Customer Deposit Procedures of Florida's Five Investor-Owned Utilities

By Authority of
The State of Florida
Public Service Commission
Division of Competitive Markets and Enforcement
Bureau of Performance Analysis
Review of
Customer Deposit Procedures of Florida’s
Five Investor-Owned Utilities

David Rich
Project Manager,
Operations Review Specialist

William “Tripp” Coston
Operations Review Specialist

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By Authority of
The State of Florida for
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Division of Competitive Markets and Enforcement
Bureau of Performance Analysis

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# Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 EXECUTIVE SUMMARY</td>
<td></td>
</tr>
<tr>
<td>1.1 Objectives</td>
<td>3</td>
</tr>
<tr>
<td>1.2 Scope</td>
<td>3</td>
</tr>
<tr>
<td>1.3 Methodology</td>
<td>3</td>
</tr>
<tr>
<td>1.4 Background and Perspective</td>
<td>4</td>
</tr>
<tr>
<td>1.5 Overall Opinion</td>
<td>5</td>
</tr>
<tr>
<td>1.6 Company Comparison</td>
<td>9</td>
</tr>
<tr>
<td>2.0 FLORIDA POWER &amp; LIGHT</td>
<td></td>
</tr>
<tr>
<td>2.1 Deposit Program Management</td>
<td>17</td>
</tr>
<tr>
<td>2.2 Deposit Program Requirements</td>
<td>19</td>
</tr>
<tr>
<td>2.3 Deposit Program Operations</td>
<td>22</td>
</tr>
<tr>
<td>2.4 Overall Opinion</td>
<td>24</td>
</tr>
<tr>
<td>3.0 FLORIDA PUBLIC UTILITIES COMPANY</td>
<td></td>
</tr>
<tr>
<td>3.1 Deposit Program Management</td>
<td>27</td>
</tr>
<tr>
<td>3.2 Deposit Program Requirements</td>
<td>29</td>
</tr>
<tr>
<td>3.3 Deposit Program Operations</td>
<td>31</td>
</tr>
<tr>
<td>3.4 Overall Opinion</td>
<td>32</td>
</tr>
<tr>
<td>4.0 GULF POWER COMPANY</td>
<td></td>
</tr>
<tr>
<td>4.1 Deposit Program Management</td>
<td>37</td>
</tr>
<tr>
<td>4.2 Deposit Program Requirements</td>
<td>41</td>
</tr>
<tr>
<td>4.3 Deposit Program Operations</td>
<td>43</td>
</tr>
<tr>
<td>4.4 Overall Opinion</td>
<td>45</td>
</tr>
<tr>
<td>5.0 PROGRESS ENERGY FLORIDA</td>
<td></td>
</tr>
<tr>
<td>5.1 Deposit Program Management</td>
<td>49</td>
</tr>
<tr>
<td>5.2 Deposit Program Requirements</td>
<td>52</td>
</tr>
<tr>
<td>5.3 Deposit Program Operations</td>
<td>54</td>
</tr>
<tr>
<td>5.4 Overall Opinion</td>
<td>55</td>
</tr>
<tr>
<td>6.0 TAMPA ELECTRIC COMPANY</td>
<td></td>
</tr>
<tr>
<td>6.1 Deposit Program Management</td>
<td>59</td>
</tr>
<tr>
<td>6.2 Deposit Program Requirements</td>
<td>62</td>
</tr>
<tr>
<td>6.3 Deposit Program Operations</td>
<td>64</td>
</tr>
<tr>
<td>6.4 Overall Opinion</td>
<td>66</td>
</tr>
<tr>
<td>7.0 COMPANY COMMENTS</td>
<td></td>
</tr>
<tr>
<td>7.1 Florida Power &amp; Light</td>
<td>71</td>
</tr>
<tr>
<td>7.2 Florida Public Utilities Company</td>
<td>71</td>
</tr>
<tr>
<td>7.3 Gulf Power Company</td>
<td>72</td>
</tr>
<tr>
<td>7.4 Progress Energy Florida</td>
<td>72</td>
</tr>
<tr>
<td>7.5 Tampa Electric Company</td>
<td>73</td>
</tr>
</tbody>
</table>
# Table of Exhibits

<table>
<thead>
<tr>
<th>No.</th>
<th>Exhibit Name</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Deposit Programs Rule Compliance Summary for Florida’s Investor-Owned Utilities</td>
<td>9</td>
</tr>
<tr>
<td>2.</td>
<td>Operational Process Comparison of Florida’s Investor-Owned Utilities</td>
<td>11</td>
</tr>
<tr>
<td>3.</td>
<td>Comparison of Company Credit Thresholds</td>
<td>12</td>
</tr>
<tr>
<td>5.</td>
<td>FP&amp;L Net Bad Debt Write-Offs 2000-2005</td>
<td>18</td>
</tr>
<tr>
<td>6.</td>
<td>FP&amp;L Total Account Revenue and Net Bad Debt 2000-2005</td>
<td>18</td>
</tr>
<tr>
<td>7.</td>
<td>FP&amp;L Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005</td>
<td>19</td>
</tr>
<tr>
<td>8.</td>
<td>FPUC Net Bad Debt Write-Offs 2000-2005</td>
<td>28</td>
</tr>
<tr>
<td>9.</td>
<td>FPUC Total Account Revenue and Net Bad Debt 2000-2005</td>
<td>28</td>
</tr>
<tr>
<td>10.</td>
<td>FPUC Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005</td>
<td>29</td>
</tr>
<tr>
<td>12.</td>
<td>Gulf Total Account Revenue and Net Bad Debt 2000-2005</td>
<td>40</td>
</tr>
<tr>
<td>13.</td>
<td>Gulf Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005</td>
<td>40</td>
</tr>
<tr>
<td>14.</td>
<td>PEF Net Bad Debt Write-Offs 2000-2005</td>
<td>51</td>
</tr>
<tr>
<td>15.</td>
<td>PEF Total Account Revenue and Net Bad Debt 2000-2005</td>
<td>51</td>
</tr>
<tr>
<td>16.</td>
<td>PEF Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005</td>
<td>51</td>
</tr>
<tr>
<td>17.</td>
<td>Tampa Electric Net Bad Debt Write-Offs 2000-2005</td>
<td>61</td>
</tr>
<tr>
<td>18.</td>
<td>Tampa Electric Total Account Revenue and Net Bad Debt 2000-2005</td>
<td>62</td>
</tr>
<tr>
<td>19.</td>
<td>Tampa Electric Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005</td>
<td>62</td>
</tr>
</tbody>
</table>
1.0 Executive Summary
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1.1 Objectives

This review of Florida’s five investor-owned electric utilities was conducted on behalf of the Florida Public Service Commission (FPSC or the Commission) by the Bureau of Performance Analysis. The review examined each company’s policies, practices, and controls regarding deposits for new and existing accounts.

The review objectives were as follows:

♦ Review, document, and evaluate each investor-owned utility’s procedures and practices for assessing, collecting and maintaining customer deposits,

♦ Evaluate each company’s procedural compliance with the applicable Commission rules within the Florida Administrative Code regarding customer deposits, and

♦ Conduct a sample review of each company’s customer accounts to verify operational compliance with the tariff and the Florida Administrative Code.

1.2 Scope

The review focused on examining each company’s procedures, processes, and internal controls for customer deposit requirements. Also, staff reviewed each company’s activities aimed at collecting, maintaining, and refunding deposits on new and existing accounts. The review of operations covers the period 2000 through 2006. However, the companies’ 2006 final revenue figures were not available prior to publication so graphs and charts depicting performance cover the period 2000 through 2005. Specifically, staff focused on the following areas:

♦ Internal practices and procedures,
♦ Internal goals and objectives,
♦ Financial and internal controls,
♦ Automated billing system processes, and
♦ Procedural and operational compliance with FPSC rules and regulations.

1.3 Methodology

During the review, Bureau of Performance Analysis staff gathered initial information from each company through document requests and teleconference interviews with company employees. Staff compared each company’s internal procedures to its tariffs on file with the Commission.
Staff also conducted on-site interviews with each company and performed a sample review of initial and additional deposits. Staff conducted specific sampling of customer records to verify that each company maintains operational compliance when calculating and assessing deposit amounts. For each company, statistically valid samples of both initial and additional customer deposits were examined. Staff verified that each company was collecting deposits, granting waivers, reviewing need for additional deposits, and crediting interest in accordance with written procedures.

Staff used all the information to assess and evaluate each of the companies’ compliance with applicable rules for collecting and maintaining deposits outlined within the Florida Administrative Code.

1.4 Background and Perspective

Utility companies bill for electric service after it is provided to the account holders. This billing practice exposes the utility to potential loss if payment is not received from the user. Exposure has increased in recent years as a result of higher costs associated with the production of electricity. Standard industry practice is to collect deposits on new accounts to provide a safeguard in case the account holder does not, or cannot, pay for provided services. Deposits are an effective means to protect the utility, but must be collected in a uniform and consistent manner to protect the account holder from undue burden or possible discrimination. The Commission has established a set of rules that each utility must observe when requiring a deposit.

1.4.1 Florida Administrative Code

The Florida Administrative Code (F.A.C.), Rule 25-6.097, provides specific regulations for each investor-owned utility to collect, maintain, and refund deposits on customer accounts. These rules are in place to allow the utility to protect against losses and to ensure each consumer account is managed under the same guidelines.

Rule 25-6.097(1), F.A.C., states that each utility tariff should provide the criteria for residential and commercial deposits. The rules allow the utility to require established credit for each of its account holders and state that established credit consists of a cash deposit, guarantor to secure payment, or an irrevocable letter of credit. The rules do not restrict utilities from implementing additional criteria to determine the account holder’s credit worthiness.

Rule 25-6.097(2), F.A.C. states that after 23 months of continual service and satisfactory payment history the utility must refund a residential account deposit and, at the utility’s discretion, either refund or pay a higher interest rate for each nonresidential account holder. If the customer does not maintain a satisfactory payment history for the 12 months prior to the refund date, the utility is not required to refund a deposit or to pay a higher interest rate until a consecutive 12-month period of prompt payment occurs. The rule defines an unsatisfactory payment history as more than one late payment, a payment using an insufficiently funded check, a disconnection for nonpayment, tampering with the electric meter, or using electric service in a fraudulent or unauthorized manner.
The utility can also collect new or additional deposits from account holders pursuant to Rule 25-6.097(3), F.A.C. The rules state that a utility may collect, to secure payment of current bills, a deposit in the amount up to the average of two-months bills. If the utility is requiring a new or additional deposit on an established account, it must provide written notice of no less than 30 days and an explanation as to why the utility is collecting the additional deposit. The rule does allow the utility to require an additional deposit on an account that previously received a deposit waiver or refund if it believes it is necessary to secure payment of current bills.

According to Rule 25-6.097(4), F.A.C., each utility is required to pay a minimum of six percent interest to its account holders for any deposit on record. For nonresidential accounts, if the company elects not to refund the deposit after the 23rd month of service, the interest rate must be increased to seven percent. This should be simple interest credited to the account on an annual basis. The utility may provide cash payment or apply the interest to the billing account. The account holder is not entitled to an interest payment until the account has been established for at least six months. After this time, the utility must pay interest on the deposit amount from the time the deposit was collected until the deposit is refunded to the account holder or whenever the account is closed.

The utility must maintain adequate records of each deposit and account detail pursuant to Rule 25-6.097(5), F.A.C. The rule states that the utility must record the name of the person making the deposit, the service address, the date and amount of the deposit, and all transactions involving deposits. Also, the utility is required by Rule 25-6.098(6), F.A.C., to provide the account holder a certificate of deposit showing the deposit on file. The account holder’s canceled check or validated bill may serve as the deposit record.

When a customer terminates their service, the utility is required by Rule 25-6.097(7), F.A.C., to refund the entire deposit plus all accrued interest. The utility may apply this refund toward the final bill balance. If the deposit amount exceeds the final bill, the balance must be returned to the account holder within 15 days after the disconnection of service.

1.4.2 Utility Tariffs

Each Florida regulated utility is required to file a tariff that details the utility’s operational framework with the Commission. These tariffs include details such as rate schedules and service territory along with other rules and practices that impact the ratepayers. The Commission requires each utility to include in its tariff the utility’s procedures for requiring, collecting, maintaining, and refunding deposits. Staff reviewed the tariff for each of Florida’s five investor-owned utilities and determined that all are in compliance with this requirement.

1.5 Overall Opinion

Overall, each of the five investor-owned electric companies’ deposit programs complies with requirements found in the Florida Administrative Code. Companies generally operate in accordance with their tariffs and comprehensive policies, practices, and procedures. However, some variations were noted during document review, interviews, and sampling of customer accounts. These issues were pointed out to the respective company management in order that each might be examined and remedied. The following sections discuss specific observations of
the individual investor-owned utilities, providing a general summary of issues identified by staff during the course of this review and, where applicable, outlines corrective actions undertaken by individual companies to make deposit policies, practices, and procedures more risk resistant.

1.5.1 Florida Power & Light (FP&L)

FP&L’s policies and procedures are in compliance with the deposit requirements outlined in the Florida Administrative Code. Its tariff clearly defines the company’s processes for assessing, billing, and refunding deposits and paying interest for each account. The automated billing system allows the company to implement many of the depository requirements in a seamless manner; eliminating the opportunity for subjective interpretation of requirements.

Company management is aware of the potential risk to its ratepayers and stockholders caused by the exposure of any inadequately secured accounts. FP&L's waiver and review guidelines and benchmarks appear to be set at prudent levels, which ensure the assessment of a deposit when necessary without overburdening customers. Management also monitors the effectiveness of current industry practices for reducing bad debt. FP&L has implemented an innovative alternative to traditional deposit requirements through its Auto Bill Payment program, which provides deposit discounts to account holders who opt for automatic payment deductions.

Staff conducted reviews of two statistically valid samples of customer deposits at FP&L to assess the company’s deposit collection and record keeping processes. Both initial deposits and additional deposit collections were examined and compared to the applicable current procedures. This analysis revealed a degree of compliance with company procedures above 95 percent.

1.5.2 Florida Public Utilities Company (FPUC)

FPUC has written policies and procedures which comply with the deposit requirements outlined in the Florida Administrative Code. Its tariff clearly outlines the company’s processes for assessing, billing, and refunding deposits and interest payments for each account. However, staff found issues of varying magnitude at FPUC which may require corrective action.

FPUC residential deposit guidelines are very specific, only granting a waiver for letter of credit, previous service history, or a guarantor. Managers, however, grant waivers outside these requirements. Therefore, the company operates in a manner not compliant with its written procedures. Commercial deposits may also be waived, at the discretion of the Division Director. Subjective granting of waivers may unnecessarily increase risk to the company.

FPUC chooses not to make use of commonly employed credit rating and monitoring services to assist in evaluating both residential and nonresidential customer creditworthiness or suitability for a waiver. While this practice may result in cost savings to the company, opting not to use credit rating services may lead to an increased risk from inadequately secured accounts.

Staff conducted reviews of two statistically valid samples of customer deposits to assess the collection and recordkeeping processes. Initial and additional deposit collections were examined. This sampling showed that FPUC is not in compliance with the portion of its tariff for residential deposits. The tariff states that residential deposits will not exceed an amount equal to two months’ average billing. However, company practice commonly imposes a
residential deposit which exceeds the two month average. FPUC’s website is also in apparent conflict with the tariff. For the Northwest division, the website states that the greater of $175 or two months’ average billing is the normal residential deposit; for the Northeast it is the greater of $200 or twice the average monthly billing. Commercial deposit practices are generally in compliance with the tariff and follow the guidelines of two months’ average billing. Waivers for commercial accounts are uncommon though allowed at the discretion of the Division Director.

