State of Florida

Public Service Commission

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RECORDS AND REPORTING

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DATE: JUNE 8, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (GING, E. DRAPER, WHEELER) EAD DRW RMT
DIVISION OF LEGAL SERVICES (CLEMONS) RVE For DLC

RE: DOCKET NO. 000478-EI - PETITION FOR APPROVAL OF A PRE-PAY RESIDENTIAL SERVICE EXPERIMENTAL RATE BY FLORIDA POWER & LIGHT COMPANY.

AGENDA: 06/20/00 - REGULAR AGENDA - ISSUES 1 AND 3: TARIFF FILING - ISSUE 2: WAIVER - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: AUGUST 1, 2000

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000478.RCM

CASE BACKGROUND

On April 24, 2000, Florida Power & Light Company (FPL) petitioned the Commission for approval of an experimental pre-pay rate schedule on a pilot basis. FPL filed an amendment to the petition on June 2, 2000. The program will be offered on a voluntary basis to residential customers who live in premises within certain geographic areas of FPL's territory. On May 1, 2000, FPL filed a Petition for Waivers from Rules 25-6.099 and 25-6.100, Florida Administrative Code.

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power & Light Company's (FPL) petition for approval of a pre-pay residential service experimental rate?

RECOMMENDATION: Yes. [GING, WHEELER, E. DRAPER]

STAFF ANALYSIS: On April 24, 2000, FPL petitioned the Commission for approval of an experimental pre-pay rate schedule on a pilot basis. On June 2, 2000, FPL filed an amended petition to clarify the definition of the target group. The original petition defines the "Target Group" as: "...customers whose accounts have been subject to multiple field visits during two consecutive years." The amended petition clarifies the target group as: "...customers who reside in premises that have been subject to multiple field visits during two consecutive years."

The program will be offered optionally to residential customers who live in targeted premises within certain geographical areas of FPL's territory. The target group averages four such visits per year. Eligible customers who elect to participate in the program (pre-pay customers) will be required to pay for their energy in advance by purchasing credits stored on a "Smart Card". The Smart Card credits are loaded into a user display terminal installed at the customers' premises. Deductions from the energy balance are made as energy is used.

Customers in the targeted premises are expected to benefit from the pre-pay pilot because they will no longer be subject to the late payment fees, field collection charges, and reconnection fees historically associated with these premises. A field collection occurs when FPL sends a crew to disconnect the customer for non-payment, and the customer pays their past due amount, allowing their power to remain on. In addition, it is expected that returned check charges will decrease. Pre-pay customers will be required to sign a Pre-pay Residential Service Agreement with a term of 12 months.

PROGRAM DESCRIPTION

The program involves the replacement of the existing meter at the customer's premises with a special meter, and the installation of a user display terminal. The user display terminal is located inside the premises and is plugged into any electrical outlet. The user terminal communicates with the outside electric meter via the existing household wiring. Once a customer signs up for the program and the equipment is installed they are issued two Smart Cards, which look like credit cards and contain embedded computer chips. The cards can be taken to any of several pay stations to credit the cards with the amount of electricity purchased by the user. Pay stations will be located within a five mile radius of participating customers. FPL plans to solicit existing pay agents to participate as pay stations. FPL will attempt, when possible, to select pay stations that are open seven days a week. The customer can purchase a minimum of $10 and a maximum of $150 per transaction, in whole dollar amounts. Customers can purchase power with cash or check. Customers in "cash only" status with FPL must purchase power with cash.

Once the card has been credited with a purchase, the customer swipes the card into the home pre-pay terminal, and the total amount on the card is transferred to the customer's meter. If the customer's Smart Card is lost or stolen before its value is transferred to the home terminal, the pay station will duplicate the value and ID number of the lost or stolen card and transfer that information onto a new card. The lost Smart Card still has the power credits and ID number, but since both Smart Cards have the same Transaction ID, the customer's meter will only read one of the cards. All Transaction IDs are stored in the meter upon successful card transaction. The ID of every card is electronically compared to the list and if the Transaction ID has already been used, the card is rejected by the meter.

