State of Florida

Public Service Commission

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

DATE: December 23, 2013

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Draper, King, Rome)
Office of the General Counsel (Lawson)
Office of Industry Development and Market Analysis (Clemence, Marr)

RE: Docket No. 130223-EI – Petition for approval of optional non-standard meter rider, by Florida Power & Light Company.

AGENDA: 01/07/14 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 04/21/14 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

Case Background

On August 21, 2013, Florida Power & Light Company (FPL) filed a petition for approval of an optional Non-Standard Meter Rider (NSMR) tariff. The tariff would be available to customers who elect to keep their non-communicating meters (meter) in lieu of the standard communicating smart meters.

The Commission approved for recovery through base rates the costs of FPL's Advanced Metering Infrastructure (AMI) and associated smart meters in Order No. PSC-10-0153-FOF-EI.[1] FPL has completed the installation of approximately 4.5 million smart meters for residential and small business customers.

[1] Order No. PSC-10-0153-FOF-EI, issued March 17, 2010, in Docket No. 080677-EI, In re: Petition for increase in rates by Florida Power & Light Company.

The Commission acknowledged the predictions of savings from the deployment of smart meters in Order No. PSC-10-0153-FOF-EI. Smart meters are intended to reduce metering and billing costs, reduce billing errors, and help the utility identify service issues. Order No. PSC-10-0153-FOF-EI also required FPL to file annual progress reports in the Energy Conservation Cost Recovery docket on its implementation of smart meters.

The Commission directed staff to hold a public workshop on September 20, 2012 to gather information on smart meters and to address concerns raised by consumers. Topics addressed during the workshop included jurisdiction of government agencies, health, privacy, data security, and alternatives to smart meters. Presentations were made by subject matter experts and several consumers provided public comment.

Staff presented a briefing on smart meters to the Commission at the February 19, 2013 Internal Affairs meeting to convey the following information: (1) the Commission's jurisdiction over smart meters is limited to cost recovery for the meters and ensuring the meters are commercially acceptable measuring devices owned and maintained by the utility; (2) the Federal Communications Commission has sole jurisdiction to establish standards for radio frequency emissions of smart meters; (3) the investor-owned utilities (IOU) hold customer data confidentially, except for release for regulated business purposes and to comply with court orders; (4) data transmitted by smart meters is encrypted and does not contain any personal customer identification information; and (5) should a IOU choose to provide an alternative to smart meters for its customers, it will be the responsibility of the IOU to develop and submit a cost-based request to the Commission if approval is needed.

Order No. PSC-13-0437-PCO-EI, issued on September 24, 2013 in this docket, acknowledged the intervention of the Office of the Public Counsel. On October 11, 2013, and November 13, 2013, FPL responded to Staff's First and Second Data Request. Order No. PSC-13-0469-TRF-EI, issued on October 14, 2013, suspended the proposed tariff.

As of the filing date of the recommendation, 35 customers have filed letters in the docket objecting to the proposed tariff or smart meters in general. The letters cover issues such as health, privacy and security, and the proposed charges. Customers objecting to the tariff argue that the proposed charges are excessive or there should be no charge for customers wishing to retain their non-communicating meter.

The Commission has jurisdiction pursuant to Sections 366.03, 366.04, 366.05 and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve FPL's proposed NSMR tariff?

Recommendation: No, the proposed tariff as filed should be denied. FPL should be given the option to file a revised NSMR tariff within 10 days of the Commission's vote for administrative approval by staff that contains the following three adjustments: (1) extend recovery period for up-front system and communication costs from three to five years; (2) reduce number of customer care employees from four to one employee after year two; and (3) eliminate meter reading lead position after year two. The three adjustments result in a reduction from $105 to $95 in the enrollment fee, and a reduction from $16 to $13 in the monthly surcharge. FPL should also be required as part of its annual progress reports to track and report enrollment, revenues, and costs associated with the NSMR tariff, to ensure the tariff remains cost based or be adjusted through a revised tariff filing. (Draper, Rome, King, Clemence, Marr)

Staff Analysis: FPL began installing smart meters in September 2009 and has completed the installation of over 4.5 million smart meters for residential and small business customers. FPL's smart meters are equipped with a two-way radio transmitter that transmits information about usage to an access point allowing the meters to be read remotely. Smart meters also allow customers to view their energy consumption online by month, day, or hour.