Review of the additional deposit sample also found discrepancies. FPUC has not collected and coded all deposits in accordance with Rule 25-6.095, F.A.C. FPUC is unique among Florida’s investor-owned utilities in that it provides both regulated electric and unregulated propane services. Deposits are required for both services equal to two-months average billing. However, in several sampled accounts staff noted that account holders who subscribe to both services had the entire combined amount coded as solely an electric deposit. This does not comply with the Florida Administrative Code rule. As a result, the company could be using funds from its regulated operations to pay interest on an unregulated deposit.

**1.5.3 Gulf Power Company (Gulf)**

Gulf’s policy and procedures are in compliance with requirements for deposits as established in the Florida Administrative Code. The company tariff details all process for deposits in a clear manner. The automated billing system allows the company to implement most depository requirements in a seamless manner. Gulf’s deposit program is responsive to customer needs while providing management tools to reduce risk.

Unlike other investor-owned utilities, Gulf chooses to refund residential deposits after only 12 months of good payment history. Gulf believes that this practice is a business decision which has evidenced no increased risk from under-secured accounts. The company also cites very high customer approval of the program and universal customer goodwill as a counterbalance to any potential negative issues. Conversely, Gulf’s net bad debt ratio is one of the highest of the five investor-owned utilities reviewed.

The typical Gulf practice is to collect a residential deposit of twice the average monthly bill rounded to the nearest five dollars, not to exceed $150 unless the customer had a previous charge off, unauthorized usage, or filed for bankruptcy. The arbitrary cap of $150 is in compliance with the company tariff, which only states a deposit of twice the average monthly usage may be required. There may be an increased risk to the company from inadequately secured accounts, evidenced by a high net bad debt ratio in comparison to other utilities.

Commercial deposit practices are generally in compliance with the tariff, averaging two times the monthly usage. Supervisors have discretion in waiving deposit requirements but must fully document the reason and each decision is subject to review.

Although additional deposits are within the allowable amounts, Gulf may be under securing itself for individual cases. Staff noted that the company commonly requests an additional deposit of less than the amount authorized under current rules.
Gulf net bad debt write-offs are one of the highest among the investor-owned utilities. Fifty-seven percent of written-off accounts had deposits. This may indicate that the deposit amounts are insufficient to adequately safeguard the company from risk.

Staff’s review of a statistically valid sample of residential and nonresidential accounts, initial, additional and waived deposits confirmed the company is following its policies, practices, and procedures with a rate of compliance above 95 percent.

1.5.4 Progress Energy Florida (PEF)

PEF’s policies and procedures are in compliance with the deposit requirements outlined in the Florida Administrative Code. Its tariff clearly states the company’s processes for assessing, billing, and refunding deposits with interest payments for each account. All PEF deposit guidelines, practices, and procedures appear be applied in a fair, objective and nondiscriminatory manner.

The automated billing system allows the company to implement many of the depository requirements in a seamless manner; eliminating the opportunity for subjective interpretation of the deposit requirements. PEF’s system design allows each associate to quickly review an account holder’s information and make necessary decisions.

The PEF net bad debt ratio during the period reviewed runs from a low of 0.10 percent in 2000 to a high of 0.21 percent in the most recent annual result. Following an upward spike in 2001, PEF nearly halved its ratio and had the best result of any company in 2002. Since then, however, PEF has trended generally upward. Also, the company does not track or differentiate net bad debt write-offs as residential or nonresidential. Such differentiation could be relatively easy to establish and further improve the company’s ability to more accurately assess risk across customer classification.

Staff’s sampling of account deposits confirmed that in every facet of these operations PEF exhibited uniform adherence to company policies, practices and procedures. Personnel are well-informed and customer-oriented. The sampling of deposit records indicated a degree of compliance with applicable rules, in excess of 95 percent.

1.5.5 Tampa Electric Company (TEC)

Tampa Electric Company is in compliance with applicable rules as outlined in the Florida Administrative Code. The company utilizes and administers a comprehensive deposit program responsive to customer needs and providing risk management. The deposit program operates in accordance with clearly documented internal policies, practices, and procedures. TEC deposit guidelines appear reasonable and nondiscriminatory in nature and are applied in a fair, objective, and unbiased manner.

In 2005, TEC had the highest net bad debt to total revenue ratio of the five investor-owned utilities reviewed. Over the previous five years that trend has continued upward and was the highest net bad debt ratio for accounts without deposits for the majority of the years reviewed. In January 2006, TEC instituted a required residential deposit of twice the monthly average of usage. Until then, TEC had employed a composite average initial deposit of $215 for
all residential customers. The change in policy better protects the company against risk since customer usage varies widely.

Staff examination of residential and nonresidential deposits from a statistically valid sample confirmed compliance with company policies, practices and procedures of 95 percent or better. Deposit calculation and assessment for initial and additional deposits were objective and nondiscriminatory. Waivers were fairly granted and supporting validation was present.

While there is no evidence of bias or subjectivity in the application of customer deposits, one of the company’s current practices may contain the potential to introduce some measure of subjectivity. Credit checks for residential accounts are not offered universally and are only triggered by customer request. This practice may deprive credit worthy customers of potential cost savings.

### 1.6 Company Comparison

Each of the five investor-owned electric companies operating in Florida employs a tariff along with internal policies, practices, and procedures to administer a deposit program. A comparative analysis of significant areas of the deposit programs is presented below in Exhibits 1 through 4. **Exhibit 1** provides a summary of each utility’s compliance and variances with each FPSC rule governing deposits.

| Deposit Programs Rule Compliance Summary for Florida’s Investor-Owned Utilities |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Rule 25-6.097                 | FP&L            | FPUC            | GPC             | PEF             | TEC             |
| 6.097(1) Tariff / Collection of Initial Deposit | In Compliance | Process for collecting deposits may include subjective waivers. | In Compliance | In Compliance | In Compliance |
| 6.097(2) Refund of Deposit   | In Compliance; refunds at 23 months | In Compliance; refunds at 23 month | In Compliance; refunds at 13 months; perceives no added risk but very high customer satisfaction | In Compliance; refunds at 23 month |
| 6.097(3) Collection of Additional Deposit | In Compliance | In Compliance | In Compliance | In Compliance | In Compliance |
| 6.097 (4) Payment of Interest | In Compliance | In Compliance | In Compliance | In Compliance | In Compliance |
| 6.097 (5-7) Maintenance of Records | In Compliance | In Compliance | In Compliance | In Compliance | In Compliance |

**EXHIBIT 1**

*Source: Data Requests 1, 2, and 3, Interviews, Sampling*
1.6.1 Deposit Requirements

Residential
Each investor-owned utility in this review generally requires a deposit on residential customer accounts which is typically twice the average monthly usage charge for the premises, as shown in Exhibit 2. There were two anomalies to the general practice noted during this review. FPUC commonly charges a set amount ($200 for their Northeast division and $175 for the Northwest division) rather than two times monthly usage as specified in its tariff. Gulf uses twice the average monthly billing rounded to the nearest $5 but sets a limit of $150, a practice which may inadequately secure the company.

Nonresidential
The amount of the nonresidential deposit is typically twice the average monthly usage for the premises. FPUC and TEC review nonresidential deposits for sufficiency on a semi-annual basis, FP&L and PEF review deposits quarterly, and Gulf conducts weekly reviews. For new construction, each company conducts initial reviews when a usage pattern has been established and the deposit is adjusted if necessary to reduce risk.

1.6.2 Waiver Criteria

Residential
Criteria for waivers and alternatives to cash deposits vary slightly from company to company for residential accounts. Exhibit 2 indicates, all but FPUC employ credit checking services such as Equifax or Experian to verify creditworthiness and suitability for waiver. All allow guarantors while every company but PEF makes waiver provisions for a previous customer. FP&L uniquely offers partial waivers based on credit score and enrollment in their automatic bill payment plan and has the highest required credit score for waiver suitability. FPUC and Gulf allow management discretion in granting waivers which is contrary to the other utilities which have a much more rigid approach for residential waivers. The proportion of net bad debt caused by accounts not covered by a deposit varies widely, as shown in Exhibit 2. Tampa Electric’s 40 percent of net bad debt was attributable to accounts without deposits.

Nonresidential
Every company offers waivers to nonresidential customers but outright waivers are the exception. All investor-owned utilities will accept a letter of credit or surety bond. As shown in Exhibit 2, FP&L and TEC grant waivers if a potential customer receives a high enough score from a credit rating service. Managers at FPUC, Gulf, and PEF may, at their discretion, waive nonresidential customers’ deposits. Such waivers are subject to review, full documentation and justification. FP&L, PEF, and TEC will accept blanket or master deposits, offering waivers to subordinate entities initiating service under the master deposit. TEC also accepts a guarantor in lieu of cash deposit.

1.6.3 Triggers for Additional Deposits

Residential
All companies reviewed employ specific internal triggers to initiate the additional deposit process. Each uses combinations of late payments and payment history as triggers. Gulf and FP&L also use internal, proprietary software models to scrutinize customer account performance.
<table>
<thead>
<tr>
<th>Operational Process Comparison of Florida’s Investor-Owned Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FP&amp;L</strong></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Initial Deposit Requirement</strong></td>
</tr>
<tr>
<td><strong>Waiver Criteria Residential</strong></td>
</tr>
<tr>
<td><strong>Triggers for Additional Deposit Review - Residential</strong></td>
</tr>
<tr>
<td><strong>Triggers for Additional Deposit Review - Nonresidential</strong></td>
</tr>
<tr>
<td><strong>Credit Threshold for Additional Deposits - Large Corporate</strong></td>
</tr>
<tr>
<td><strong>Accounts with Deposits Residential</strong></td>
</tr>
<tr>
<td><strong>Accounts with Deposits Nonresidential</strong></td>
</tr>
<tr>
<td><strong>Total Cash Deposits as a % of Total Revenue (2005)</strong></td>
</tr>
<tr>
<td><strong>Accounts without Deposits as % of Net Bad Debt (2005)</strong></td>
</tr>
<tr>
<td><strong>Net Bad Debt as a Percent of Total Revenues (2005)</strong></td>
</tr>
<tr>
<td><strong>Deposit Review Residential</strong></td>
</tr>
<tr>
<td><strong>Deposit Review Nonresidential</strong></td>
</tr>
</tbody>
</table>

*Source: Data Requests 1, 2, and 3, Interviews, Sampling*
across time, assigning values to negative actions, and using the resulting data to determine if an additional deposit is required.

**Nonresidential**

All companies employ differing internal triggers to initiate the additional deposit process. Each company uses combinations of late payments and payment history in determining whether to initiate the additional deposit process. All but FPUC employ credit evaluation services whose ratings assist the companies in determining the need for additional deposits. FP&L and TEC appear to employ more stringent criteria which trigger an additional deposit than do Gulf or PEF. **Exhibit 3** shows large corporate account evaluation criteria for additional deposits.

<table>
<thead>
<tr>
<th>Comparison of Company Credit Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratings Scales of Major Credit Agencies</td>
</tr>
<tr>
<td>S&amp;P</td>
</tr>
<tr>
<td>AAA</td>
</tr>
<tr>
<td>AA+</td>
</tr>
<tr>
<td>A+</td>
</tr>
<tr>
<td>BBB+</td>
</tr>
<tr>
<td>BB+</td>
</tr>
<tr>
<td>CCC, R</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Thresholds for Additional Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Florida Power &amp; Light</td>
</tr>
<tr>
<td>Tampa Electric</td>
</tr>
<tr>
<td>Gulf Power</td>
</tr>
<tr>
<td>Progress Energy</td>
</tr>
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**EXHIBIT 3**  
*Source: Data Requests 1, 2, and 3, Interviews, Sampling*

### 1.6.4 Net Bad Debt

Investor-owned utility net bad debt was reviewed across a multiyear period, 2000 through 2005, as shown in **Exhibit 4**. The lowest annual result was achieved by either FP&L or PEF in each year of the review. The net bad debt ratio for FP&L is the most consistent and trends gradually upward. FPUC, Gulf and PEF experienced significant upward spikes in 2001 and FPUC had the single highest annual debt rate of 0.39 percent that year. The next year FPUC cut its net bad debt almost in half and has since continued to steadily improve. In the most recent annual result FPUC’s net bad debt ratio was higher than only FP&L, 0.18 and 0.16 percent respectively. Gulf has had the highest or second-highest net bad debt each year. Following its upward spike in 2001, PEF also nearly halved its ratio and had the best result of any company in 2002. Since then, however, the PEF ratio has trended upward. TEC’s net bad debt generally trends upward during the period reviewed and was the highest or second highest in each of the three most recent years reviewed. FP&L, FPUC and Gulf track and differentiate net bad debt by customer class; PEF and TEC do not make this differentiation. PEF was unable to provide the
total number of accounts written off because the company does not track that level of information.

EXHIBIT 4

Source: Data Requests 1, 2, and 3, Interviews, Sampling
2.0 Florida Power & Light
2.0 Florida Power & Light

2.1 Deposit Program Management

2.1.1 Organization
Florida Power and Light Company (FP&L) is the largest investor-owned utility in the State of Florida, providing service to approximately 4,322,000 customers. The company has a Revenue Recovery division with nine employees who monitor, analyze, and review the programs within the area of deposit management and risk assessment. FP&L’s Revenue Recovery Director and Credit Risk Supervisor are responsible for reducing revenue exposure and bad debt losses on unpaid revenue.

2.1.2 Internal Controls
The company uses a combination of written policies and procedures to guide its associates through its deposit program. Many of the company’s processes for deposits are automated within its billing system. The company also uses assessments from outside vendors and credit assessors to monitor the stability of its residential, commercial, and corporate clients. These policies and procedures are current and up-to-date. This is discussed further in section 2.2.

Company management and the Revenue Recovery team conduct routine monitoring of their residential and commercial accounts to analyze trends and prevent potential losses for the company. FP&L regularly examines its deposit amounts and past-due accounts. The company, when necessary, will review an account holder’s deposit requirements if it identifies a change in customer behavior or determines that the customer poses an increased risk for the company.

The company does not have specific goals for its deposit process other than to remain in compliance with its tariff and Rule 25-6.097, F.A.C. However, the company does set specific goals for bad debt write-offs. The company states its overall 2006 goal for bad debt write-off is $17,732,000. For 2005, the company’s goal was to limit its bad debt write-offs to $15,225,000. The company achieved this goal with total write-offs of $14,141,000. The company’s net bad debt is discussed further in Section 2.1.4.

2.1.3 Risk Assessment
FP&L conducts risk assessments on its accounting and receivables process and programs. Management states that the company is exposed to a potential loss if an account does not have adequate reserves in the event of nonpayment. However, the company must maintain a balance between this reserve and unnecessarily burdening customers. According to the company, approximately 76 percent of its residential customers and approximately 51 percent of its commercial customers do not have a deposit on file. The company realizes that this could be a potential risk for increased write-offs, especially in post-disaster scenarios.

To provide this balance, Rule 25-6.097(2), F.A.C., does not allow the company to retain a deposit on a residential account that has maintained a strong payment history and a continual relationship with the company for more than 23 months. FP&L realizes the added risk after deposits are refunded, and states that it monitors each customer’s payment pattern to identify
customers who do not maintain a strong payment history. This allows the company to reassess the need for a deposit and require a new deposit if the customer appears to become a risk to the company.

