



Public Service Commission
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: 11/7/02

TO: DIRECTOR, DIVISION OF THE COMMISSION
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (WHEELER)
OFFICE OF THE GENERAL COUNSEL (JAEGER)

RE: DOCKET NO. 021013-EI - PETITION FOR EXTENSION OF
EXPERIMENTAL PRE-PAY RESIDENTIAL SERVICE PROGRAM BY
FLORIDA POWER & LIGHT COMPANY.

AGENDA: 11/19/02 - REGULAR AGENDA - TARIFF FILING - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: NOVEMBER 30, 2002

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\021013.RCM

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COMMISSION CLERK
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CASE BACKGROUND

On July 14, 2000, the Commission approved Florida Power & Light's (FPL) petition for approval of an experimental Prepay Residential Service Program (the program) for a two-year period that ends on December 1, 2002. See Order No. PSC-00-1282-PAA-EI issued on July 14, 2000, in Docket No. 000478-EI. In the same order, the Commission approved FPL's request for temporary partial waiver of Rules 25-6.099 and 25-6.100, Florida Administrative Code.

In a petition filed in this docket on October 1, 2002, FPL requested Commission approval to extend the program for an additional 13 months, until December 31, 2003.

The Commission has jurisdiction over this matter pursuant to Sections 366.03, 366.04, 366.06, and 366.075, Florida Statutes.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Florida Power & Light Company's petition to extend its Prepay Residential Service experimental rate through December 31, 2003?

RECOMMENDATION: Yes. (WHEELER)

STAFF ANALYSIS: On July 14, 2000, the Commission approved FPL's petition for approval of an experimental Prepay Residential Service Program for a two-year period that ends on December 1, 2002. See Order No. PSC-00-1282-PAA-EI issued on July 14, 2000, in Docket No. 000478-EI. FPL is now seeking to extend the program for another 13 months, through December 31, 2003.

Program Description

The program is offered optionally to residential customers who live in targeted premises within certain geographical areas of FPL's territory. Unlike standard residential customers, who pay for their electricity after it has been used, customers who participate in the program are required to pay for their electricity in advance by purchasing credits stored on a "Smart Card."

The target group of customers for the program 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. Participants must also live within the geographic area designated by FPL. Customers in the targeted premises are expected to benefit from the program because they will no longer be subject to the late payment fees, field collection charges, and reconnection fees they have historically incurred. The target group of premises numbers approximately 60,000, and the average customer in the target group uses 1,225 kilowatt-hours (kWh) per month, slightly higher than the 2001 average of 1,136 kWh per month for all of FPL's residential customers.

The program is not available to customers who are designated as Medically Essential or who have made unauthorized connections to, or tampered with, FPL's meter. Customers who participate in the pilot are not eligible to participate in FPL's Load Control,

Budget Billing, Automatic Funds Transfer, 62+ Plan, Double Notice Protection, Checkfree, and E-Bill programs.

The program requires 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 a pay station to credit them with the electricity purchased by the user. Pay stations are located within a five-mile radius of participating customers. The customer can purchase a minimum of \$10 and a maximum of \$150 per transaction, in whole dollar amounts. Customers can purchase power by cash or check; however, customers in "cash only" status with FPL must pay cash.

Once the card has been credited with a purchase, the customer swipes the card into the home prepay terminal, and the total credit 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 with the list, and if the Transaction ID has already been used, the card is rejected by the meter.

FPL provides participants with two Smart Cards at no charge. One card is credited with \$15 at the time of installation to allow customers to maintain service until they can purchase power at a pay station. For the average customer the \$15 credit will last for approximately four days, and is deducted from their first Smart Card purchase. If replacement cards are needed, the customer must pay a \$2.00 charge per card.

Once the credits are transferred to the user display terminal, customers can see their current and historic electricity usage (in kilowatt-hours and dollars) and the time remaining based on the

current rate of usage. The terminal signals the customer when four days are 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 transfers the credits to the user display terminal. No fees are assessed when service is interrupted or restored.

The prepay rate for electricity purchases consists of an energy charge of 4.559 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 contain an inverted energy charge. Third, the prepay rate is slightly higher than the standard residential rate.