If a customer elects to participate in the pre-pay program, the utility will provide them with two Smart Cards at no charge. If additional replacement cards are needed, the customer must pay a charge that is estimated to be about $5. One card will be credited with $15 at the time of installation to allow customers to maintain service until they can purchase power at one of the pay stations. For the average customer the $15 credit will last for approximately four days. The $15 credit will be deducted from their first Smart Card purchase.

Once the credits have been transferred to the user display terminal, the customer will be able to determine current and historic usage (in kWh and dollars) and the amount of time remaining based on current usage. The terminal will signal to the customer when there are four days remaining based on estimated usage. The four-day signal is designed to give adequate warning to allow the customer time to purchase additional credits. If the meter runs out of credit, a circuit in the meter opens and the power is shut off until the customer makes an additional purchase and the credits are transferred to the user display terminal. There are no fees assessed when service is interrupted or restored.

TARGET GROUP

The target group of customers for the pilot consists of customers who live in premises that have had a minimum of two field collection and/or disconnection visits per year during each of the past two years. This group averages four such visits a year. These premises were targeted because of the numerous field visits for field collection and disconnection. The target group is likely to benefit from the program due to the avoidance of the late fees and service charges historically associated with these premises. Although the target group of premises numbers approximately 60,000, the pilot program will be limited to between 800 and 1,000 participants. The average customer in the target group uses 1,225 kWh per month.

FPL has not decided on a specific area or areas in which they will launch the program, however, they are currently looking at Dade and Broward Counties, primarily due to the number of customers in the target population residing in these counties as well as the proximity of pay agents to the customers. FPL has identified 102 current FPL pay agents in Dade and Broward Counties.

ELIGIBILITY

Customers eligible for the pilot are those who live in premises which have had at least two field visits for collection and/or reconnection in each of the past two years, and who live within the geographic area designated by FPL. The pilot will not be available to customers who are designated as Medically Essential or who have made unauthorized connections to, or tampered with, FPL's meter. Customers who choose to participate in the pilot will not be eligible to participate in the following FPL programs: Load Control, Budget Billing, Automatic Funds Transfer, 62+ Plan, Double Notice Protection, Checkfree, and E-Bill.

The pilot program will be effective for two years. This will allow FPL time to solicit participants and to produce at least one year of usage data from all the participants. FPL indicates that the pilot program will allow them to assess customer acceptance of the pre-pay rate, identify the costs and benefits of operating the program, identify its effects on customer usage, and identify technical and operational issues.

THE PRE-PAY RATE

The prepaid rate for electricity purchases consists of an energy charge of 4.904 cents per kWh plus the otherwise applicable residential fuel, capacity, environmental, and energy conservation cost recovery clause factors. This rate differs in three respects from FPL's standard residential rate (RS-1). First, the rate does not include a fixed monthly customer charge. Second, the rate does not include an inverted energy rate. FPL's current residential rates set a higher rate for consumption in excess of 750 kilowatt hours per month. Third, the pre-paid rate is slightly higher than the standard residential rate.

The rate of 4.904 cents per kWh was designed to recover about $80 more per year ($6.73 per month) from the average pilot program participant than they would have paid under the RS-1 rate. Attached as Exhibit One is a bill comparison between the prepaid rate and the RS-1 rate for the average 1,225 kWh bill of the pilot program target group. As shown in the exhibit, pilot program participants will pay a rate that is about 8% higher than the standard rate. The increase is intended to recover from participating customers a portion of the equipment costs of the pilot program. FPL will provide notice in writing to potential pre-pay customers of the difference between the standard rate and the pre-pay rate.

Although program participants will pay a higher rate, FPL has provided an analysis of the target group showing that these customers historically pay an average of $102 per year in service charges for late payment, field visits, reconnection, and returned checks. Participants will thus pay less overall by avoiding these types of charges under the pilot program.

