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10 MAY 19 AM 9:03

COMMISSION  
CLERK

DN# 100143 -EI

Dear Ms. Bennett

May 14<sup>th</sup>, 2010

This is the data requested by the Commission staff in your letter dated April 22, 2010. If there is any additional information you need please contact us.

Question 1.

FPL's published discount rate which is used in calculations for as available energy and deferred cost computations in rate schedules (QS-2, COG, sheet 10.311) also the discount rate is used in cost computations for the Facility Rental Service Agreement contracts (9.750). The discount rate as defined by FPL "incremental after tax cost of capital". This discount rate is 8.89% at present. This rate is reviewed in April each year by the utility. When we started the Prepay concept initiative we requested the discount rate percentage from FPL and were given the 8.35% figure. Since then slight adjustments in the number have occurred. In previous correspondence and spread sheets we have used 8.35%. The FPL customer really has no other choice in electric provider consequently the customer should be considered a long term contractual partner with a 12month true-up for any increase/decrease in electrical use from their historical use profile.

Question 2.

You asked if the discount rate used in the proposed prepay program is similar to the internal rate of return used in capital budgeting, net present value equal zero. The internal rate of return is a rate of return used in capital budgeting to measure and compare the profitability of investments. Because the internal rate of return is a rate quantity it is an indicator of efficiency, quality, or yield of an investment. Since it is an internal calculation it does not incorporate environmental factors such as interest rates or inflation. The calculations basically answer the question. If I invest in this piece of equipment/project how long and at what rate will I recoup my investment, cash flow equals zero. I am sure FPL uses the IRR calculation whenever they are making investment decisions. They are a large and very profitable corporation, I am sure they analyze their investment opportunities, using the above mentioned calculation along with other methods their goal being to make an intelligent decision.

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This is in contrast with the net present value, which is an indicator of the value or magnitude of an investment. Example: Lee County, (see attached) prepays \$10,448,100.00 for next year's electricity. FPL would then amortize 1/12 of the prepaid amount each month and the remaining balance would stay invested. If FPL received a minimum return of 5%, on this investment, which is a low return, they would earn \$282,969.38 in one year.

The prepay proposal that we are recommending requires no capital to be invested either by FP&L or the customer.

### Question 3.

Rule 25-6.097, Florida Administrative Code, stipulates that the utility customer be paid 6% and 7% interest for deposits for residential and commercial accounts respectively. An argument could be made that these percentages could be used for a prepayment however since the utility routinely reviews their blended after tax cost of credit (discount rate) and utilizes the discount rate in their as available energy contracts and Facility Rental Agreements the discount rate recently published of 8.89% (August 18, 2009) would seem the obvious rate to use for the customer discount. The inference concerning deposits is to the amount of interest the utility pays for deposit monies is not aligned with interest paid on typical bank accounts in today's markets.

### Question 4.

The obvious benefit to the electrical customer is the voluntary opportunity to receive a discount for prepaying the electrical bill based on historical usage. Every customer we visited is experiencing difficulty in the budget process. Some have participated in several energy conservation measures to reduce their electrical cost. Typically a capital expenditure has to be made for any energy conservation measure and then savings follow. The Prepay concept would provide savings without the capital expenditure. A trend in energy conservation of 12% is realized in areas where a prepaid program is implemented. The customer is simply more cognizant of their electric use and therefore a conservation effect is realized.

The detriment to the customer is having the resources to prepay significant dollars to enter into a contract with the utility. Some municipalities have reserve funds which possibly could be used to prepay their electrical bill and realize a better rate of return than they are now receiving. If third party financing is involved any contractual agreements would be in addition to the voluntary utility Prepay contract.

### Question 5.

The risk to the customer if allowed to prepay is the utility or holding company remaining in business. Mergers or sale of utility assets to another company could

create anxiety with any in place contracts. This would most likely be minimal with FPL being a vertically integrated company however with any stock holder owned company sale or acquisition is possible.

Question 6.

While researching this initiative we realized that some of the electrical customers would require third party financing. We met with representatives from Bank of America (Senior VP's, Client Manager of Government Banking and Credit Product Officer Government Banking) to discuss the Prepay concept. We asked for an idea on what would be the cost of financing a Prepay scenario and the 250-300basis points over Libor was discussed in our conversations. Individual customer credit worthiness, contract language combined with loan guidelines will determine the exact cost of financing.

It is timely to mention that when the utility was considering offering Prepay to customers several years ago it was often referred to as the arbitrage rate. Then the discount rate was higher as well as the cost of financing however the spread was in the 4-5% range to allow significant savings to the customer.

Comments:

The FPL report mentions several residential prepay programs across the country with significant energy conservation percentages. We found this general theme in our research, which is remarkable that without any capital expenditure significant energy conservation occurred. The commercial and governmental customer should be allowed (voluntary) this opportunity.

It is time for the utility to step forward and be more flexible, opportunistic and creative to assist the customer base which essentially has no other option in electric provider.

We have previously forwarded correspondence on several issues concerning Prepay. We would gladly forward any additional information that you may feel is necessary.

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



Office of Public Counsel (J.R. Kelly)

**Present Value Calculation  
 (@ 5%)  
 on the Lee County Prepay of \$10,448,100.00**

**Lee County**

		Month	Monthly Principle Payment	Remaining balance	Interest earned
Last year,'s energy costs	\$11,400,000.00				
Discount 8.35%	<u>\$951,900.00</u>				
	\$10,448,100.00			\$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
Calculations shown		4	\$870,675.00	\$6,965,400.00	\$32,650.31
Present		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
<b>Total</b>	<b>Totals</b>		\$10,448,100.00		\$282,969.38