2.1.4 Net Bad Debt

As of June 2006, the company had 966,382 residential accounts (24 percent) with deposits totaling $210,845,229 and 264,009 nonresidential accounts (49 percent) with deposits totaling $317,611,145 on record. Exhibits 5 and 6 show the company’s overall bad debt for residential and nonresidential customers for the review period. The chart also notes the total account revenue. For the period 2001-2005, FP&L’s bad debt to revenue ratio has remained consistent between .14 and .16 percent. Exhibit 6 graphs the company’s total bad debt (residential plus nonresidential) and annual revenue for the review period. Overall bad debt increased from 2000-2005; however, the company’s revenue has also increased during the period at about an equivalent rate.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bad Debt Residential Accounts</th>
<th>Bad Debt Nonresidential Accounts</th>
<th>Total Account Revenue</th>
<th>Bad Debt as a Percent of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
<td>Number</td>
<td>Amount</td>
</tr>
<tr>
<td>2000</td>
<td>84,694</td>
<td>$5,328,734</td>
<td>6,500</td>
<td>$1,566,961</td>
</tr>
<tr>
<td>2001</td>
<td>95,762</td>
<td>$8,204,362</td>
<td>7,353</td>
<td>$2,129,856</td>
</tr>
<tr>
<td>2002</td>
<td>96,945</td>
<td>$8,495,012</td>
<td>7,447</td>
<td>$2,069,877</td>
</tr>
<tr>
<td>2003</td>
<td>97,745</td>
<td>$9,404,603</td>
<td>6,831</td>
<td>$1,731,916</td>
</tr>
<tr>
<td>2004</td>
<td>97,321</td>
<td>$10,454,493</td>
<td>6,783</td>
<td>$2,148,166</td>
</tr>
<tr>
<td>2005</td>
<td>105,230</td>
<td>$12,628,335</td>
<td>6,783</td>
<td>$2,013,640</td>
</tr>
</tbody>
</table>

EXHIBIT 5  Source: Data Request 2.1, 2.3 and 2.8; FERC 1, 2000-2005

EXHIBIT 6  Source: Data Request 2.1, 2.3 and 2.8

The company has reduced its proportion of bad debt write-offs from accounts with deposit waivers in relation to its overall bad debt write-offs annually from 2000-2005. Exhibit 7 shows the number of accounts written-off each year and the number of accounts written-off to
bad debt that did not have a deposit on file due to a waiver. The company’s waiver policy is discussed further in Section 2.2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Bad Debt Write-Offs</th>
<th>Write-Offs for Accounts Without a Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
</tr>
<tr>
<td>2000</td>
<td>91,194</td>
<td>$6,895,695</td>
</tr>
<tr>
<td>2001</td>
<td>103,115</td>
<td>$10,334,218</td>
</tr>
<tr>
<td>2002</td>
<td>104,392</td>
<td>$10,564,889</td>
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<tr>
<td>2003</td>
<td>104,576</td>
<td>$11,136,519</td>
</tr>
<tr>
<td>2004</td>
<td>104,104</td>
<td>$12,602,659</td>
</tr>
<tr>
<td>2005</td>
<td>111,625</td>
<td>$14,641,975</td>
</tr>
</tbody>
</table>

**EXHIBIT 7**  
*Source: Data Request 2.1, 2.3 and 2.8*

### 2.2 Deposit Program Requirements

FP&L may require for all new accounts a deposit equal to two months service costs. The billing system automatically generates a deposit requirement during the account set-up, and the customer receives a separate statement and bill for the deposit amount. FP&L’s deposit criteria appear to be fair, objective, and nondiscriminatory.

#### 2.2.1 Initial Deposits

**Residential Accounts**

When a new residential account is established, FP&L assesses the deposit amount based on an established set of criteria. The company uses credit score information from Equifax to determine the customer’s need for, and amount of, the required deposit. If a customer receives an Equifax score of 900 or higher, FP&L does not require a deposit for the account. Approximately 50 percent of the accounts receive a waiver based on this review. The company periodically reviews its credit score threshold to ensure that it is set to a level that protects the company’s liability. The company conducts these reviews on an as-needed basis based on the overall economic trends and market conditions.

If the Equifax score is less than 900, the customer will be assessed a deposit in the amount of two months average usage for the premises. If the account is for new construction, the company assesses a deposit of $240, with the assumption that the new location will have a central heating and air conditioning unit. The company requires that the deposit be satisfied within ten days of establishing the account.

The company does offer options to reduce the deposit amount for customers who do not qualify for a deposit waiver. FP&L offers its customers the option to enroll in its Automatic Bill Payment Program (ABP). If a customer agrees to allow FP&L to automatically debit a bank account monthly for the full billing amount, the company will agree to waive or reduce the required deposit amount. The customer's initial Equifax score determines the additional waiver...
amount. Depending on the strength of the credit score, the company will waive a percentage of the overall deposit amount. Under this plan, a customer could reduce the deposit requirement from 20 to 100 percent.

While utilizing the ABP program will not protect the FP&L from a customer who closes his/her bank account, there are certain benefits to using an electronic payment process versus a traditional check clearing process. FP&L management states its research shows that customers who utilize the auto debit are less likely to default.

FP&L does offer some exceptions to the two-month deposit requirements based on the account service request. The company will connect service under a 30-day temporary account, through agreements with property owners, government agencies, seasonal customers, and military personnel. The company handles each of these situations on a case-by-case basis, using a specific set of criteria to determine the deposit amount.

**Nonresidential Accounts**

For a commercial account, FP&L also requires a deposit in the amount of two months estimated charges. The company requires that the deposit be satisfied within ten days of the account’s establishment. FP&L will accept a surety bond or irrevocable letter of credit in lieu of a cash deposit.

The company assesses the credit strength of its larger commercial and corporate customers through the credit group Dunn & Bradstreet (D&B) or other credit agencies when available (e.g. Moody’s). FP&L uses credit assessments in combination with other criteria to determine whether to waive a commercial deposit. If the account meets the guidelines set by FP&L for waiver, a deposit is not required. Waiver guidelines also include temporary accounts to be used for only a short duration, governmental agencies, group deposits in which the deposit of a master account suffices for several subordinates, and commercial entities which have reciprocal deposit agreements with FP&L.

For existing commercial customers who request a new account, such as multiple location businesses, FP&L will allow under its Group Deposit Arrangement the designation of an existing account as the “master” account to serve as the depository for all of the associated accounts. This allows a commercial or corporate customer to more efficiently manage its deposit with FP&L. When FP&L opens a new account, it reviews the account to determine what additional amount to add to the master account. FP&L chooses the most stable or permanent account within the relationship as the master account. Also, FP&L may allow an account holder to place a larger than necessary deposit on file to cover anticipated growth. This reduces the need for an account holder, such as contractors, to place a deposit with each new account.

After 60 months, if the commercial customer qualifies, FP&L may refund the deposit. For the commercial account to receive a refund, the customer must meet kWh usage requirements, have a positive payment history for the previous 12 months, and no non-inherited current diversions. If FP&L does refund the deposit, the amount plus interest will apply to the customer’s billing statement. If the account does not receive a deposit waiver at 60 months, FP&L continues to pay the account the appropriate rate of interest until the account is closed. Interest payments are discussed further in Section 2.3.1.
2.2.2 Additional Deposits

Residential Accounts
FP&L conducts a monthly review of all residential accounts at time of billing to determine whether a new or additional deposit should be required. The company reviews specific patterns when determining if an account should be billed an additional deposit. These include:

◆ Length of Service,
◆ Number of times bill past due,
◆ Gap between the deposit on file and the required deposit, and
◆ Behavior Model Score.

The Behavior Model is a proprietary statistical model designed by the company using specific account history to assess customers' ability to pay their bills. The model detects changes in customer payment history that could indicate reduced ability to pay. This model updates monthly. The model creates an internal credit score from zero to 999 that the company uses to assess each customer.

For residential customers, the Behavior Model considers collection actions, total billing and payment history over time, length of service, number and amount of past due bills, returned checks, extensions granted, dwelling type, and payment method. For nonresidential accounts, the model reviews length of service, number and amount of past due bills, total billing and payment over time, mean and maximum past due historical balances, location, payment method, meter type and type of facility.

The company may allow an additional waiver for customers whose account history and credit worthiness meet the following assigned qualifications. The company states the additional deposit may be waived if the account has been active for more than three years, the credit weight is less than 25, the customer signs up for Automatic Bill Payment, and pays the past due balance in full. Once a customer receives this additional waiver, he/she is not eligible to receive any further deposit waivers.

Nonresidential Accounts
FP&L also may require additional deposits from current commercial and corporate clients. After six months of service, FP&L conducts an automatic review of its commercial and corporate accounts. This review monitors the service usage on the account to verify that the deposit on file is adequate to cover two times average monthly usage and protect FP&L from undue risk. If the company determines the deposit on file is below the target amount and the difference is greater than $50 and the gap is more than 10 percent, the company will require the customer to pay the additional amount.

The company monitors its commercial accounts by analyzing payment history. The company also monitors the overall business marketplace. If FP&L's review indicates a commercial account holder has experienced a reduction in its financial stability, the company will review the accounts to determine if there is a need for an additional deposit.
If a reassessment determines that an additional deposit is required, a commercial customer may still have the additional deposit reduced if it agrees to sign up for the company’s Automatic Bill Payment program, has had continual service for more than three years, pays all past due amounts, and has not had a previous deposit waiver.

FP&L conducts a more detailed review for its larger commercial users. Each quarter, the company monitors these accounts to verify the deposit on file is adequate in relation to the customer’s financial stability. The credit risk division obtains quarterly data from Dunn & Bradstreet and calculates an internal Risk Assessment Score.

The internal Risk Assessment Model (RAM) for FP&L is based on the D&B scoring model which considers four specific criteria when calculating the assessed score. The model reviews D&B’s financial stress score of the account holder (this score identifies the likelihood the company will fail within one year); the account holder’s D&B Credit Risk Score; the account holder’s number of years in business; and the account holders overall payment history to its creditors.

For FP&L’s largest commercial customers (those requiring a $100,000 or greater deposit), additional outside credit information may also be used to assess the customer’s financial stability. Along with the previously mentioned benchmarks, FP&L also obtains credit ratings information from agencies such as Standard & Poor’s and Moody’s. If a credit agency downgrades a company to below BBB-, Baa3, or rating equivalent, FP&L may assess an additional deposit. This rating benchmark is the industry standard to indicate a company is at or above investment grade.

The company also receives status alerts for its large publicly traded companies from Dunn & Bradstreet and Standard & Poor’s. These alerts allow FP&L to monitor the stability of its large accounts. If an alert indicates a financial downgrade to an account holder, the company will monitor and review the deposits on file.

### 2.3 Deposit Program Operations

#### 2.3.1 Sample Review
Staff conducted reviews of two statistically valid samples of customer deposits to assess the company’s deposit collection and recordkeeping processes. Both initial deposits and additional deposit collections were examined and compared to the applicable current procedures.

For the accounts randomly selected for testing, staff verified that the deposit had been collected and calculated appropriately. The deposit amount was compared to the company’s most recent two-month usage estimate for the address. For deposits waived, staff verified the applicable support and rationale. Staff also noted whether interest was being accrued and recorded for each account.

This analysis revealed a very high degree of compliance with company procedures. Exceptions occurred as a result of the necessary degree of latitude given to customer service representatives. During the additional deposit review, staff determined that approximately three
percent of the accounts reviewed received a waiver outside the company’s normal requirement guidelines. FP&L management states that this is consistent with its own internal reviews. Management states the company uses these reviews as coaching and training tools for its staff.

2.3.2. Account Maintenance

Interest on Deposits
FP&L pays interest on each account with a cash deposit as required in Rule 25-6.097(4), F.A.C. For residential customers, the company pays six percent interest on an annual basis, with the accrual applying to the customer’s account each June. Once the deposit has been on file for six months, the company pays interest from inception until the refunding of the deposit as a result of a good payment history, a final bill, or replacement by a non-cash alternative.

For commercial accounts, the company pays the required six percent interest on deposits with the accrual applying to each account in June. Once the account reaches the 23rd month, FP&L increases its interest rate to seven percent annually, as required by Rule 25-6.097(4), F.A.C. FP&L will pay interest on a commercial account until the deposit is refunded for good payment history/credit ratings, a final bill is issued, the deposit is adjusted or the cash deposit is replaced by a non-cash alternative.

The company’s billing system automatically calculates, accrues, and applies the interest for each account. The system also automatically increases the interest rate on commercial accounts when appropriate. When FP&L terminates service, the system will automatically calculate the interest to date and apply the accrual to the deposit amount and credit the full amount to the final billing statement.

Records of Deposits
The company’s billing system maintains the applicable and pertinent records for deposits required by the Rule 25-6.097, F.A.C. The company maintains the account information, the personal information, and records of all interest accrued and applied. The company maintains this data for two years after an account closing date.

The system also provides proof of and receipt for a deposit when it adds an existing or new account. This process eliminates the risk associated with manual processing. FP&L will issue a separate bill for each deposit required. This bill serves as the certificate of deposit as required by Rule 25-6.097(5), F.A.C.

Refund of Deposits When Service is Discontinued
When a customer terminates service with FP&L, the automated billing system is designed to automatically calculate, accrue, and apply any unpaid interest to the deposit and credit the final bill with the full deposit amount. If the deposit amount exceeds the final bill, the system will generate a refund check to the final billing address. If a refund check is undeliverable, the company maintains the funds until the customer makes claim or until the funds are remitted to the State of Florida as unclaimed property.

Deposit Notification
In an effort to alert its customers of a potential additional deposit, the company provides notifications to its customers about the deposit process. When FP&L establishes an account, the
company provides a letter that details the deposit process. The company also includes a reminder on each billing statement that if payments are not made in a timely manner, an additional deposit may be required. FP&L also warns customers about the possibility of additional deposits on its disconnection notices.

2.4 Overall Opinion

FP&L’s policies and procedures are in compliance with the deposit requirements outlined in the Florida Administrative Code. Its tariff clearly states the company’s processes for assessing, billing, and refunding deposits and interest payments for each account. The automated billing system allows the company to implement many of the depository requirements in a seamless manner; eliminating the opportunity for subjective interpretation of requirements.

Company management is aware of the potential risk to its ratepayers and stockholders caused by the exposure of under-secured accounts. The company’s waiver and review guidelines and benchmarks are set at prudent levels, which ensure the assessment of a deposit when necessary without overburdening customers. Management also monitors the effectiveness of current industry practices for reducing bad debt. FP&L has implemented an innovative alternative to traditional deposit requirements through its Auto Bill Payment program, which provides deposit discounts to account holders who choose to enroll for automatic payment deductions.

Staff conducted reviews of two statistically valid samples of customer deposits to assess the company’s deposit collection and record keeping processes. Both initial deposits and additional deposit collections were examined and compared to the applicable current procedures. This analysis revealed a degree of compliance above 95 percent with company procedures.
3.0 Florida Public Utilities Company
3.0 Florida Public Utilities Company

3.1 Deposit Program Management

3.1.1 Organization
Florida Public Utilities Company (FPUC) operates two electric divisions within Florida. The Northwest division is located in the panhandle community of Marianna, Florida, and the Northeast division is located in the Atlantic coastal community of Amelia Island, Florida. Each division has its own management staff to oversee the customer service and billing operations, including all aspects of deposit services. The company’s headquarters is located in West Palm Beach, Florida, where a Director of Customer Relations coordinates and oversees both divisions’ billing and deposit activities. The company has approximately 27,500 electric customers between the two divisions.

