BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

KATHLEEN SLATTERY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF KATHLEEN SLATTERY

DOCKET NO. 080677-EI

Q. Please state your name and business address.

A. My name is Kathleen Slattery. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company ("FPL" or "Company") as Director Executive Services and Business Planning.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for the overall design and administration of the Company's compensation and benefits programs, as well as management of payroll and business planning for the Human Resources business unit.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree from Florida State University and am a graduate of the Florida State University College of Law. I have been a member of the Florida Bar since 1992. Before joining FPL, I worked in labor relations and served as a trustee of two outside electrical worker unions' pension and health and welfare funds. I began working at FPL in September 1996 as a benefit plan administrator and have held various positions of increasing responsibility in Human Resources since that time. My experience at FPL has included qualified and non-qualified benefit plan design and administration, salary and incentive compensation plan design and administration, and legal compliance of such plans and programs. I have extensive knowledge of FPL's compensation and benefits philosophy, plans, and practices, and of its payroll system.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring the following exhibits which are attached to my direct testimony:

- Exhibit KS-1, Projected Total Payroll & Benefits Costs Based on Escalation of 1988 Actuals, 1988 Through 2011
- Exhibit KS-2, Position to Market (2008 Base Pay)
- Exhibit KS-3, Projected Total Cash Compensation per Employee Based on Escalation of 1988 Actuals, 1988 Through 2011
- Exhibit KS-4, FERC Total Salaries & Wages 2007 (pages 1 through 4)
- Exhibit KS-5, Non-Exempt and Exempt Merit Pay Program Awards, 2005 Through 2008 (pages 1 through 2)
- Exhibit KS-6, Relative Value Comparison—2008 Total Benefit Program
- Exhibit KS-7, Relative Value Comparison—2008 Active Employee Medical Plan
- Exhibit KS-8, Average Medical Cost Per Employee, 2003 – 2010
- Exhibit KS-9, Relative Value Comparison—2008 Pension & 401(k) Employee Savings Plan

Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements (MFRs) in this case?

A. Yes. I am sponsoring the following MFRs:

- C-17 Pension Cost
- C-35 Payroll and Fringe Benefit Increases Compared to CPI
- F-3 Business Contracts with Officers and Directors

I am co-sponsoring the following MFRs:

- C-8 Detail of Changes in Expenses
- C-15 Industry Association Dues
- C-41 O&M Benchmark Variance by Function (Subsequent Year)

In addition, I am sponsoring the following 2009 supplemental MFRs that FPL has agreed with the Commission Staff and the Office of Public Counsel to file:

- C-17 Pension Cost
- C-15 Industry Association Dues (co-sponsoring)
- F-3 Business Contracts with Officers and Directors

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present an overview of the gross payroll and benefit expenses as shown in MFR C-35 and MFR C-17, demonstrating the reasonableness of FPL's forecasted payroll and benefit expenses.

Q. Please summarize your testimony.

A. FPL designs and manages its compensation and benefits programs as parts of a total rewards package. In order to address changing workforce dynamics, to control costs, and to attract, retain, and engage the required workforce, FPL places more focus on flexible, performance-based variable compensation rather than on less flexible fixed-cost benefit programs. This focus has allowed the Company to react to market conditions and drive the superior performance documented by other FPL witnesses, while remaining focused on managing total program costs. The total rewards package, emphasizing pay for performance, has served the Company and its customers well since the Florida Public Service Commission's ("FPSC" or the "Commission") last review of total compensation. FPL has successfully provided value to its employees and its customers through efficient use of compensation and benefits to drive a culture that provides improved efficiency, reliability, and service. As FPL moves forward, it must continue to provide a competitive total rewards package to its employees in order to attract and retain the necessary talent. The 2010 and 2011 projected levels of total compensation and benefits expense are reasonable and necessary to attract and retain the caliber of employees that create a high-performance organization.

TOTAL COMPENSATION AND BENEFITS

Q. What are FPL's projected total compensation and benefits cost and employee count for 2010?

A. FPL's total compensation and benefits cost is projected to be $1.261 billion for 2010. The average number of employees forecasted for 2010 is 11,111, consisting of 4,943 exempt (salaried) employees, 2,628 non-exempt (hourly) employees, and 3,540 union employees.

Q. What are FPL's projected total compensation and benefits cost and employee count for 2011?

A. FPL's total compensation and benefits cost is projected to be $1.308 billion for 2011. The average number of employees forecasted for 2011 is 11,157, consisting of 5,009 exempt (salaried) employees, 2,565 non-exempt (hourly) employees, and 3,583 union employees.

Q. What are the objectives of FPL's total compensation and benefits programs?

A. There are several key objectives of FPL's total compensation and benefits approach. The Company designs its compensation and benefits program to attract, retain and competitively reward its employees based on national and local comparative markets. FPL's compensation program also reflects a pay-for-performance philosophy, linking total compensation to attainment of corporate, business unit, and individual goals. In addition, FPL's total compensation and benefits approach is designed to control fixed costs by placing greater emphasis on variable cash compensation rather than on the traditional programs that are not performance-based, such as long-term retirement benefits. Finally, the Company strives to manage its various compensation and benefits programs holistically in order to keep its total program expenses at a reasonable level. To that end, FPL continuously monitors and benchmarks the compensation and benefits components of the total rewards package individually, since no composite benchmarks are available for the combined programs, and ensures that the total program is in line with the median of the combined compensation and benefits programs of the appropriate comparator groups.

