Subject: FPL Pre-Payment Study March 1st, 2010

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FPSC-COMMISSION CLERK

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5	$870,675.00	$6,094,725.00	$29,022.50
6	$870,675.00	$5,224,050.00	$25,394.69
7	$870,675.00	$4,353,375.00	$21,766.88
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