3.1.2 Internal Controls
FPUC uses an automated billing system to ensure that it remains in compliance with its applicable policies and administrative rules. The billing system compiles deposits, calculates and applies interest, and refunds all deposits at the appropriate time. Also, the system automatically “rates” each customer based on the account’s payment history. If a customer has a “trigger” event—such as a late payment or returned check, the system adjusts the customer’s internal credit rating. This process is discussed further in Section 3.2.2.

The company conducts an annual review of its commercial accounts’ deposits. If FPUC determines that the deposit amount is not sufficient, the company can increase the deposit to the necessary amount. Management states these reviews allow the company to limit its exposure to potential bad-debt loss. FPUC uses a combination of written policies, practices, and its written tariff on file with the Commission to guide its employees through its deposit program. Each of the written policies, practices, and company tariffs comply with the rules addressing the handling of deposits by electric utilities in Rule 25-6.097, F.A.C.

The company does not set specific goals for its deposit process except to adhere to its deposit policy and tariff. Management, however, does set company goals for bad debt in which controlling revenue loss through deposit coverage is a constant focus. The overall goal for bad debt write-off is 0.025 percent of total revenue. It is each Division Director’s responsibility to meet this goal. One component for each management team is to limit exposure to write-offs by maintaining a deposit on file when appropriate. Management consistently reviews a series of reports (past due, deposit reviews, disconnect reports, etc.) to help meet this goal. Net bad debt is discussed further in section 3.1.4.

3.1.3 Risk Assessment
FPUC conducts risk assessments on its accounting and receivables process and programs. The company management is aware of the risk associated with the collection and processing of deposits, or the lack thereof. FPUC has exposure to a potential loss if a charge-off occurs on an account and the deposit amount is not sufficient to cover the outstanding balance. The company recognizes that it must monitor an account after refunding an initial deposit to reduce its exposure to a potential loss if the account goes into arrears. Management believes it is in its best
interest to apply the deposit amount toward the final bill to prevent nonpayment from former account holders.

3.1.4 Net Bad Debt

As of July 2006, the company had 5,851 residential accounts with deposits totaling $1,029,007 and 1,813 commercial accounts with deposits totaling $1,064,364 on record. Approximately 25 percent of residential accounts and 52 percent of nonresidential accounts have deposits on file with FPUC. The company tracks the number of accounts written off each year for both residential and nonresidential accounts. Exhibit 8 shows the overall bad debt write-offs and the total account revenue for the company. Exhibit 9 graphs total revenue and total bad debt (residential plus nonresidential) for the review period. The company has met its bad debt goal of .25 percent of the total net revenue for each year except 2001. The company states it had a large corporate write-off during 2001 which caused the company to miss its target goal.

<table>
<thead>
<tr>
<th>Year</th>
<th>Bad Debt Residential Accounts</th>
<th>Bad Debt Nonresidential Accounts</th>
<th>Total Account Revenue</th>
<th>Bad Debt as a Percent of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
<td>Number</td>
<td>Amount</td>
</tr>
<tr>
<td>2000</td>
<td>478</td>
<td>$60,838</td>
<td>18</td>
<td>$11,197</td>
</tr>
<tr>
<td>2001</td>
<td>1,013</td>
<td>$120,042</td>
<td>56</td>
<td>$30,018</td>
</tr>
<tr>
<td>2002</td>
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<td>$12,317</td>
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<tr>
<td>2003</td>
<td>662</td>
<td>$70,724</td>
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<td>$3,005</td>
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<td>2004</td>
<td>726</td>
<td>$73,714</td>
<td>11</td>
<td>$2,615</td>
</tr>
<tr>
<td>2005</td>
<td>737</td>
<td>$81,630</td>
<td>23</td>
<td>$5,791</td>
</tr>
</tbody>
</table>

EXHIBIT 8  
Source: Data Request 2.1, 2.3 and 2.8; FERC Form 1, 2000-2005

EXHIBIT 9  
Source: Data Request 2.1, 2.3 and 2.8

The percentage of bad debt from accounts with deposit waivers during increased the review period. Despite an increasing trend, the company, however, has maintained its overall percentage of bad debt attributed to deposit waivers at or below seven percent. These figures are shown in Exhibit 10.
FPUC Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Bad Debt Write-Offs</th>
<th>Write-Offs for Accounts Without a Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount of Write-Offs</td>
</tr>
<tr>
<td>2000</td>
<td>496</td>
<td>$72,035</td>
</tr>
<tr>
<td>2001</td>
<td>1,069</td>
<td>$150,059</td>
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<td>2002</td>
<td>823</td>
<td>$87,531</td>
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<td>$73,729</td>
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<td>2004</td>
<td>737</td>
<td>$76,329</td>
</tr>
<tr>
<td>2005</td>
<td>760</td>
<td>$87,420</td>
</tr>
</tbody>
</table>

EXHIBIT 10
Source: Data Request 2.1, 2.3 and 2.8

3.2 Deposit Program Requirements

The company has policies and procedures that state a residential refund is given on the 23rd month if the account has remained in good standing. The billing system automatically processes this refund. The credit applies directly onto the account. This is in accordance with Rule 25-6.097(2), F.A.C.

3.2.1 Initial Deposits

FPUC assesses an initial deposit for both its residential and nonresidential customers. The company’s tariff states that it requires a deposit equal to two months billing service for all new accounts.

Residential Accounts

For a residential account, the company does allow the deposit amount on new accounts to be set at a lower amount or grant a waiver at the discretion of management. The company does not currently have procedures or details addressing the criteria used when considering a waiver or reduction in deposit. Each manager is accountable for his or her area and must answer for all waivers that result in write-offs. A new customer who receives a letter of credit from an existing electric utility provider may also have his or her deposit waived with management approval.

The current process for discretionary waivers could allow for bias when considering a deposit assessment. Management agrees that under the current process, bias could be shown to account holders based on subjective criteria. If the company believes that there are specific factors to be considered when assessing a deposit, FPUC should expand its waiver guidelines criteria so that it gives all account holders the opportunity to show their credit worthiness. If not, the company should eliminate the subjective waiver discretion given to its management.

FPUC’s tariff states that residential deposits will not exceed an amount equal to two months’ average billing. However, company practice commonly charges a residential deposit which exceeds the two month average. Company website information is also in apparent conflict.
with the tariff. For the Northwest division, the website states that the greater of $175 or two months’ average billing is the normal residential deposit; for the Northeast division it is the greater of $200 or twice the average monthly billing.

**Nonresidential Accounts**

For nonresidential customers, the company requires a two-month deposit amount, and calculates the amount by using the previous 12-month usage for the premises to calculate the estimated two-month average. If the account is for a new facility, the company will use a calculation formula that considers the facility’s square footage and applicable equipment usage at the site to estimate the two-month anticipated usage rate.

FPUC will accept a surety bond or Irrevocable Letter of Credit in lieu of a cash deposit. The company may waive a commercial deposit at the discretion of the Division Director. If the company waives a commercial deposit, it must document on each account the reason for the waiver. FPUC does not conduct reviews of corporate credit ratings as part of its deposit process.

**3.2.2 Additional Deposits**

**Residential Accounts**

When a residential customer reaches 23 months of service with 12 consecutive months of positive payment history, FPUC refunds the deposit per Rule 25-6.097(2), F.A.C. However, FPUC continues to monitor its existing customer’s payment history to assess the need of an additional deposit. FPUC has in place a series of “triggers” within its automated billing system to monitor and identify the potential need for an additional deposit. If a customer incurs a disconnection for nonpayment, one returned check payment for insufficient funds within a 12-month period, or a combination of the following infractions over a 12-month period, the account is manually reviewed by management to determine if an additional deposit is needed:

◆ NSF Returned Check
◆ Delinquent Notice
◆ Collection Charge

FPUC assigns an internal score to each of these infractions and when one occurs on an account, the credit rating is impacted. If the account is determined to need an additional deposit, the company sends the customer written notification that the new deposit is required within 30 days from receipt. The Customer Service Manager or Division Director has the authority to negotiate any variance from the 30-day payment policy.

**Nonresidential Accounts**

The company monitors its commercial customers every six months. The billing system records the payment history for each account and assigns each company an internal credit rating based on the payment record. When a customer’s has incurred payment infractions that cause its internal credit rating to reach 150 points, FPUC’s designated “risk” level, an additional deposit may be required.
3.3 Deposit Program Operations

3.3.1 Sample Review

Staff conducted reviews of two statistically valid samples of customer deposits to assess the company's deposit collection and record keeping processes. Both initial deposits and additional deposit collections were examined and compared to the applicable current procedures.

For the accounts randomly selected for testing, staff compared the actual deposit amount to the company's two-month usage estimate for the address. Of the residential deposits sampled that did not have a waiver, approximately two-thirds had deposits collected that were higher than the two month average usage allowed by the company tariff.

Staff verified the applicable support and rationale for each deposit waiver granted. The waiver program appears well managed, not excessively used, and each waiver encountered during sampling was fully justified. The sample also noted whether interest was being accrued and recorded accurately for each account.

FPUC is unique among Florida investor-owned utilities in that it provides both regulated electric and unregulated propane services in its Northeast territory. The company requires a deposit for both equal to two times the average monthly billing. During the sample review of additional deposits, staff identified that FPUC has not collected and coded all deposits in accordance with Rule 25-6.095, F.A.C. In the five accounts reviewed, account holders who subscribe to both services had both deposits coded solely as electric deposits. These deposits amounted to twice the monthly average and did not appear to be an intentional overcharge for either service. Nonetheless, with the entire deposit classified as electric the company is not in compliance with the rule pertaining to allowable electric deposits.

As a result, the company could be using funds from its regulated rate base to pay interest on an unregulated deposit. FPUC has a specific internal code for use with propane deposits and management states that its omission was an employee error made while posting payment. FPUC management states the company will review its procedures with its employees, review all such deposits, and correct those with errors. The company also sends a combined propane and electric bill to joint users. This could create confusion during the posting process, especially when the amount due is not paid in full.

3.3.2 Account Maintenance

Interest on Deposits

The company pays interest on the amount as required by Rule 25-6.097(4), F.A.C., for each account with a deposit on file. For residential customers, the company pays six percent interest on an annual basis, with the accrual applied to the account each June. Per Rule 25-6.097(4), F.A.C., the company begins compiling interest after the deposit is recorded, and interest is applied until the deposit is returned because of a good payment history or the service is terminated. The company's billing system automatically calculates, accrues, and applies the interest for each account.

For commercial accounts, the company pays the required six percent interest on an annual basis with the accrual applying to each account every March. FPUC maintains all
commercial deposits on file until the account is closed. It pays the higher interest rate on commercial accounts in good standing after the 23rd month period per Rule 25-6.097(4), F.A.C. However, if at any time after the company increases its interest to seven percent, the customer does not maintain a satisfactory payment history, FPUC reduces the interest rate to six percent. The lower rate will remain in effect until the customer maintains a satisfactory payment history for 12 consecutive months.

Records of Deposits
The company’s billing system maintains all applicable and pertinent records for deposits required by Rule 25-6.097(5), F.A.C. The company maintains the account information, personal information, and records of all interest accrued and applied. The system also provides proof of deposit and receipt of deposit when adding an additional deposit to an existing or new account.

Refund of Deposits When Service is Discontinued
When a customer terminates his service with FPUC, the automated billing system automatically calculates, accrues, and applies any unpaid interest to the deposit amount and credit the final bill with the full deposit amount. If the deposit amount exceeds the final bill, the system generates and issues a surplus check to the final billing address. If FPUC receives a refund check back as undeliverable, the company maintains the funds until the customer makes a claim or until it remits the funds to the State of Florida as unclaimed property.

Deposit Notification
In an effort to alert customers about the potential for additional a deposit, the company furnishes notices about the deposit process. When an account is first established, FPUC provides a welcome letter that details the deposit process, the interest structure, and the timeline for a refund. If a customer receives a delinquent notification, the company reminds the account holder that according to the agreed-upon payment schedule, the account must remain current or an additional deposit may be required. The same process applies to a disconnection notice.

3.4 Overall Opinion

The company has written policies and procedures which generally comply with the deposit requirements outlined in the Florida Administrative Code. Its tariff outlines the company’s processes for assessing, billing, and refunding deposits and interest payments for each account.

While the company has written procedures detailing deposit requirements and the criteria for deposit waivers, managers are allowed to grant waive outside these requirements. FPUC residential deposit guidelines are very specific, only granting a waiver for letter of credit, previous service history, or guarantee. However, managers have authority to subjectively waive a deposit outside of these guidelines. This places a burden on managers to prevent loss from inconsistent or preferential treatment of the account holders. Commercial deposits may also be subjectively waived, at the discretion of the Division Director. Subjective granting of waivers unnecessarily increases risk to the company.
FPUC chooses not to make use of commonly employed credit rating and monitoring services to assist in evaluating customer creditworthiness or the suitability for a waiver. While this practice may result in an economic benefit to the company, opting not to use credit rating services may lead to a parallel increased risk from under-secured accounts.

Staff conducted reviews of two statistically valid samples of customer deposits to assess the collection and recordkeeping processes. Initial and additional deposit collections were examined. This sampling showed that FPUC is not in compliance with the portion of its tariff for residential deposits. The tariff states that residential deposits will not exceed an amount equal to two months' average billing. However, company practice commonly imposes a residential deposit which exceeds the two month average. FPUC's website is also in apparent conflict with the tariff. For the Northwest division, the website states that the greater of $175 or two months' average billing is the normal residential deposit; for the Northeast it is the greater of $200 or twice the average monthly billing. Commercial deposit practices are in compliance and follow the guidelines of two months' average billing.

The review of additional deposits also found discrepancies. FPUC has not collected and coded all deposits in accordance with Rule 25-6.095, F.A.C. FPUC is unique among Florida's investor-owned utilities in that it provides both regulated electric and unregulated propane services. A deposit is required for both services equal to two-months average billing. However, in five sample accounts staff noted that account holders who subscribe to both services had the entire combined amount coded as solely an electric deposit. This does not comply with the Florida Administrative Code rule for allowable electric deposits. As a result, the company could be using funds from its regulated rate base to pay interest on an unregulated deposit. The company should develop internal procedures that ensure its deposits for regulated services and non-regulated services are assessed, monitored, and applied separately.
4.0 Gulf Power Company
4.0 Gulf Power Company

4.1 Deposit Program Management

4.1.1 Organization
Gulf Power Company (Gulf) serves approximately 400,000 customers in Northwest Florida. Within Gulf, the Customer Service group has responsibility for administering the customer deposit program. The group is headed by a General Manager with a Customer Service Center Manager, Customer Service Support Manager, and Customer Accounting Manager responsible for specific areas of the customer deposit program.

4.1.2 Internal Controls
Gulf personnel within the Customer Service group furnish primary first line oversight for deposit program compliance. The Customer Service group conducts routine, periodic, ongoing manual and automated monitoring of residential and commercial accounts, deposits amounts, and past-due accounts. They analyze trends and attempt to prevent potential losses.

In January 2005, Gulf initiated an internal audit of adjustments within the Customer Service System (CSS). Audit scope was limited to a review of CSS security access rights, adjustments and account maintenance in 2003 and 2004, and interviews with Customer Accounting, Accounting Services, and Customer Service Personnel. The audit was to determine whether adequate controls were in place and operating effectively to ensure that all transactions were valid, correct, properly authorized, and supported by CSS documentation. The final audit report concluded that Customer Service and Customer Accounting had adequately reviewed and implemented internal corrective measures to minimize risks associated with CSS adjustments and account maintenance activities.

Gulf uses the automated CSS, which retains pertinent customer and account data to ensure the company remains in compliance with applicable policies and administrative rules. The system is designed to calculate and collect deposits, calculate and apply interest, provide alerts when new or additional deposits are required, and refund deposits at the appropriate time. The billing system has an interface to collect external credit scores from major reporting services. Gulf uses these ratings as the primary tool to assess potential risk and to make a determination of waiver for residential customers.