In addition, participants will not be required to provide a deposit. Deposits for customers in the target group average approximately $200. When customers sign up for the program, their deposit will be applied towards any outstanding balance. Any remaining balance due on the account will be recovered through Smart Card purchases until fully paid. If the remaining balance is $150 or less, 30% of each Smart Card purchase will be applied to the balance. If the balance is greater than $150, 30% of the outstanding balance will be paid during the each of the first three months, and the remaining 10% will be paid in the fourth month.

Because power can be purchased in increments as small as $10, the pilot will allow customers to purchase power in amounts they can afford when they have available resources. Program participants can monitor their usage with the user display terminal and modify their usage to allow continuous power until they are able to purchase additional credits.

EARLY TERMINATION

Pre-pay customers who choose to leave the pilot program prior to the end of the one-year contract period are subject to a penalty unless they move outside a five-mile radius of a participating pay agent, in which case the penalty will be waived. The penalty for early termination is 22¢ per day for each day remaining in the contract period. The penalty is intended to cover a portion of the costs of installing and removing the equipment. The 22¢ per day is calculated based on the average $80 in annual savings divided by 365 days. Therefore, the maximum penalty for early termination is $80.

CONCLUSION

Based upon the foregoing, staff recommends that the Commission approve the proposed pre-paid pilot program. While the program is a departure from traditional practice because it requires customers to pay in advance for their electricity, staff believes that it can potentially provide benefits to participants.

Participants will have the ability to budget their use of electricity more accurately under the pilot program. The program may also result in reduced consumption of electricity. The Salt River Project, a utility in Arizona, has had a pre-paid program in place for two years, and reports that its participants have reduced their electric consumption by an average of 10 to 13%.

Although participants pay a slightly higher rate than standard customers, they will likely realize savings from reduced service charges that will offset the increased rate. In addition, pre-pay customers will be refunded their deposit, which averages about $200 for the target group.

Staff believes that the design of pre-paid pilot program contains sufficient safeguards for participants. The program is strictly voluntary, and is limited to between 800 and 1,000 of FPL's 3.3 million residential customers. FPL will inform potential customers of the terms and conditions of the program, including the difference between the pre-pay rate and the standard rate.

The pre-pay program also offers potential benefits to FPL in the form of reduced costs for field visits for collection, disconnection, and reconnection, as well as a reduction in uncollectibles expense.

ISSUE 2: Should Florida Power & Light Company's Petition for Waivers from Rules 25-6.099 and 25-6.100 be granted?

RECOMMENDATION: Yes. If Issue 1 is approved, the Commission should grant Florida Power & Light Company's Petition for Waivers from Rules 25-6.099 and 25-6.100 for the temporary and limited purpose of its proposed pre-pay residential pilot program. [CLEMONS]

STAFF ANALYSIS: As stated previously, on May 1, 2000, FPL filed a Petition seeking partial and temporary waivers of Rules 25-6.099 and 25-6.100(1), (2), (4), and (5), Florida Administrative Code. The waivers are sought in connection with FPL's Petition for Approval of a Pre-Pay Residential Service Experimental Rate, discussed in Issue 1, which proposes a pre-pay residential pilot program. If Issue 1 is approved, FPL seeks waivers of the aforementioned rules for the limited purposes and duration of the proposed pilot program and only with respect to customers who elect to participate in the program.

Notice of the Petition was published in the Florida Administrative Weekly on May 19, 2000. Comments on the Petition were due within 14 days of publication of the notice. To date, no comments have been filed, and the time for filing such has run.