According to FPL, smart meters are now part of its standard service offering. Approximately 24,000 customers have asked FPL to refrain from installing a smart meter. Those customers were allowed to keep their meter and have been placed on a postpone list. Another approximately 12,000 customers have not indicated an objection to a smart meter, but have failed to allow FPL to access their premises to install a smart meter.

NSMR participation. Of the 36,000 customers discussed above, FPL anticipates that 12,000 will request service under the NSMR. FPL's anticipated opt-out population of 12,000 customers is based on data available from opt-out tariffs implemented by other utilities in the United States. FPL found that for other utilities, 0.02 to 0.5 percent of all customers have agreed to pay a fee to opt out. The midpoint of these participation rates is 0.26 percent, equating to 11,700 opt-out customers for FPL (from a total of 4.5 million customers).

Customers choosing to opt out from receiving a smart meter will have to enroll to take service under the NSMR tariff. Customers will be able to enroll via FPL's website, by letter, or by calling FPL. FPL expects the system to be ready for enrollment in January 2014 and billing in April 2014. Customers who have not asked to be on the postpone list, but who have prevented FPL from installing a smart meter will be deemed to have elected to take service under the NSMR tariff, and will have a grace period of 45 days following the initial billing of the NSMR charges to contact FPL requesting cancellation of service under NSMR and acceptance of the installation of a smart meter. If within the 45 day grace period the customer accepts the installation of a smart meter, NSMR charges that have been billed will be waived.

FPL proposed tariff. The proposed tariff includes an initial enrollment fee of $105 and a monthly surcharge of $16. The enrollment fee must be paid at the time the customer takes service under the NSMR tariff, regardless of the length of time the customer is enrolled. The charges represent the incremental capital and operations and maintenance (O&M) costs to FPL to develop and administer the NSMR tariff. FPL stated that the incremental capital and O&M costs included in the calculations of the NSMR charges were not included in the 2013 test year in FPL's last rate case and are therefore not included in current base rates.

The $105 enrollment fee reflects only a portion of FPL's up-front cost per customer incurred in connection with customers taking service under the NSMR tariff and has four components: (1) $11.30 to administer customer enrollment via phone call or letter; (2) $77.06 for one site visit for each opt-out customer (other than for monthly meter reading); (3) $5 for one meter test; and (4) $11.98 for meter reading workflow to establish and remove route. Additional up-front costs are system and communication costs; however, FPL proposed to cap the enrollment fee at $105 and recover the up-front system and communication costs through the monthly surcharge over three years. The remainder of the up-front costs represents $7.14 of the $16 monthly surcharge.

In addition to up-front costs, FPL provided documentation supporting the on-going monthly O&M costs per customer. Routine monthly O&M costs include: (1) $6.81 for monthly manual meter readings; (2) $0.05 for Occupational Safety and Health Administration (OSHA) and other vehicle costs; (3) $0.40 for billing and project support operational costs; (4) $0.45 for connections, disconnects/reconnects; (5) $0.10 to check meter to verify power; and (6) $0.95 for project management. The monthly NSMR costs per customer total $8.76, which when added to the $7.14 result in the $16 surcharge (rounded). A description of the costs included in the enrollment fee and monthly surcharge is shown in Attachment A.

<u>Staff recommended adjustments</u>. Staff disagrees with FPL's proposed recovery period for up-front system and communications costs and assumed staffing levels after the initial enrollment period. Thus, staff recommends three adjustments to FPL's calculations, which are discussed below. The adjustments result in a reduction of the enrollment fee from $105 to $95, and a reduction in the monthly surcharge from $16 to $13.

Staff's first adjustment is to extend the recovery period for up-front system and communication costs ($2,461,054) from three to five years. The system and communication costs reflect FPL's cost to implement changes to its customer billing system to administer and manage enrollment, billing of the enrollment fee and monthly charges, and collection issues for customers on the NSMR tariff. To calculate depreciation expense and return on rate base, FPL used a 5-year period; however, FPL proposed to recover those costs over a 3-year period. To support a 3-year recovery period, FPL stated that it has little data to estimate how long customers may choose to stay on the NSMR tariff and FPL believes the 3-year recovery period is reasonable to ensure that costs are recovered from those customers who choose to participate in the NSMR tariff. Staff recommends extending the recovery period from three years to five years so that the recovery period matches the period over which the rate base is being depreciated. This adjustment lowers the monthly surcharge from $16 to $13.