The company uses a combination of written policies and procedures for the deposit program, in conjunction with the automated CSS. Company policies, procedures, and tariffs comply with the rules addressing electric utility deposits found in Rule 25-6.097, F.A.C.

Gulf's stated objectives are to follow the requirements of Rule 25-6.097, F.A.C., its tariffs, company procedures and guidelines that relate to proper handling of cash securities, and to avoid written-off accounts. Gulf acknowledges the importance of internal controls to mitigate risk and has established controls to monitor cash handling and deposit workflow that originates in CSS. To provide additional quality control and risk reduction, Gulf reconciles accounting records and provides internal controls for processing.
Gulf has established specific goals for uncollectible bad debt write-offs. Controlling revenue loss through adequate deposit coverage is the intent. The company states its overall goal for uncollectible charge-offs is 0.3 percent of gross revenues. The company states it has met its goals and objectives for the years 2000 and 2002 through 2006.

4.1.3 Risk Assessment

Gulf management recognizes there are risks associated with deposit collection and processing as well as with failure to adequately secure accounts. Risks are identified and evaluated to limit company exposure by monitoring regular, periodic deposit program reports and through Customer Service Center inquiries. Operation reports assess the need for additional deposits while the CSS monitoring and customer inquiries provide assurance that deposit requirements are universally being followed. Automation also provides controls and safeguards that further reduce risk. Gulf’s billing system has internal management controls that involve testing and monitoring to ensure accurate execution of the deposit program.

Gulf perceives no risk associated with records of deposits, receipt of deposits, or refunds of deposits when service is disconnected unless there is a failure of system controls. The company did identify an acceptable risk associated with residential refunds. Gulf also stated that subsequent to a residential refund, an increased risk of loss exists as a result of no longer retaining security to ensure payment of the final bill or for damages to company property on customer premises.

Gulf also utilizes a proprietary internal risk management tool to identify and quantify the degree of risk associated with individual residential and commercial accounts. This tool is automated through CSS, assigning a numerical value to various collection activities. CSS determines which collection activity during the month had the highest internal credit score. Collection activities with the highest score are also captured from each of the preceding eleven months. These scores are totaled for the year and one of four internal credit grades is determined: 0-to-4 is an A, 5-to-7 is designated a B, 8-to-11 equals a grade of C, and a total of 12 or higher is rated as a D. These values determine whether a customer has a high (A) or low (D) credit rating. The lower the rating, the higher a corresponding risk the customer represents to the company. A representative selection of collections activities used in the process and the assigned a numeric value for each includes Collection Arrangement Message (1), Disconnect Bill Message (2), Commercial Disconnect Notice (2), Defaulted Collection Arrangement (4), Eligible for Cut (5), Cut Out for Non-Pay (12), Revenue Protection Case (14). All new accounts begin with the highest credit rating (A) regardless of credit scoring.

Rule 25-6.097(2), F.A.C., allows investor-owned, regulated utilities to keep customers’ deposits who have established strong payment history and maintained service for 23 months. Gulf management realizes the risk inherent in being under-secured but chooses to refund residential deposits after the twelfth month of continuous, satisfactory account history. The company ameliorates any potential risks associated with this early refund program by closely monitoring customers’ payment patterns and enforcing eligibility criteria. Gulf reports having experienced no negative consequences from providing refunds after 12 months of prompt payment history. Regular, periodic reviews and close monitoring of credit rating further reduces risk. Gulf quickly identifies the requirement for a new or additional deposit if risk increases.
The company’s tariff establishes the policy for the return of residential deposits after the twelfth month of continued service providing the following conditions are met:

- the account is at least 12 months old,
- there are no pending service orders,
- the deposit must be paid in full for 12 months,
- no cut-outs for nonpayment in the last 12 months,
- no returned checks in the last 12 months,
- no more than one disconnection notice in the last 12 months,
- the account has not been marked ineligible for automatic refund,
- no defaulted arrangements for the last 12 months,
- no more than $25 in service arrears,
- meter tampering has not occurred in the last 12 months,
- service has not been stolen in the last 12 months, and
- the customer has not fraudulently used the service in the last 12 months

If the account meets all these criteria, the deposit plus accrued interest is applied to the balance of the account. Any remaining credit will be applied as an excess credit. Refund checks are not automatically generated but can be requested once the initial credit has been applied to the account.

### 4.1.4 Net Bad Debt

In mid-2006, Gulf had 358,926 residential accounts and 53,802 nonresidential customers. The number of residential accounts secured with a deposit was 55,678 (16 percent), totaling $8,249,090. There were 24,037 commercial accounts secured by deposits (45 percent) totaling $12,054,575. As of December 2005, there were also 83 (0.35 percent) commercial/industrial accounts with lines of credit and 2,770 (12 percent) with surety bonds.

The company maintains that as revenues rise there is a corresponding increase in bad debt and sees no direct correlation between bad debt and the program to refund residential customer deposits at a point earlier than the other four Florida investor-owned utilities. In a corresponding initiative, collections are now a local Gulf function and no longer administered by the parent Southern Company. The company believes that the more focused local scrutiny and control of the collection process will significantly lower bad debt write off in the future.

Gulf net bad debt write-offs are second highest among the investor-owned utilities. Fifty-seven percent of written-off accounts had deposits. This may indicate that the amounts for initial and additional deposits are insufficient to adequately safeguard Gulf from risk.

The number of accounts and dollars written-off to bad debt for 2000-2005 are shown in Exhibit 11. The total revenue and total net bad debt trend (residential plus nonresidential) for the same years is graphed in Exhibit 12. The total number of bad debt write-offs, those without a deposit on hand, and the proportional relation of those to overall write-offs are shown in Exhibit 13.
### Gulf Bad Net Debt Write-Offs 2000-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Number &amp; Type of Accounts</th>
<th>Total Accounts &amp; Amount of Bad Debts</th>
<th>Total Revenue</th>
<th>Bad Debt as Percent of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Residential</td>
<td>Nonresidential</td>
<td>Total Accounts</td>
<td>Amount</td>
</tr>
<tr>
<td>2000</td>
<td>18,233</td>
<td>1,092</td>
<td>19,325</td>
<td>$1,368,418</td>
</tr>
<tr>
<td>2001</td>
<td>18,278</td>
<td>928</td>
<td>19,206</td>
<td>$2,053,446</td>
</tr>
<tr>
<td>2002</td>
<td>16,324</td>
<td>828</td>
<td>17,152</td>
<td>$1,863,927</td>
</tr>
<tr>
<td>2003</td>
<td>17,527</td>
<td>731</td>
<td>18,258</td>
<td>$2,038,642</td>
</tr>
<tr>
<td>2004</td>
<td>16,205</td>
<td>635</td>
<td>16,840</td>
<td>$1,638,733</td>
</tr>
<tr>
<td>2005</td>
<td>17,140</td>
<td>559</td>
<td>17,699</td>
<td>$2,265,575</td>
</tr>
</tbody>
</table>

**EXHIBIT 11**  
*Source: Data Request 2.1, 2.3 and 2.8, and FERC Form 1, 2000 – 2005*

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### Gulf Total Account Revenue 2000-2005

**Source: Data Request 2.1, 2.3 and 2.8**

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### Gulf Net Bad Debt 2000-2005

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### Residential Write-Offs for Accounts Without Deposits (Due Only to Credit Scoring) 2000 - 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Bad Debt Write-Offs Residential &amp; Nonresidential</th>
<th>Residential Write-Offs for Accounts Without a Deposit (Due Only to Credit Scoring)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Accounts</td>
<td>Total Amount</td>
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</tr>
<tr>
<td>2005</td>
<td>17,699</td>
<td>$2,265,575</td>
</tr>
</tbody>
</table>

**EXHIBIT 13**  
*Source: Data Request 2.1 and 2.8*
4.2 Deposit Program Requirements

4.2.1 Initial Deposits

**Residential Accounts**

Gulf representatives assess a deposit amount based on established criteria when a new residential account is set up. Cash deposits and other forms of security in lieu of deposits assist Gulf to both limit and control exposure to potential financial loss created by billing for services already provided.

The normal Gulf residential deposit is twice the average monthly bill rounded to the nearest five dollars, not to exceed $150 unless the customer had a previous charge-off, unauthorized usage, or filed for bankruptcy. The arbitrary cap is in compliance with the company tariff which states a deposit of twice the average monthly usage may be required. The $150 also represents an amount generally lower than amounts currently being charged as deposits by the other investor-owned utilities. With lower deposit amounts comes an increased risk to the company associated with under-securing accounts.

An initial deposit will be required for the following reasons:

- an unsatisfactory credit score,
- a confirmed case of earlier unauthorized usage,
- an previous unsatisfactory payment history,
- the customer is unwilling to provide basic information to perform credit check, or
- the customer fails to provide adequate identification.

Security deposits are nontransferable and generally refunded only to the party that placed the original deposit. There are exceptions (e.g. death, divorce, etc), which are each reviewed on a case-by-case basis. Deposits will not be charged for residential customers requesting transfer of service to a new location.

In lieu of cash deposits, residential customers may furnish a satisfactory guarantor or establish credit worthiness via Equifax to qualify for a waiver of deposit. CSS is used to perform the Equifax credit check on all individuals applying for residential service. A score greater than 679 is required for waiver suitability. If the customer qualifies, the entire deposit will be waived by the company. Gulf does not offer partial waivers of its deposits.

To ensure that Gulf's criteria are met for residential deposits, the Inappropriate Deposit Amount at Account Inception Report is reviewed monthly by Customer Service supervisors. This report provides a list of new residential accounts with a failing credit assessment and for which the recorded deposit is below company guidelines. The review includes a determination why the customer was not charged a deposit or charged an insufficient deposit. Also included in the review is an assessment of the validity of any waiver extended to the customer. If a waiver was not justified or the amount of deposit insufficient, the Customer Service Manager or a designee will review the appropriate initial deposit guidelines with the Customer Service Representative and subsequently request a deposit from the customer.
Nonresidential Accounts

Gulf policy requires a security deposit or an alternative form of security for all new commercial or industrial accounts. The deposit is two times the average monthly bill, rounded to the nearest five dollars.

CSS features an embedded Commercial Deposit Chart to assist in determining the appropriate deposit amount when the usage history for the premises is insufficient. Marketing personnel may assist with estimating usage for a new business when determining an appropriate deposit amount. If a deposit is waived by a supervisor, the reason must be fully documented in CSS citing the rationale and management authorization information.

The Customer Service Support Manager handles deposit inquiries from national or other large commercial customers. These deposits are regularly reviewed on an ongoing basis and adjusted if necessary to ameliorate risk to the company. In lieu of a cash deposit, nonresidential customers may furnish an irrevocable line of credit, surety bond, satisfactory guarantor, or obtain a deposit waiver.

Gulf routinely conducts a credit rating review for nonresidential customers. The most common tools utilized in this review are the customer’s published financial report, Standard & Poor’s, Moody’s, Dunn & Bradstreet, and the Fitch credit service.

4.2.2 Additional Deposits

Residential Accounts

An additional deposit may be required when the existing deposit is less than two months average billing and the payment history is unsatisfactory. A residential customer serviced for less than 13 months who has a Gulf credit rating of B, C, or D or a customer serviced for more than 13 months who has a D rating, may be billed an additional deposit. Although additional deposits are within the allowable amounts, Gulf may be under securing itself for individual cases. Staff noted that the company commonly requests additional deposits less than is authorized under current rules.

Gulf also began automatically billing additional residential deposits in 2002. The billing is based on a set of criteria within the CSS. The criteria for automatically billing an additional deposit are shown below. All of the following must be met to trigger the automatic billing of the additional deposit:

◆ residential revenue class only,
◆ no deposit on hand,
◆ less than 13 months of service,
◆ a past due amount of greater than or equal to $50,
◆ the customer is in active collections,
◆ the account has a credit rating of B, C, or D, or
◆ the account is not “Medically Essential”.

42

GULF POWER COMPANY
If CSS determines that an additional deposit is to be automatically billed, the deposit will be two times the average monthly bill or $50, whichever is greater, but not to exceed $150 unless the customer had a previous charge off, unauthorized usage, or has filed for bankruptcy.

**Nonresidential Accounts**

Gulf may also require an additional deposit from nonresidential clients. Gulf monitors these accounts by analyzing customer payment history and tracking the overall business marketplace. If the S&P credit rating slips to BB or below, the account is placed on a watch list and more closely, regularly monitored. Southern Company, the parent organization to Gulf Power Company, conducts weekly reviews and provides updates to its subordinate business elements. Should a commercial customer experience increasing financial instability, Gulf Power Company management reviews the account more frequently and with increased scrutiny to determine if an additional deposit is required.

Supervisory management and customer service associates monitor and analyze reports and queries to ensure the company is aware of any changes in commercial customers’ payment history or pattern. The company utilizes information from credit assessors to monitor the stability of these clients. In January 2006, Gulf Power Company initiated use of credit rating agencies to review commercial and industrial customers. These rating agencies include Standard & Poor (S&P), Dunn & Bradstreet, Moody’s, and in some cases Fitch. Standard & Poor is the primary rating agency. Should a commercial or industrial customer’s status change to a rating that poses significant risk of default, Gulf will seek additional cash security or other deposit alternatives. Gulf requires an S&P rating of B or better from commercial accounts to remain in good standing. A rating of BB will place a commercial or industrial customer on a weekly credit watch list for more scrutiny and possible new assessments to reduce risk to Gulf.

**4.3 Deposit Program Operations**

**4.3.1 Sample Review**

Staff conducted statistically valid sample reviews of customer deposits to assess collection and recordkeeping processes. Initial and additional deposits for both residential and nonresidential customers were compared to applicable current rules and the company’s tariff.

All accounts reviewed were randomly selected for testing. For each, staff verified that a deposit had been accurately calculated and subsequently collected or waived using valid criteria. Each deposit was compared to the most recent two-month usage figures for the premise. Staff also verified that interest was accurately accrued and recorded for each account. The sample review determined a degree of compliance above 95 percent with company procedures.

**4.3.2 Account Maintenance**

**Interest on Deposits**

Gulf credits interest on cash deposits in June of each year. Interest due on the final bill will be applied against the outstanding final bill at the time service was discontinued. Per Rule 25-6.097 F.A.C., Gulf is not required to pay interest on deposits when held for less than six months. Once the six-month mark is reached, interest is compiled and payable from the date of inception.
Interest rates paid are as required by Rule 25-6.097(4), F.A.C. For residential customers, the company pays six percent interest on an annual basis. When a deposit has been on file for six months, the company pays interest from inception until the deposit is refunded because of a good payment history, a final bill, or when the deposit is replaced by an alternative other than cash.

For nonresidential accounts, the company pays the required six percent interest on an annual basis for cash deposits with the accrual applying to each account. Once the account reaches the 23rd month, Gulf increases the rate to seven percent annually for customers meeting the following criteria:

- the account is at least 12 months old,
- no pending service orders,
- the deposit must have been paid in full for 12 months,
- no cut-outs for non-pay in the last 12 months,
- no returned checks in the last 12 months,
- no more than one disconnection notice in the last 12 months,
- the account is not marked ineligible for automatic refund,
- no defaulted payment arrangements in the last 12 months,
- no revenue protection arrangements in the last 12 months, and
- no more than $25 in service arrears.