Rule 25-6.099, Florida Administrative Code, requires that each service meter be clearly marked to indicate the units measured and that, unless special circumstances warrant, meters be read at monthly intervals on the approximate corresponding day of each meter-reading period. Rule 25-6.100(1), Florida Administrative Code, requires that bills be rendered monthly and as promptly as possible following the reading of meters. Rule 25-6.100(2), Florida Administrative Code, requires that bills reflect certain information, including: a) the meter reading and the date the meter was read in addition to the meter reading for the previous period; b) the number of kilowatt hours consumed; c) the dollar amount of the bill; d) identification of the applicable rate schedule; e) the date by which payment must be made; f) the average daily kilowatt consumption for the current period and for the same period in the previous year; g) the delinquent date; h) any conversion factors which can be used by customers to convert from meter reading units to billing units; I) the current month's consumption and charges separately from budgeted amounts where budget billing is used; and j) the name of the utility. Rule 25-6.100(4), Florida Administrative Code, provides that the regular meter reading date may not be advanced or postponed more than five days without pro-ration of the billing for the period; and Rule 25-6.100(5), Florida Administrative Code, requires pro-ration of charges for initial or opening bills, unless energy consumption is carried over to the next normal billing period.

Section 120.542(2), Florida Statutes, provides a two pronged test for determining when waivers and variances from agency rules shall be granted:

> . . . . when the person subject to the rule demonstrates that the purpose of the underlying statute will be or has been achieved by other means by the person **and** when application of the rule would create a substantial hardship . . . For purposes of this section, "substantial hardship" means demonstrated economic, technological, legal or other type of hardship to the person requesting the variance or waiver. (Emphasis added).

A. The purposes of the underlying statutes

FPL asserts that, in accordance with Section 120.542, Florida Statutes, the purposes of the underlying statutes will be or has been achieved by other means. It states that the provisions underlying the rules are Sections 366.03 and 366.05(1), Florida Statutes. Section 366.03, Florida Statutes, provides, in pertinent part:

> Each public utility shall furnish to each person applying therefor reasonably sufficient, adequate, and efficient service upon terms as required by the commission . . . All rates and charges made, demanded, or received by any public utility for any service rendered, or to be rendered by it, and each rule and regulation of such public utility, shall be fair and reasonable. No public utility shall make or give any undue or unreasonable preference or advantage to any person or locality, or subject the same to any undue or unreasonable prejudice or disadvantage in any respect.

Section 366.05(1) provides, in pertinent part:

> In the exercise of such jurisdiction, the commission shall have power to prescribe fair and reasonable rates and charges, classifications, standards of quality and measurements, and service rules and regulations to be observed by each public utility . . . and to prescribe all rules and regulations reasonably necessary and

appropriate for the administration and enforcement of this chapter.

According to FPL, Rules 25-6.099 and 25-6.100, Florida Administrative Code, further the objectives of the foregoing statutory provisions in outlining specific terms upon which the reading of meters and billing of electrical service is accomplished, such that customers may have assurance that the process by which their bill is determined is fair, reasonable, and non-discriminatory. It argues that approving the waivers will not foil the underlying purpose of the statutes, and that it is expected that the pilot program will provide the same, or perhaps better, assurance to customers in terms of the way in which their electric consumption is metered and the way in which they are billed for such service.

FPL maintains that although a meter associated with the pre-pay system will not need to be read monthly in accordance with Rule 25-6.099, Florida Administrative Code, the meter will, in fact, be read continuously as the credited amount of electricity on the meter is consumed. Moreover, FPL states, in lieu of a monthly bill as required by Rule 25-6.100, Florida Administrative Code, the customer will have instantaneous access to a broad range of information via the user display in his or her home. Additionally, it maintains, the customer will receive a receipt at the point of purchase showing the rate being charged and the corresponding amount of energy purchased. Thus, it argues, while the customer may not receive precisely the same information in the exact same format currently required by Rule 25-6.100, Florida Administrative Code, the pilot program customer will receive better and more timely information than what is required.

The underlying purposes of Sections 366.03 and 366.05(1), Florida Statutes, are to ensure that customers are provided with sufficient, adequate, and efficient service at fair and reasonable rates and charges; and to ensure that such service and the associated rates and charges are provided in a non-discriminatory manner. Staff believes that FPL has adequately demonstrated that the purposes of the underlying statutes will be achieved by granting the requested waivers for the temporary and limited purpose of the pilot program as discussed in Issue 1.