The rate of 4.559 cents per kWh is designed to recover about \$80 more per year (\$6.73 per month) from the average program participant than they would have paid under the RS-1 rate, which represents a difference of about 8%. The higher rate is intended to recover part of the equipment cost of the program from participating customers. FPL provides notice in writing to potential prepay customers of the difference between the standard rate and the program rate.

Although program participants pay a higher rate, FPL 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 thus pay less overall by avoiding most of these charges under the program.

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

Because power can be purchased in increments as small as \$10, the program allows 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 can purchase additional credits.

Program customers are required to sign a Prepay Residential Service Agreement with a term of 12 months. Customers who choose to leave the program before 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 is waived. The penalty for early termination is 22¢ per day for each day remaining in the contract period, and is intended to cover part of the cost of installing and removing the equipment. The 22¢ per day was calculated based on the average \$80 in annual savings divided by 365 days. Therefore, the maximum penalty for early termination is \$80.

FPL stated that the pilot program will allow them to assess customer acceptance of the prepay rate, identify the costs and benefits of operating the program, identify its effects on customer usage, and identify technical and operational issues.

Results of the Program to Date

FPL began acquiring program participants and installing the necessary metering equipment in June 2001. Three pay stations were established to allow participants to purchase energy. As of May 2002, 600 prepay meters were installed.

FPL experienced an average turnover rate of 5%, consisting of 3% of the participants who moved to new premises located outside the five-mile radius of the pay stations, and 2% who requested removal from the program. The main reason given for opting out of the program was excessive distance from the pay stations.

The average purchase of energy under the program was \$25, and purchases were made on average once every six days. FPL experienced some system problems in connecting the pay stations to FPL's database; however, these problems were corrected and have not recurred since March 2002. The annual energy usage of participants declined by approximately 9% as compared with their usage before the implementation of the program.

The results show a reduction in the service charges paid by participants in the program. In total, participants paid \$34,749 annually in field collection, reconnection, late payment, and returned check fees before the program, and 21% paid more than \$100 per year in fees. During the program, participants paid only \$2,400 in returned check fees, since program participants do not pay field collection, reconnection, or late payment fees.

To gauge customer reaction and acceptance of the program, FPL conducted two customer focus groups, consisting of 20 customers each. The results of this research showed that 90% of the program participants were satisfied with the program, 95% did not wish to return to traditional residential service, and 94% felt that the program made it easier for them to maintain their electric service without interruption.

Extension of the Program

The program is scheduled to end on December 1, 2002. FPL is seeking to extend the program for an additional 13 months, through December 31, 2003. FPL is not proposing to change any other aspect of the program. Currently, there are approximately 600 participants in the program, and it is FPL's intention to maintain this number. New participants will be added only when necessary to replace those who leave the program.

FPL asserts that the extension will allow time for further research and analysis of the effects and results of the program, including an assessment of customer acceptance of the program, and the effects of the program on electricity usage. An additional 13 months' data will also help in determining whether it is cost effective to offer the program on a permanent basis. FPL also believes that the additional time may result in decreases to the equipment costs of the program, which may make the program more viable on a long-term basis. These decreases could result from the entry of new prepay vendors, or the entry of other utilities into the prepay market. Section 366.075(2), Florida Statutes specifically states that the Commission "may extend the period designated for the test if it determines that further testing is necessary to fully evaluate the effectiveness of such experimental rates."

Conclusion

Staff has carefully reviewed the results of the program to date, and met with FPL personnel to discuss the results. The results indicate that customer satisfaction with the program is high, and that it is resulting in reduced service fees to customers, as well as reduced kWh consumption.

The extension will allow FPL to gather additional data that will assist in making a judgement whether they will seek to make the program permanent. Continuation of the program will also benefit the large proportion of participants who have expressed a high degree of satisfaction with the program.

Based upon their review, staff recommends that, pursuant to Section 366.075(2), Florida Statutes, the Commission approve FPL's proposal to extend the program for an additional 13 months, through December 31, 2003.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If Issue 1 is approved, this tariff should become effective on November 19, 2002. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.
(JAEGER)

STAFF ANALYSIS: If Issue 1 is approved, this tariff should become effective on November 19, 2002. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect with any increase held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.