Interest is paid on each nonresidential account until the deposit is refunded because of an adjustment subsequent to review of the deposit, a disconnection notice is issued, a final bill is issued, or the cash deposit is replaced by a non-cash alternative. Interest is calculated identically for both residential and nonresidential customers.

The company’s billing system is designed to automatically calculate, accrue, and apply the interest for each account. The system also automatically increases the interest rate on commercial accounts when appropriate. This process helps to reduce the risk that can be associated with manual processing of interest. When a service is terminated, the system is designed to automatically calculate the interest to date and apply the accrual to the deposit amount and credit the full amount to the final billing statement.

**Records of Deposits**
The company’s billing system maintains applicable and pertinent records for deposits as required by Rule 25-6.097(5), F.A.C. The company maintains account and personal information, transactions, and a record of interest accrued and applied.

The system is also designed to provide proof of a deposit and receipt of a deposit when one is added to an existing or new account. This process eliminates the risk associated with manual processing. Once the total deposit is satisfied, a receipt is issued to the customer listing each deposit payment amount along with the date of each payment.

**Refund of Deposits When Service is Discontinued**
When a customer terminates service with Gulf, CSS automatically calculates, accrues, and applies any unpaid interest to the deposit and credits the final bill with the full amount to the day of discontinuance. If appropriate, CSS will subsequently generate a refund check to be
issued to the final billing address. Refund checks that are undeliverable will be returned to the company for processing where they are filed as unclaimed property by Customer Accounting. If the returned checks remain unclaimed by the customer for a period of two years, the unclaimed funds are remitted to the State of Florida Comptroller's Office.

**Deposit Notification**

Gulf utilizes several avenues to alert customers to the potential for additional deposits. General deposit information appears on the company website. When a new account is established the customer is provided information and a letter detailing responsibilities of the deposit program. Reminders are placed on billing statements that failure to make payment in a timely manner may result in assessment of an additional deposit. Disconnection notices also contain a warning about the possibility of additional deposits.

### 4.4 Overall Opinion

Gulf policy and procedures are in compliance with requirements for deposits as established in the Florida Administrative Code. The company tariff details in a clear and comprehensible manner all processes for deposits. Additionally, goals and objectives of the company are clear and concise, regularly reviewed and adjusted as necessary. The automated billing system allows the company to implement most depository requirements in a seamless manner. Gulf's deposit program is responsive to customer needs while providing management tools to reduce risk.

Unlike other investor-owned utilities, Gulf chooses to refund residential deposits after only 13 months. Gulf states that this practice is a business decision which has evidenced no increased risk from under-secured accounts. The company also cites very high customer approval of the program and universal customer goodwill as counterbalances to any potential negative issues. However, Gulf's net bad debt to revenue statistic of .27 percent is the second highest of the five investor-owned utilities reviewed.

The normal Gulf residential deposit is twice the average monthly bill rounded to the nearest five dollars, not to exceed $150 unless the customer had a previous charge off, unauthorized usage, or filed for bankruptcy. The arbitrary cap is in compliance with the company tariff which states a deposit of twice the average monthly usage may be required. There is also an increased risk to the company associated with under-securing accounts.

Commercial deposit practices are generally in compliance with the tariff, averaging two times the monthly usage. Supervisors do have discretion in waiving deposit requirements but must fully document the reasoning and each is subject to review.

Although additional deposits are within the allowable amounts, Gulf may be under securing itself for individual cases. Staff noted that the company commonly requests additional deposits of less than what is authorized under current rules. While staff commends Gulf for its consumer-friendly policies, it is concerned about the financial risk associated with these positions.
Gulf’s net bad debt write-offs are second highest among the investor-owned utilities and fifty-seven percent of written-off accounts had deposits. This may be an indicator that the amounts for both initial and additional deposits are insufficient to adequately safeguard the company from risk.

Staff’s review of a statistically valid sample of residential and nonresidential accounts, initial, additional and waived deposits confirmed the company is following its policies, practices, and procedures with a rate of compliance in excess of 95 percent.
5.0 Progress Energy Florida
5.0 Progress Energy Florida

5.1 Deposit Program Management

5.1.1 Organization
Progress Energy Florida (PEF) is an investor-owned utility serving approximately 1.7 million residential and nonresidential customers. The company's service territory extends into more than 30 Florida counties. The Customer Accounting Operations - FL group has primary responsibility for the administration of the deposit program and oversees adherence to policies and regulatory guidelines. Within PEF, Remittance Processing and Billing and the Commercial Industrial Group maintain the billing system and manage customer account deposits.

5.1.2 Internal Controls
The work groups responsible for customer deposits conduct routine, periodic monitoring of residential and commercial accounts, deposits, refunds, and past-due accounts to analyze trends and prevent potential losses for the company.

The company conducts internal and external audits annually regarding certain aspects of the deposit program process. These audits have two phases; the first is a review of revenue cycle control documentation and the second tests selected program controls for accuracy and completeness. Excerpts indicating tests performed, results, and recommendations were furnished to staff as part of this review. The results show that PEF identified shortcomings in credit risk evaluation procedures, the timeliness of reviews for deposit alternatives, that billing adjustments were not always recorded timely and the company lacked a written policy regarding particular aspects of bad debt. A recommendation addressing each shortcoming was made and remedial actions to correct each resolved the shortcoming.

The Customer Service System (CSS) is used by PEF to retain pertinent customer data, automate a variety of relevant account functions, and perform periodic account reviews. Supervisory and management personnel have direct oversight of CSS to help ensure PEF remains in compliance with its policies and administrative rules. CSS calculates and collects deposits, calculates and applies interest, provides alerts when new or additional deposits are required, and refunds deposits appropriately. According to PEF, CSS produces a variety of periodic reports that provide oversight, serve as management tools for compliance verification, and perform internal quality controls to reduce risk through analysis and responsive action.

Many deposit processes are automated within CSS. Company written policies, practices, and its tariffs comply with rules addressing the handling of deposits by electric utilities in Rule 25-6.097, F.A.C.

PEF does not set annual goals or objectives regarding deposit requirements, refunds, new or additional deposits, interest, records of deposits, receipt of deposits, or refund of deposits when service is discontinued. However, the company states that it strives to consistently apply PEF's relevant tariffs and applicable internal policies in an ongoing basis to maintain high levels of customer service and satisfaction while reducing risk.
Supervisory management and customer service associates regularly monitor and analyze various reports automatically generated by CSS to ascertain any changes in customer payment history or pattern. The company also uses assessments from credit analysts to monitor the stability of commercial and corporate clients. If a change in behavior or increased risk is identified, the deposit requirement is reviewed and may be adjusted.

5.1.3 Risk Assessment

Progress Energy Florida management is aware of risks associated with the collection and processing of deposits, as well as the inherent risk associated with failing to adequately secure each account. If a customer continues to pay in a timely manner after a refund of deposit and, thereafter, files for bankruptcy protection, the loss incurred could equal two months of billing.

For residential accounts, CSS has an interface to determine residential customers’ Fair Isaac (FICO) scores from the credit rating service Experian. PEF uses this rating, along with an internal matrix, to determine the potential risk to the company. This is a routine procedure universally applied to all accounts.

Historically, about 50 to 52 percent of PEF new residential account customers qualify for a deposit waiver and are not secured by a cash deposit. The company realizes that this could be a potential risk for increased write-offs, especially in post-disaster scenarios.

PEF seeks to reduce both residential and nonresidential risk by an automatic quarterly CSS review and evaluation of every account. Anomalies such as a returned item or a cut for non-payment also prompt a further manual review to determine if existing deposits are sufficient or an additional amount is required.

5.1.4 Net Bad Debt

As of December 2006, PEF had a total of 1,679,076 accounts with 1,487,586 residential and 191,490 nonresidential (commercial/industrial) customers. Of these, 334,949 residential customers (22.5 percent) secured accounts with cash deposits totaling $79,084,896. There are 109,046 nonresidential (56.9 percent) with cash security deposits totaling $79,793,471. PEF also had 595 lines of credit (0.55 percent) totaling $6,160,234 for nonresidential customers and 2,557 surety bonds (2.3 percent) totaling $51,160,234.

PEF does not separate the number of bad debt write-offs by revenue class (i.e. residential and nonresidential) and was unable to provide the total number of accounts written off over the study period. However, the total net bad debt write-offs of both residential and nonresidential accounts for the period 2000 through 2005 are displayed in Exhibit 14.

Trending for bad debts during the same period is shown in Exhibit 15. Though the trend showed significant improvement in 2002, the total of annual bad debt ever since has been steadily increasing. The total number of bad debt write-offs, those not secured by a deposit, and the proportional relation of those to overall write-offs are shown in Exhibit 16.
PEF Net Bad Debt Write-Offs
2000-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Accounts Residential / Nonresidential</th>
<th>Total Bad Debt Write-Offs</th>
<th>Total Revenue</th>
<th>Percent of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>n/a</td>
<td>$2,637,177</td>
<td>$2,502,162,815</td>
<td>0.10%</td>
</tr>
<tr>
<td>2001</td>
<td>n/a</td>
<td>$5,795,987</td>
<td>$2,795,612,091</td>
<td>0.20%</td>
</tr>
<tr>
<td>2002</td>
<td>n/a</td>
<td>$3,345,302</td>
<td>$2,724,244,341</td>
<td>0.12%</td>
</tr>
<tr>
<td>2003</td>
<td>n/a</td>
<td>$4,511,947</td>
<td>$2,830,809,013</td>
<td>0.14%</td>
</tr>
<tr>
<td>2004</td>
<td>n/a</td>
<td>$4,983,538</td>
<td>$3,124,102,569</td>
<td>0.16%</td>
</tr>
<tr>
<td>2005</td>
<td>n/a</td>
<td>$7,292,339</td>
<td>$3,475,373,829</td>
<td>0.21%</td>
</tr>
</tbody>
</table>

EXHIBIT 14
Source: Data Request 2.1, 2.3 and 2.8, and FERC Form 1, 2000 – 2005

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PEF Total Account Revenue 2000-2005

EXHIBIT 15
Source: Data Request 2.1, 2.3 and 2.8

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PEF Bad Debt Write-Offs and Write-Offs without Deposits
2000-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Bad Debt Write-Offs Number</th>
<th>Total Bad Debt Write-Offs Amount</th>
<th>Write-Offs for Accounts Without a Deposit Number</th>
<th>Write-Offs for Accounts Without a Deposit Amount</th>
<th>Percent of Accounts</th>
<th>Percent of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>n/a</td>
<td>$2,637,177</td>
<td>n/a</td>
<td>$989,247</td>
<td>n/a</td>
<td>38%</td>
</tr>
<tr>
<td>2001</td>
<td>n/a</td>
<td>$5,795,987</td>
<td>n/a</td>
<td>$1,851,721</td>
<td>n/a</td>
<td>32%</td>
</tr>
<tr>
<td>2002</td>
<td>n/a</td>
<td>$3,345,302</td>
<td>n/a</td>
<td>$1,175,255</td>
<td>n/a</td>
<td>35%</td>
</tr>
<tr>
<td>2003</td>
<td>n/a</td>
<td>$4,511,947</td>
<td>n/a</td>
<td>$2,862,813</td>
<td>n/a</td>
<td>63%</td>
</tr>
<tr>
<td>2004</td>
<td>n/a</td>
<td>$4,983,538</td>
<td>n/a</td>
<td>$2,158,824</td>
<td>n/a</td>
<td>43%</td>
</tr>
<tr>
<td>2005</td>
<td>n/a</td>
<td>$7,292,339</td>
<td>n/a</td>
<td>$2,091,894</td>
<td>n/a</td>
<td>29%</td>
</tr>
</tbody>
</table>

EXHIBIT 16
Source: Data Request 2.1, 2.3 and 2.8
5.2 Deposit Program Requirements

PEF may require a deposit equal to two months usage for new accounts. The CSS automates determination of the need for and amount of a deposit during the account initiation. The PEF deposit guidelines, practices, and procedures appear be applied to in a fair, objective and nondiscriminatory manner.

5.2.1 Initial Deposits

Residential Accounts
For residential customers, PEF requires a cash deposit or other specific guarantee such as a surety bond, letter of credit, or guarantee letter. The guarantor must also be a PEF customer with a satisfactory payment record. The total amount of required deposit is equal to twice the new customer’s expected average monthly bill, rounded to the nearest five dollars. The deposit requirement may be waived for customers who have previously established a satisfactory payment record with PEF and who have adequate credit ratings as verified through Experian within the last 12 months.

When a new residential account is established, PEF assesses the need for a deposit based on an established set of criteria. PEF employs the services of Experian to help clarify the creditworthiness of an account holder and whether the initial deposit may be waived. The company uses the Experian consumer credit evaluation score to determine the need for the deposit. Currently, PEF uses 680 as the threshold to waive a deposit requirement and believes the Experian score has proven to be an effective predictor of risk. Approximately 52 percent of customers pass the Experian threshold necessary for waiver and represent less than 4 percent of the total residential write-off dollars with service less than 12 months. If customer is ineligible for a waiver, the account will be assessed a deposit equal to two months of average usage. Upon written notice of not less than thirty days, PEF may require a new deposit when one has been previously waived or returned in order to secure payment of current bills.

The Deposit Billed/Waived report is created monthly and lists all accounts that have recently been reconnected. Supervisors randomly review accounts to determine if actions taken were appropriate and in keeping with policy and procedures. Deposits are automatically generated by CSS during account set-up based on company guidelines.

Commercial Accounts
Deposits are assessed at twice the anticipated average monthly bill. Generally, all nonresidential customers require deposits. First time customers must satisfy the deposit prior to service connection. Current nonresidential account holders connecting additional service points may be offered the option to bill the deposit if their payment history and creditworthiness records allow. Commercial credit reports may be utilized to help determine deposits. PEF uses Moody’s for publicly traded companies and prefers using audited financial statements or Dunn & Bradstreet services for privately held companies.

Customers with multiple accounts may furnish a blanket deposit covering several locations. The deposit is held by PEF in the aggregate but associated with individual users. Nonresidential customers also have the option of securing multiple locations using a single type of collateral such as a single surety bond or letter of credit.
In cases of nonresidential customers initiating service in a location for which no usage history exists, $200 is charged. After three months the account is reviewed and the deposit is adjusted based on usage. All first-time commercial deposits are collected in advance. PEF believes this affords the company a clearer assessment of risk.

### 5.2.2 Additional Deposits

#### Residential Accounts
All electric service accounts are reviewed every three months for deposit deficiency. Collections are first scrutinized to determine whether the customer has maintained a satisfactory payment history and whether an increase is warranted. If the deposit is deficient by more than $75 for residential customers, a deposit increase letter is sent to the customer.

Collection history is used to determine whether the account warrants a deposit deficiency review. If the account has been cut or has returned items, the account is reviewed the next day and will be reviewed again three months later. A Deposit Deficiency Review Work Flow Manager (WFM) is created for accounts less than four months old and which have had two late notices. The WFM report prompts the Credit Department to manually review the account. A warning or deposit increase letter is sent to the customer.

#### Nonresidential Accounts
Additional deposits are billed to the customer to protect PEF against increased risk from a newly under-secured account. Every three months, an automatic review of each commercial and corporate account is performed to determine if an additional deposit is required. Cash deposits may be adjusted if a deficiency of at least $100 is revealed. Adjustment may also be warranted if the customer has received three delinquent notices in the last six months or issued a returned check.

Deposit alternatives for commercial customers (blanket cash, surety bonds, and irrevocable lines of credit) are also reviewed quarterly and amended if a deficiency of at least $500 is discovered. Such reviews monitor usage to verify that the deposit on hand is adequate to offset potential risk for nonpayment. Customers with more than five years of service and good credit history will be increased only if $500 or more is called for due to a request for additional services or the customer’s overall credit rating declines to a Moody’s Ba2, the level which would trigger an adjustment. Additionally, accounts are reviewed if a returned check is received or a “cut for nonpayment” order is issued.