B. Substantial hardship

FPL argues that strict application of Rules 25-6.099 and 25-6.100, Florida Administrative Code, would be inconsistent with the pilot program and would prevent its implementation. In light of the potential benefits of the program, it asserts, depriving it of the opportunity to implement the program constitutes a substantial hardship on both FPL and its customers, within the meaning of Section 120.542, Florida Statutes.

Staff believes that FPL has adequately demonstrated that complying with Rules 25-6.099 and 25-6.100, Florida Administrative Code, would be a substantial hardship upon it within the meaning of Section 120.542, Florida Statutes. The cost savings to customers on the pilot program system from decreased consumption and the elimination of service charges associated with service disconnections for nonpayment of bills, as discussed in Issue 1, constitutes an "economic hardship" within the meaning of Section 120.542, Florida Statutes. Additionally, the cost savings to FPL from the reduction of the bad debt associated with these same customers constitutes an "economic hardship" within the meaning of Section 120.542, Florida Statutes.

Therefore, if Issue 1 is approved, staff recommends that the Commission grant Florida Power & Light Company's Petition for Waivers from Rules 25-6.099 and 25-6.100.

ISSUE 3: On what date should FPL's tariffs for pre-pay residential service become effective?

RECOMMENDATION: If the Commission approves Issues 1 and 2, FPL's pre-pay residential tariffs should become effective upon issuance of a Consummating Order, unless a person whose substantial interests are affected by the Commission's actions files a protest within 21 days of the issuance of the Order. If a protest is filed, the tariffs should not become effective. [CLEMONS]

STAFF ANALYSIS: FPL requests that the pre-pay residential tariff become effective the date of the Commission vote to allow FPL the opportunity to negotiate with equipment vendors and launch the Pilot as soon as possible. However, if Issues 1 and 2 are approved, the tariff may not become effective until the Commission's proposed agency action to grant FPL's requests for waivers becomes final and effective upon issuance of a Consummating Order. If a protest to either Issue 1 or Issue 2 is filed, the tariffs should not become effective.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's action files a protest within 21 days of the issuance of the Order. [CLEMONS]

STAFF ANALYSIS: If no person whose substantial interests are affected by the Commission's proposed action files a protest within 21 days of the issuance of the Order, this docket should be closed upon issuance of a Consummating Order.

Exhibit 1

FLORIDA POWER & LIGHT COMPANY

1,225 KWH RESIDENTIAL BILL

EXISTING RESIDENTIAL RATE VS. PRE-PAY PILOT PROGRAM RATE

	EXISTING RS RATE	PRE-PAY RATE
Base Rates		
Customer Charge (per month)	$5.65	N/A
Non-fuel energy Charge (per kwh)		
First 750 kwh	$0.03511	N/A
Above 750 kwh	$0.04511	N/A
All kwh	N/A	$0.04904
Adjustment Clauses (Effective 1/00)		
Fuel (per kwh)	$0.01870	$0.01870
Energy Conservation (per kwh)	$0.00189	$0.00189
Capacity Cost (per kwh)	$0.00501	$0.00501
Environmental cost (per kwh)	$0.00016	$0.00016

MONTHLY BILL

	EXISTING RS	PRE-PAY PROGRAM
Customer Charge	$5.65	$0.00
Non-Fuel Energy Charge	$47.76	$60.07
Fuel Cost	$22.91	$22.91
Energy Conservation Cost	$2.32	$2.32
Capacity Cost	$6.14	$6.14
Environmental Cost	$0.20	$0.20
Gross Receipts Tax	$0.87	$0.94
Total Monthly Bill	**$85.85**	**$92.58**
TOTAL CHARGE PER KWH:	$0.07008	$0.07558
INCREASE OVER EXISTING RATE:	Monthly:	$6.73
	Annual:	$80.76
	Percentage:	7.8%