Staff's second adjustment pertains to staffing levels. FPL included the salary of four customer care employees. In response to staff's data request, FPL stated that the four customer care employees would be responsible for handling customer enrollment mailings and calls related to enrollment in the NSMR tariff, general program inquiries and follow-up calls. Staff believes the four customer care employees would be fully utilized only during the initial program set-up period. After the initial enrollment period, the level of effort to support the opt-out program is expected to decrease. Staff suggests FPL will need four customer care employees the first two years, and for the next three years only one employee. This adjustment lowers the enrollment fee by $3.24.

Staff's third adjustment pertains to the meter reading lead position included as a cost component. FPL stated that the meter reading lead position would be responsible for creating manual meter reading routes for customers who enroll in the NSMR rider, and the maintenance of routes as additional customers are added and removed to ensure efficient routing. Staff believes this position will only be fully utilized for two years during the initial enrollment period. For the remaining three years of the recovery period, the routing work can be absorbed by other staff, such as the customer account representative. This adjustment lowers the enrollment fee by $7.19.

<u>Monitoring of costs</u>. FPL estimated the number of customers that will request service under the NSMR tariff and developed incremental cost estimates accordingly. Actual participation rates and costs will likely vary. Thus, both the initial and recurring costs are set points for purposes of establishing the NSMR charges. Staff believes that monitoring of actual participation rates and costs of the opt-out program is integral to this recommendation. FPL does not object to the monitoring of participants and costs.

Presently, Order No. PSC-10-0153-FOF-EI requires FPL to file annual smart meter progress reports in the Energy Conservation Cost Recovery docket. FPL has been filing those reports in March of each year. FPL should also be required to include in its annual progress reports enrollment, revenues received from the enrollment fee and the monthly surcharge, and actual costs associated with the NSMR tariff,[2] to ensure the tariff remains cost-based or else be adjusted through a revised tariff filing. Actual costs should be shown in the annual reports consistent with the way costs were presented in Exhibit B of the petition, to allow for a comparison of estimated costs presented in the petition and actual costs incurred. The first annual report to include this information would be due March 2015. For instance, staff believes that since a portion of the up-front costs is being recovered through the monthly surcharge, it may be appropriate to reduce the monthly surcharge once these up-front costs are recovered.

<u>Conclusion</u>. Staff believes that the option to opt-out from the standard smart meter will require FPL to incur incremental costs, which should be borne by the cost causer and not the general body of ratepayers. FPL has provided substantial cost support in its petition and in response to staff's data requests. However, staff recommends that the proposed tariff as filed should be denied. FPL should be given the option to file a revised NSMR tariff 10 days of the Commission's vote for administrative approval by staff that contains the following three adjustments: (1) extend recovery period for up-front system and communication costs from three to five years; (2) reduce number of customer care employees from four to one employee after year two; and (3) eliminate meter reading lead position after year two. The three adjustments

[2] The additional information will only be necessary if an NSMR tariff is approved by the Commission.

result in a reduction from $105 to $95 in the enrollment fee, and a reduction from $16 to $13 in the monthly surcharge. The NSMR tariff should become effective once FPL notifies staff that the billing system has been implemented, currently expected to be on or about April 1, 2014.

Issue 2: Should this docket be closed?

Recommendation: If the Commission approves staff's recommendation in Issue 1, FPL timely files a revised NSMR tariff, and a protest is filed within 21 days of the issuance of the order, the revised tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If FPL timely files a revised NSMR tariff and no timely protest is filed, this docket should be closed upon the issuance of a consummating order. As noted in Issue 1, the NSMR tariff should become effective once FPL notifies staff that the billing system has been implemented, currently expected to be on or about April 1, 2014.

If the Commission approves staff's recommendation in Issue 1, FPL does not timely file a revised NSMR tariff meeting the conditions of the order, and a protest is filed within 21 days of the issuance of the order, the tariffed charges originally requested in FPL's August 21, 2013 filing could be placed into effect, with any revenues held subject to refund, pending resolution of the protest. If FPL does not timely file a revised NSMR tariff and no timely protest is filed, the docket should be closed upon the issuance of a consummating order. (Lawson)

Staff Analysis: If the Commission approves staff's recommendation in Issue 1, FPL timely files a revised NSMR tariff, and a protest is filed within 21 days of the issuance of the order, the revised tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If FPL timely files a revised NSMR tariff and no timely protest is filed, this docket should be closed upon the issuance of a consummating order. As noted in Issue 1, the NSMR tariff should become effective once FPL notifies staff that the billing system has been implemented, currently expected to be on or about April 1, 2014.