PEF also uses credit rating services to assist in predicting increased risk and need for additional deposits to adequately secure the account. Changes to a nonresidential customer’s financial condition or perceived stability that reach established trigger thresholds will prompt an alert and may lead to a requirement for an additional deposit. Publicly traded commercial accounts, for which PEF accepts security other than a cash deposit, are required to maintain a satisfactory credit rating to continue waiving the security deposit requirement. This threshold is a Ba2 rating from Moody’s or an equivalent BB rating from S&P. For those companies privately held, PEF uses Dunn & Bradstreet for credit reviews and utilizes a commensurate standard.
Should a nonresidential account experience a drop in its credit rating to a Moody’s Ba2 or lower, CSS will automatically warn of the increased risk and calculate the amount of an additional deposit. Account managers review the indicators of increased risk and make a determination whether an additional deposit is required.

5.3 Deposit Program Operations

5.3.1 Sample Review

Staff conducted two statistically valid sample reviews of customer deposits to assess calculation, collection and recordkeeping processes. Initial and additional deposits for both residential and nonresidential customers were examined and compared to PEF tariff, internal company procedural criteria, and the applicable rules of the Florida Administrative Code.

The deposit amount on file was compared to the most recent two month usage estimate for the address to verify sufficiency. Staff also checked that each deposit had been collected and calculated appropriately. For those accounts granted a waiver, the applicable support documentation and underlying rationale was verified. In each case, staff noted whether interest was being accrued and recorded correctly for each account. PEF has a very detailed and user-friendly account records system which allows customer service representatives to quickly and efficiently process initial accounts and subsequently to retrieve and verify data.

Review of residential, nonresidential, initial, additional and waived deposits revealed a very high degree of compliance with Gulf policies, practices, and procedures. The sampling indicated that PEF processes initial and additional deposits according to its tariff and the Florida Administrative Code, with a compliance rate above 95 percent.

5.3.2 Account Maintenance

Interest on Deposits

Progress Energy Florida pays interest on cash deposits in existence for a continuous period of six months or longer at the minimum rates required by Rule 25-6.097(4), F.A.C. Accrued interest will be paid either as a credit on the customer’s June bill, as a payment upon refund of deposit, or upon final settlement of a customer’s account. For residential customers, the company pays six percent interest on an annual basis. The company pays interest from inception until the deposit is refunded because of either a good payment history, a final bill, or when the deposit is replaced by a noncash alternative.

For commercial accounts, the company pays the required six percent interest on an annual basis for cash deposits. Once the account reaches the 23rd month in good standing, PEF increases its interest rate to seven percent annually, as required by the Rule 25-6.097(4), F.A.C. PEF will pay interest on a commercial account until the deposit is refunded because of an adjustment subsequent to review of the deposit, disconnection notice, a final bill, or if the cash deposit is replaced by a noncash alternative.
**Records of Deposits**

The company’s billing system maintains all applicable and pertinent records for deposits, as required by Rule 25-6.097(5), F.A.C. The records are maintained in CSS for the life of the account and are available electronically for online customer assistance. The deposit statement of balance report provides deposit balance and activity information. Customer records include customer’s name, the premises served, a date and amount of the deposit, and the specific type of transaction.

The system is also designed to provide proof of a deposit and receipt of a deposit when one is added to an existing or new account. This process eliminates the risk associated with manual processing. Progress Energy Florida issues a separate bill for each deposit. Once the total deposit is satisfied, a receipt is issued to the customer listing each deposit payment amount along with the date of each payment and the deposit number.

**Refund of Deposits When Service is Discontinued**

If a customer terminates service with Progress Energy Florida, the deposit and any accrued interest will be applied against any debt on the account. The company’s CSS is designed to automatically perform these functions upon change in customer status warranting a refund. If application of the deposit to the final bill results in a credit, the balance is refunded by check to the customer. All refund checks are reviewed on a daily basis by the Credit Department.

These reports are subject to review during the annual internal and external audits regarding certain aspects of the deposit program. If a refund check is returned undeliverable, the company maintains the funds until the customer makes a claim or until the funds are remitted to the State of Florida as unclaimed property in accordance with existing rules regarding abandoned property.

**Deposit Notification**

PEF utilizes several avenues to alert customers to the potential for additional deposits. General deposit information appears on the company website. When a new account is established the customer is provided information and a letter detailing responsibilities of the deposit program. Reminders are placed in billing statements that failure to make payment in a timely manner may result in assessment of an additional deposit. Disconnection notices also contain a warning about the possibility of additional deposits.

**5.4 Overall Opinion**

PEF’s policies and procedures are in compliance with the deposit requirements outlined in the Florida Administrative Code. Its tariff clearly states the company’s processes for assessing, billing, and refunding deposits with interest payments for each account. All PEF deposit guidelines, practices, and procedures appear be applied to in a fair, objective and nondiscriminatory manner.

The automated billing system allows the company to implement many of the depository requirements in a seamless manner; eliminating the opportunity for subjective interpretation of
the deposit requirements. The company’s system design allows each associate to quickly review an account holder’s information.

The PEF net bad debt ratio during the period reviewed runs from a low of 0.10 percent in 2000 to a high of 0.21 percent in the most recent annual result. Following an upward spike in 2001, PEF nearly halved its ratio and had the best result of any company in 2002. Since then, however, PEF has tended generally upward. It appears that the company is managing risk, adequately securing itself against losses through its initial and additional deposit program, and keeping customer satisfaction at a high level. The company does not, however, track or differentiate net debt write-offs as residential or nonresidential. Such differentiation could be relatively easy to establish and further improve the company’s ability to more accurately assess risk across customer classification.

Staff’s sampling of account deposits confirmed that in every facet of these operations PEF exhibited uniform adherence to company policies, practices and procedures. Personnel are well informed and customer-oriented. The sampling indicated a degree of compliance with applicable rules, in excess of 95 percent.
6.0 Tampa Electric Company
6.0 Tampa Electric Company

6.1 Deposit Program Management

6.1.1 Organization
Tampa Electric Company (TEC) serves more than 645,000 residential and nonresidential customers in a four-county service area located in central Florida. The service area is approximately 2,000 square miles and includes Hillsborough County as well as parts of Pasco, Pinellas, and Polk counties. Two divisions within TEC’s Customer Service Department (Corporate Credit & Quality Assurance and Billing & Payment) have primary responsibility for administration of the deposit program. Corporate Credit and Quality Assurance oversees adherence to policies and regulatory guidelines. The Billing and Payments division maintains the billing system and manages customer account deposits.

6.1.2 Internal Controls
The Corporate Credit and Quality Assurance division within TEC, along with the Billing and Payment division, have primary oversight for compliance with established rules, regulations, and tariffs. To facilitate compliance, these divisions conduct routine, periodic, manual and automated monitoring of residential and commercial accounts, deposit amounts, and past-due accounts to analyze trends and prevent potential losses.

In January 2006, TECO Energy’s Internal Audit department initiated an audit of the company’s billing processes and procedures. The expressed purpose of this audit was to evaluate the effectiveness of internal controls for the billing process and evaluate company compliance with both internal policy and the Florida Administrative Code (FAC). The audit included thorough evaluation of residential and commercial customer deposits, bill estimation, meter reading, disconnects, billing errors, third party pay contracts and the provision of uncollectible accounts. A copy of the audit report was furnished to staff. Several audit observations were of particular interest and germane to this review of TEC deposit practices.

One audit observation noted that company practices may not have adequately secured the company against losses. Specifically, additional deposits were misapplied to customer accounts. This resulted in accounts not being adequately secured and inaccurately accrued interest for customers. An internal modification was applied to the CIS system in November 2006 and the company states that the problem has been corrected.

Another observation found that residential deposit amount requirement guidelines were not adequate to properly secure customer accounts. A premise-based deposit structure was implemented in May 2006 and the company believes that this change has adequately addressed this problem.

A third observation noted that commercial customer deposits were not always in compliance with internal policy. Additionally, reviews and other documentation related to accounts were not always completed timely. Tampa Electric Customer Service implemented a thorough reevaluation of commercial customer deposits in early 2006. In June, TEC notified commercial and industrial customers who had been ‘grandfathered’ from as far back as the late

59 TAMPA ELECTRIC COMPANY
1980’s that a deposit may be required in the future if payment patterns, financial outlook, or industry market conditions change. In August, a database to track bond ratings was implemented and is now in use. Final automated enhancements to the review system are expected to be fully functional in mid-2007.

TEC employs an automated billing system that retains pertinent customer and account data to ensure the company remains in compliance with applicable policies and administrative rules. The billing system is designed to compile and collect deposits, calculate and apply interest, alert billing personnel when new or additional deposits are required, and refund deposits at the appropriate time. The billing system has an interface to collect external credit scores from Equifax to use in determining whether a deposit waiver is justified.

The company uses a combination of written policies and procedures within the TEC deposit program. Many deposit processes are automated within the billing system. Written policies, practices, and the company tariff comply with the rules addressing the handling of deposits by electric utilities in the Rule 25-6.097, F.A.C.

The company did not cite specific, quantifiable goals and objectives regarding refunds, interest, or deposit receipts because no areas of concern have been identified. TEC furnished a list of tasks and identifies projects aimed at minimizing financial exposure due to under-secured accounts. The company has established specific goals for bad debt write-offs. Controlling revenue loss through adequate deposit coverage is the intent. The company states its overall goal for 2006 regarding bad debt write-off is $3.977 million. This target was based upon increased internal company focus on bad debt and a higher priority assigned to its management. The figure represents 0.25 to 0.28 percent of projected revenue and Tampa Electric acknowledges it is a stretch goal that may not be met.

Supervisory management and customer service associates use CIS to evaluate customer performance and creditworthiness. CIS automatically analyzes customer data, notes anomalies such as late payments, identifies requirements for additional deposits to adequately secure accounts against risk, and produces regular reports to ensure that the company is aware of any changes in customer payment history or pattern. The company also uses credit ratings to monitor the stability of commercial and corporate clients. If a change in behavior or increased risk is identified, the deposit requirement is reviewed and may be adjusted. Credit assessments are discussed further in section 6.2.

6.1.3 Risk Assessment

TEC has not conducted formal analytical studies or evaluations of the risk associated with its deposit program. However, the company states that whatever risks might impact Tampa Electric's deposit program are identified, evaluated, and controlled or reduced to limit company exposure through the routine monitoring of monthly and annual bad debt levels and associated accounts. The Customer Information System automatically identifies potentially under-secured accounts and generates regular reports with specific details. Additional deposits are assessed as needed. Also, by careful review of those accounts written off as bad debts, the company can evaluate the adequacy of the deposit program as well as the consistency and appropriateness of credit extension procedures. The company can then modify the program requirements or internal processes associated with it.
Company management is aware of risks associated with the collection and processing of deposits. Management states that the company is exposed to financial risk and possible loss if an account does not have adequate reserves to cover the balance in the case of nonpayment. Approximately 58 percent of TEC residential customers and ten percent of its commercial customers are not secured by a cash deposit. The company realizes that lack of security coverage could be a potential risk for increased write-offs, especially in post-disaster scenarios.

### 6.1.4 Net Bad Debt

As of the end of June 2006, TEC had 567,071 residential accounts and 70,339 commercial customers. Of these, 236,606 residential customers (41.7 percent) secured accounts with cash deposits totaling $35,809,358. An additional 149,515 active residential customers (26.4 percent) were secured by a guarantor or had established creditworthiness via credit check or reference. There were 62,137 commercial customers (88.3 percent) with deposits totaling $47,170,980. An additional 1,231 commercial/industrial accounts (1.7 percent) had lines of credit in lieu of cash deposits totaling $5,622,745.

The number and type of accounts, the amounts written-off, and the ratio of bad debt to total revenue are shown in Exhibit 17 for 2000 through 2005. A graph of total revenues and net bad debt for 2000 to 2005 is shown in Exhibit 18. The overall trend is significantly upward, more than doubling during the period. But as shown in Exhibit 19, TEC reduced its proportion of bad debt write-offs in relation to total bad debt write-offs per year during the same period for accounts without deposits.

The company billing system maintains 16 months of historical data regarding deposit waivers and archives data on the overall number of accounts written-off. Included in this data and associated write-offs are those for which a deposit was refunded as well as those for which a deposit was waived.

<table>
<thead>
<tr>
<th>Tampa Electric Net Bad Debt Write-Offs</th>
<th>2000-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td><strong>Number &amp; Type of Accounts</strong></td>
</tr>
<tr>
<td></td>
<td>Residential</td>
</tr>
<tr>
<td>2000</td>
<td>18,333</td>
</tr>
<tr>
<td>2001</td>
<td>20,215</td>
</tr>
<tr>
<td>2002</td>
<td>22,823</td>
</tr>
<tr>
<td>2003</td>
<td>20,630</td>
</tr>
<tr>
<td>2004</td>
<td>22,021</td>
</tr>
<tr>
<td>2005</td>
<td>25,285</td>
</tr>
</tbody>
</table>

**EXHIBIT 17**  
Sources: Data Request 2.1, 2.3 and 2.8, and FERC Form 1, 2000 - 2005
EXHIBIT 18

Source: Data Request 2.1, 2.3 and 2.8

Tampa Electric Bad Debt Write-Offs and Write-Offs without Deposits 2000-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Net Bad Debt Write-Offs</th>
<th>Write-Offs for Accounts Without a Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount</td>
</tr>
<tr>
<td>2000</td>
<td>19,291</td>
<td>$2,180,830</td>
</tr>
<tr>
<td>2001</td>
<td>20,928</td>
<td>$2,588,095</td>
</tr>
<tr>
<td>2002</td>
<td>23,634</td>
<td>$2,952,060</td>
</tr>
<tr>
<td>2003</td>
<td>21,383</td>
<td>$3,342,201</td>
</tr>
<tr>
<td>2004</td>
<td>22,779</td>
<td>$3,284,402</td>
</tr>
<tr>
<td>2005</td>
<td>25,994</td>
<td>$4,763,873</td>
</tr>
</tbody>
</table>

EXHIBIT 19

Source: Data Request 2.1, 2.3 and 2.8

6.2 Deposit Program Requirements

6.2.1 Initial Deposits

For the initial deposit on all new accounts, TEC requires a deposit equal to two months usage unless a satisfactory guarantor is furnished or creditworthiness is established via a credit check. CIS automates the deposit process, determining the need for and the appropriate amount of a deposit during account set up.

Residential Accounts

The company has established policies and procedures for deposits, as set forth in TEC’s tariffs. TEC presently requires a deposit equal to two months of service billing for the premises. Until January 2006, TEC had employed a composite average initial deposit of $215 for residential customers. This change was made to better secure the company against losses and recognizes rising usage levels and fuel costs which have increased average residential customer bills in recent years.
When a new residential customer expresses interest in waiving the obligation for a deposit, the customer service employee will offer the option to use an Equifax report to determine credit worthiness. The score used by Equifax is generated by a proprietary model used specifically for the purpose of determining whether a customer deposit is required and is not the same as the customer's FICO credit scores. Results of this scoring will determine whether the deposit can be waived. TEC will not waive a deposit and one will be required if the score is between and . Deposits will be waived for scores above.

In lieu of cash deposits, residential customers may furnish a satisfactory guarantor or establish credit worthiness via a credit check by Equifax. TEC Customer Service procedures state these options are not actively promoted but are available if a customer inquires. Deposits and other security in lieu of deposits assist the company to limit and control exposure to loss created by billing for services already provided. Deposits are automatically calculated by the system during account set-up.

**Nonresidential Accounts**

For nonresidential customers, a deposit is required equal to two times the average monthly service bill as determined by TEC’s engineers or field personnel, historical data, or the company’s best estimate of consumption. In lieu of a cash deposit, nonresidential customers may furnish an irrevocable line of credit, surety bond, satisfactory guarantor, or may obtain a deposit waiver based on bond rating. A Standard & Poor’s long term debt rating of A- or better or Moody’s rating of A3 or better is required to qualify for an alternative form of security. Nonresidential accounts exempt from deposit requirements include government, public schools, tax-exempt non-profit organizations, and regulated utilities.

For existing commercial customers who request a new account, such as multiple location businesses, TEC will allow the customer to choose one of its accounts to serve as a “master” depository account for all of the associated accounts. This allows a commercial or corporate customer to more efficiently manage its deposit. When the new account is opened, TEC reviews the master account to determine what additional deposit may be required.

**6.2.2 Additional Deposits**

**Residential Accounts**

When a residential customer does not maintain a satisfactory payment history, TEC conducts a review of the account to determine if an additional deposit should be required. The company reviews specific patterns when determining if an account should be billed an additional deposit. These include the following:

- Disconnect for nonpayment order is produced,
- Deposit billing does not exist,
- Amount of additional deposit needed is $50 or greater,
- Does not have a pending credit arrangement,
- Does not have a guarantor,
- An additional deposit notification letter was previously generated, or
- If a customer fails to make timely payments
If a bill for an additional deposit becomes 30 days past due, any payments made on the account will first be credited towards the additional deposit obligation, and then to the electric service portion of the bill. This procedure prevents customers from avoiding the deposit by paying only the past due service portion, leaving the company still under-secured during future billing cycles.

**Nonresidential Accounts**

TEC may also require an additional deposit from a nonresidential customer. After six months of service, an automatic review of each commercial and corporate account is performed. Semiannual reviews follow, continuing indefinitely. These review monitors account usage to verify that the current deposit is adequate. If the deposit on hand is below the calculated target amount and the difference is greater than $50, or ten percent of the current deposit if greater than $500, TEC will require an additional deposit.

TEC monitors commercial accounts in several ways. Account payment histories and the overall condition of the business marketplace are reviewed by Tampa Electric account managers for anomalies and negative trends. The customer’s own financial reports are also studied along with information from credit rating services to determine continuing creditworthiness. In addition to periodic reviews, if a commercial customer’s financial condition changes suddenly and instability becomes known, TEC immediately reviews the account to determine if an additional deposit should be assessed.

Credit rating service scores are also used to assist in predicting increased risk and the need for additional deposits. S&P and Moody’s are the preferred credit rating services. Changes to a nonresidential customer’s financial condition or perceived stability will also prompt an alert and may lead to a requirement for an additional deposit. The threshold at which an additional deposit may be required is an S&P A- or Moody’s A3. If a commercial account experiences a fall in its credit rating to these levels, CIS will automatically warn of the increased risk and calculate the amount of an additional deposit. Account managers review the indicators of increased risk and make a determination whether an additional deposit is required.

An additional deposit will also be generated if the following conditions exist:

- Deposit billing does not exist,
- A final notice prior to disconnect is produced,
- Four or more delinquencies occurred within the last 12 months,
- Does not have an irrevocable letter of credit or bond,
- Amount of the additional deposit exceeds $500 or 10 percent of the current deposit,
- Does not have a pending credit arrangement on the account, or
- An additional deposit letter was previously generated.
6.3 Deposit Program Operations

6.3.1 Sample Review

Staff conducted reviews of two statistically valid samples of customer deposits to assess the company’s deposit collection and recordkeeping processes. Both initial and additional deposit collections were examined and compared to the applicable current procedures.

For the accounts randomly selected for testing, staff verified that the deposit had been collected and calculated appropriately. The deposit amount was compared to the company’s most recent two-month usage estimate for each address. If the deposit had been waived, the applicable support and rationale were verified. Staff also noted whether interest was being accrued and recorded properly for each account.

For additional deposits, staff traced the triggering event as recorded in the Customer Information System (CIS) system. This allowed verification of the necessity for the additional deposit coverage. Where applicable, the dollar amount of the additional deposit required was verified.

This analysis revealed a very high degree of compliance with company procedures. Exceptions occurred as a result of the necessary degree of latitude given to customer service representatives. The company expressed an intention to discuss these instances with personnel involved to prevent recurrences. Staff was satisfied that the study samples indicate adequate training and controls exist at Tampa Electric.

Staff also noted that Tampa Electric Company accounts are numbered employing a methodology based on location. While no evidence of a geographic bias was determined and none is inferred from the limited sampling, any methodology not random in its nature presents an opportunity for the introduction of bias when considering creditworthiness for either residential or commercial customers.

6.3.2 Account Maintenance

**Interest on Deposits**

TEC pays interest on cash deposits at rates required by Rule 25-6.097(4), F.A.C. For residential customers, the company pays six percent interest on an annual basis, with the accrual applying to the customer’s account. When a deposit has been on file for six months, the company pays interest from inception until the deposit is refunded because of a good payment history, a final bill is issued, or if it is replaced by a non-cash alternative.

For commercial accounts, the company pays the required six percent interest on an annual basis for cash deposits with the accrual applying to each account. Once the account reaches the 23rd month, TEC increases the rate to seven percent annually, as required by Rule 25-6.097(4), F.A.C. Interest is paid on each commercial account until the deposit is refunded because of an adjustment subsequent to review of the deposit, a final bill is issued, or the cash deposit is replaced by a non-cash alternative.
The company's billing system is designed to automatically calculate, accrue, and apply the interest for each account. The system also automatically increases the interest rate on commercial accounts when appropriate. This process helps to reduce the risk associated with manual processing of interest. When a service is terminated, the system is designed to automatically calculate the interest to date and apply the accrual to the deposit amount and credit the full amount to the final billing statement.

**Records of Deposits**

The company's billing system maintains the applicable and pertinent records for deposits required by Rule 25-6.097(5), F.A.C. The company maintains account information, personal information, and records of all interest accrued and applied. The record of deposits for each customer is maintained on the account and available on the customer master file and for online customer assistance (within the Customer Information System) by customer service employees.

The system is also designed to provide proof of a deposit and receipt of a deposit when it is added to an existing or new account. This process eliminates the risk associated with manual processing. TEC issues a separate bill for each deposit required. Once the total deposit is satisfied, a receipt is issued to the customer listing each deposit payment amount along with the date of each payment and the deposit number.

**Refund of Deposits When Service is Discontinued**

When a customer terminates service with TEC, the automated billing system is designed to automatically calculate, accrue, apply any unpaid interest to the deposit amount, and credit the final bill with the full amount. If the application of the deposit amount results in a credit, the balance is refunded by check to the customer within 15 days. The TEC billing system will generate a refund check to be issued to the final billing address. If a refund check is returned undeliverable, the company maintains the funds until the customer makes claim or for one year, at which time the check is moved to unclaimed status. Every April, unclaimed monies are remitted to the State of Florida. If a residential deposit was paid by a social service agency, the refund is paid to the agency, not the customer.

**Deposit Notification**

Tampa Electric Company engages in continuing efforts to keep residential and commercial account holders informed about deposit practices and alert them to potential for assessment of an additional deposit. TEC provides deposit information on its website and written notices to its customers about the deposit process. At account inception, TEC provides deposit process details to each customer. Reminders that an additional deposit may be required are included on the next billing statement following a late payment. TEC also warns customers about the possibility of additional deposits on its disconnection notices. The company also includes a reminder on billing statements that, if a payment is not made in a timely manner, an additional deposit may be required.

**6.4 Overall Opinion**

Tampa Electric Company is in compliance with applicable rules as outlined in the Florida Administrative Code. The company utilizes and administers a comprehensive deposit program responsive to customer needs and providing risk management. The deposit program operates in
accordance with clearly documented internal policies, practices, and procedures. TEC deposit guidelines appear reasonable and nondiscriminatory in nature and are applied in a fair objective, and unbiased manner.

Company goals and objectives are clear, regularly reviewed and adjusted as necessary to meet marketplace or account dynamics. The Customer Information System is a fully featured accounting software tool which automates billing procedures.

In 2005, TEC had the highest net bad debt to total revenue ratio of the five investor-owned utilities reviewed. Over the previous five years that trend has continued upward and was the highest net bad debt ratio for accounts without deposits for the majority of the years reviewed. In January 2006, TEC removed a fixed deposit amount for residential deposits, allowing the amount to reflect twice the monthly average of usage. Until then January 2006, TEC had employed a composite average initial deposit of $215 for residential customers. The change in policy better protects the company against risk.

In 2006, TEC demonstrated corporate initiative by undertaking an internal audit of all billing practices and procedures. The expressed purpose was to evaluate the effectiveness of internal controls for the entire billing process and evaluate company compliance with internal policy and the Florida Administrative Code (FAC). The audit thoroughly evaluated residential and commercial customer deposits, bill estimation, meter reading, disconnects, billing errors, third party pay contracts and the provision of uncollectible accounts. A copy of the audit report was furnished to staff. The audit confirmed that most billing processes were timely, accurate, and thorough but several problematic areas were noted specifically germane to deposits.

One audit observation cited practices at that time which may not have adequately secured the company against loss. Additional deposits were also misapplied to customer accounts. These shortcomings resulted in accounts not being adequately secured and inaccurately accrued interest. The company’s information system was modified in November 2006 to address the problem. All posting errors, including the calculation of accrued interest, were corrected and every customer impacted was retroactively made whole.

Another observation found that the guidelines for residential deposit amounts were sometimes inadequate to reduce risk to the company. A premise-based deposit structure was implemented in May 2006 and has adequately addressed this problem.

A third observation noted commercial deposits which were not always in compliance with internal policies. Additionally, reviews and other documentation related to accounts were not always completed timely. Customer service implemented a thorough reevaluation of commercial deposits in early 2006. In June, TEC notified commercial customers ‘grandfathered’ from as far back as the late 1980’s that a future deposit might be required if payment patterns, financial outlook, or industry market conditions changed negatively. In August, a database to track bond ratings was implemented and is now in use. Final automated enhancements to the review system are expected to be fully functional in mid-2007.

Staff examination of residential and nonresidential deposits from a statistically valid sample confirmed compliance with company policies, practices and procedures of 95 percent or
better. Deposit calculation and assessment for initial and additional deposits were objective and nondiscriminatory. Waivers were fairly granted and supporting validation was present.

While there is no evidence of bias or subjectivity in the application of customer deposits, one of the company's current practices may contain the potential to introduce some measure of subjectivity. Credit checks for residential accounts which are not offered universally but only triggered by customer request may deprive credit worthy customers of potential cost savings.
7.0 Company Comments
7.0 Company Comments

A copy of the draft report was provided to all companies to review for factual accuracy and identification of any material which might be considered confidential and proprietary. Each company had the opportunity to file a formal request for confidential classification in accordance with Rule 25-22.006(3), F.A.C. Staff also invited companies to submit written comments that each wanted included in the final report. Some participants chose not to submit comments. For those that did, the comments appear in their entirety below.

7.1 Florida Power & Light Company

Florida Power and Light Company did not provide comments.

7.2 Florida Public Utilities Company

Florida Public Utilities Company provided the following comments:

After review of your document, we have decided to make the following changes to our existing policies.

All new Commercial accounts will require a deposit of a two month average bill or we will accept a Surety Bond or an Irrevocable Letter of Credit equal to an average two months bill. The only exception is if an officer of the company chooses to waive the deposit which is highly unlikely.

Existing Commercial accounts that have 12 points assigned internally within our system, which will be the first time a customer was late (equal to 2 points) and if a late fee is assessed to the account (equal to 10 points), we will receive an average 2 month deposit on the account, a surety bond or irrevocable letter of credit. The only exception is if an officer of the company chooses to waive the deposit which is highly unlikely. All commercial accounts with an average two month bill $5,000.00 or greater will require a deposit, surety bond or irrevocable letter of credit.

New Residential accounts will require a deposit of a two month average two month bill (using our automated calculation, not a flat amount), or a letter of credit from a recent utility company with no delinquent notices on the account, or a beacon score from Equifax of 760 or greater.

Existing Residential accounts with greater than 12 points assigned internally within our system, which will be the first time a customer was late (equal to 2 points) and if a late fee is assessed to the account (equal to 10 points) will require an average two month bill as a deposit. If the customer signs up for EFT (Electronic Funds Transfer), we may waive the deposit at the discretion of the Customer Service Manager. In the event we receive a returned electronic payment from the bank, the customer is on a cash or money order only payment method for 12 months.
In section 3.4 the last paragraph, it stated that it appeared that we combined the electric and propane deposits. This is not the case, as each deposit is generated by the connection of each utility’s service order and we do not pay interest on our propane deposits, as this is a non regulated utility.

All accounts will be reviewed on an annual basis.

7.3 Gulf Power Company
Gulf Power Company provided the following comments:

Gulf has reviewed staff’s observations as they relate to residential deposit requirements and agrees to consider and explore further.

7.4 Progress Energy - Florida
Progress Energy Florida provided the following comments:

Section 1.0 - Executive Summary
On page 8, 3rd paragraph, last two sentences - the report states: “Also, the company does not track or differentiate net bad debt write offs as residential or non-residential. Such differentiation could be relatively easy to establish and further improve the company’s ability to more accurately assess risk across customer classification.”

PEF does track net bad debt write-offs on the “gross” side. PEF knows that over 90% of the total dollar write-offs are residential. PEF does not track the bad debt write-off recoveries. Historically, recoveries on non-residential are minimal, if any. PEF has not historically found value in separating out the “net” amount.

On page 10, 4th paragraph – clarification: PEF’s tariff does allow for a “parent guarantee” for commercial accounts.

On page 11 under Residential Waiver for Deposit, the "Experian > 680" reference is potentially misleading and not completely accurate. This language should be removed for the following reasons:

Experian offers Progress Energy Florida 29 different Risk Scoring Models. While Risk Scoring Models do the same function, they have unique and different scoring ranges. A score of 700 in one model may be equivalent to 670 in another and an entirely different value in yet another. Even within FICO, the score is not universal.

Progress Energy Florida continually monitors the residential deposit threshold and can make adjustments to the waiver threshold immediately. The waiver threshold is frequently adjusted based on customer metrics and loss tolerance evaluations. Since PEF’s waiver threshold is subject to frequent changes based on the evaluations noted above, it is not accurate to state that threshold as "Experian > 680."
Because of the lack of a universal score, many customers have become increasingly confused, especially when using credit reporting services, where they can obtain their 'credit score' from all three credit reporting bureaus. While all three scores represent the exact same percentile, the numerical 'credit score' is different. PEF has had customers specifically request that we consider one bureau's score over another because the numerical value was higher even though they all represented the exact same thing.

Section 5.0 - Progress Energy Florida

On page 50, 5\textsuperscript{th} paragraph, 2\textsuperscript{nd} sentence – the word "manual" should be changed to "automated".

On page 51 – Exhibits 14 – 17: As mentioned previously, PEF does track net bad debt write-offs on the "gross" side. PEF does not track the bad debt write-off recoveries. PEF has not historically found value in separating out the "net" amount.

On page 52, 4\textsuperscript{th} paragraph, 3\textsuperscript{rd} sentence – the word "generated" should be changed to "calculated".

7.5 Tampa Electric Company
Tampa Electric Company did not provide comments.