If the Commission approves staff's recommendation in Issue 1, FPL does not timely file a revised NSMR tariff meeting the conditions of the order, and a protest is filed within 21 days of the issuance of the order, the tariffed charges originally requested in FPL's August 21, 2013 filing could be placed into effect, with any revenues held subject to refund, pending resolution of the protest. If FPL does not timely file a revised NSMR tariff and no timely protest is filed, the docket should be closed upon the issuance of a consummating order.

Attachment A

Description of Costs included in Enrollment Fee

Line	FPL	Staff	Description
1	$11.30	$8.06	Customer Care Center Costs include initial incremental staffing of 4 Customer Service Representatives. Three staff would be responsible for handling customer enrollment calls related to enrollment in the NSMR tariff, general program inquiries, and follow-up calls. One back office employee would manually initiate the NSMR enrollment process in the customer information system using customer enrollment requests received from scanned mailers and would complete the request based on the customer's selection. This function is similar to that performed by the phone representatives except that the customer request is received via letter rather than a phone call.
2	$77.06	$77.06	It is assumed that there will be at least one site visit (other than for the regular manual monthly meter reading) per opt-out customer. The Meter Electrician B staff position would be responsible for: (a) removal and replacement of non-standard meters for meter test sampling and for meter repair, (b) installation of non-standard meters for opt-out customers with communicating meters or for opt-out customers who are relocating to another premise, (c) reconnection of service that was disconnected for non-payment, and (d) site visits due to restoration/theft monitoring activities. The site visit costs include labor and vehicle costs to travel to/from the premise to perform the meter work.
3	$5.00	$5.00	The cost associated with the ongoing testing and support for non-standard meters represents the labor cost of a 0.25 FTE level of effort for the Electronic Technician position that would be responsible for performing meter testing.
4	$11.98	$4.79	Meter Reading Workflow costs include the initial incremental staffing of one Meter Reading Lead position that would be responsible for creating manual meter reading routes for customers who enroll in the NSMR tariff and maintenance of routes as additional customers are added and removed, thus ensuring that routing continues to be efficient.
5	**$105**	**$95**	**Total Enrollment Fee (rounded)** [Sum of Lines 1 through 4]

Description of Costs included in Monthly Surcharge

Line	FPL	Staff	Description
6	$7.14	$4.65	Unrecovered up front system and communications costs to be added into the monthly surcharge.
7	$6.81	$6.81	Monthly Manual Meter Reading costs include the incremental costs associated with 11 FTE Meter Reader staff positions that would be responsible for performing the monthly manual meter reading and visual inspection of meters for customers who enroll in the NSMR tariff. The cost per monthly manual reading is comprised of labor, materials & supplies, transportation, and equipment costs.
8	$0.05	$0.05	Meter Reading OSHA and Vehicle Accident costs are based on the actual costs experienced by FPL for meter reading injuries and vehicle accidents in 2011.
9	$0.40	$0.40	Billing and Project Support costs include the incremental staffing of one Customer Account Representative position that would be responsible for billing of the enrollment fee and the monthly surcharge, and miscellaneous ongoing support of billing processes.
10	$0.45	$0.45	Costs for field visits for collections and disconnects represent the labor cost of a 0.5 FTE level of effort for the Field Collector position that would be responsible for manual field collections of past due receivables and/or disconnections of service for non-payment.
11	$0.10	$0.10	The costs shown indicate the Company's estimated costs of having to physically investigate potential meter outages for customers who do not have a standard communicating meter.
12	$0.95	$0.95	Project Management costs include the incremental staffing of one Project Manager position that would be responsible for the oversight and coordination of processes amongst eight different business units and over 16 different departments, continuing management of the process design, implementation of systems and system integration, cost accounting, regulatory and other reporting requirements, and ongoing program administration.
13	$8.76	$8.76	Sum of Monthly O & M Costs per NSMR Customer [Sum of Lines 7 through 12]
14	**$16**	**$13**	**Total Monthly Surcharge (rounded)** [Line 6 + Line 13]