Q. How has FPL designed and managed its compensation and benefits programs to achieve these objectives?

A. FPL's approach to the design and management of compensation and benefits is to consider them as parts of one total rewards package. A little over ten years ago, FPL made a strategic decision to realign its pay and benefits programs, implementing changes that shifted value from the fixed-cost benefit programs to more flexible pay programs, while simultaneously controlling total program costs as demonstrated in Exhibit KS-1. Specifically, in 1997 the Company converted its pension plan to a cash balance plan and also eliminated post-retirement medical coverage for all new hires. At the same time, the Company increased its focus on performance-based variable cash compensation. FPL's strategic decision in 1997 to develop and emphasize a pay-for-performance compensation program has been an important tool in the Company's ability to achieve efficiency, reliability, and customer service improvements over the past ten years. Moreover, the flexibility provided by these strategic changes has been an essential part of the Company's success in dealing with the workforce challenges confronting the utility industry.

Q. Please describe the challenges faced by the utility industry and FPL in attracting, retaining, and engaging a workforce with the required skills.

A. At a time when the industry is facing growing demand for electricity, it is challenged by an aging workforce and a severe shortage of skilled workers. As the workforce ages, there are insufficient numbers of trained replacement workers entering the field to meet current and future staffing demands. The issue has become a growing concern among government and industry leaders, as evidenced by the following:

- The National Electric Reliability Corporation (NERC) 2007 Survey of Reliability Issues identified the aging workforce and lack of skilled workers as the top business issue, with survey participants seeing a high likelihood of its leading to a reliability risk and assigning the issue a high severity level;
- Southern Company has estimated that the energy industry in the Southeast is 20,000 positions short of required staffing at present and sees the demand doubling by 2011 due to new construction demands (U.S. News & World Report, March 2008);
- The Recruiting Roundtable of the Corporate Executive Board reported in November 2008 that the number of utility industry workers aged 55 and older more than doubled between 1995 and 2007 and that the number of workers between the ages of 25 and 44 decreased by 24 percent over that same period;
- Standard & Poor's Rating Services noted the shortage of skilled labor and the aging workforce in the electric industry and cautioned that it would likely increase the construction costs of nuclear power plants (U.S. News & World Report, March 2008);
- Carnegie Mellon University's Electricity Industry Center estimated that one-half (400,000) of the electric power industry workforce will become eligible to retire within 10 years (Power Engineering, June 2008).

Furthermore, the impact of the workforce dynamics will be magnified by forecasted increases in generating capacity demand, estimated by the Edison Electric Institute to increase 30 percent by 2030 (Power Engineering, June 2008).

Q. Will these workforce challenges disproportionately impact utilities with nuclear operations?

A. Yes. As FPL witness Stall has pointed out in his testimony, the same workforce issues are likely to be more critical for nuclear utilities based on the decline in the number of nuclear engineers trained in the United States and industry plans to build a considerable number of new nuclear plants in the coming years. The pending increased demand for talent will come at a time when companies are already challenged to maintain existing levels of skilled nuclear operators and maintenance workers. As reported by the Nuclear Energy Institute, the policy organization for the nuclear power industry, there are a number of key factors impacting nuclear utility staffing:

- Twenty-seven percent of nuclear industry workers will be eligible to retire by 2012;
- Only eight percent of nuclear workers are under the age of 32;
- The median age of the nuclear workforce was 48 as of February 2007;
- There has been a significant decrease in university programs offering nuclear engineering degrees (from 65 in 1980 to 29 in 2007).

Q. To what extent have these industry challenges impacted FPL's efforts to attract and retain the necessary workforce?

A. FPL is clearly facing the same workforce challenges as the other electric and nuclear utilities. About 20 percent of FPL's current workforce is eligible to retire today, and nearly one third of the workforce will be eligible to retire within five years. Within the nuclear division, the number of workers over 55 has increased by almost 50 percent since 2003, while the number between the ages of 35 and 44 decreased by more than 30 percent. In addition, retention has become more challenging among FPL's nuclear workforce. The limited pool of available experienced workers has led to an industry-wide practice of "poaching" talent from peer organizations. FPL has had to implement retention programs to prevent turnover of critical talent, and the market value of a number of utility industry positions, particularly in the nuclear business unit, has increased at a faster rate and had a direct impact on the Company's total compensation and benefits cost.

Q. How has the redesign of the compensation and benefit programs allowed FPL to respond to current and future workforce challenges and meet the program objectives?

A. As a result of the total compensation and benefit design changes, FPL and its customers are in a better position, not nearly as burdened as many other utilities with the considerable cost of pension and post-retirement medical obligations and better able to address the changing workforce dynamics. The changes have allowed the Company to better focus on the elements of the total rewards package that have more value for attraction, retention, and engagement of the required workforce. As a result, the Company is able to provide a core level of compensation and benefits to all positions based on market analysis and performance, but has the flexibility to respond to the dynamics of an ever-changing workforce.

Q. How has FPL's total compensation and benefits cost changed since the last rate case and since the last Commission review of FPL's total compensation and benefits cost (1988), and are these increases reasonable?

A. FPL's total compensation and benefits cost is projected to increase from $1.014 billion in 2006 to $1.261 billion in the 2010 Test Year and to $1.308 billion in the 2011 Subsequent Year.

Over the last 20 years FPL has made tremendous improvements in efficiency, reliability, and quality of service while significantly reducing headcount. During a period when the number of FPL customers grew by over 60 percent, FPL was able to reduce its work force from approximately 15,000 employees in 1988 to an average of 11,111 projected in the 2010 Test Year, due to an ongoing focus on continuous improvement and cost management. The Company's aggressive management of the work force, supported by the pay-for-performance programs, has had a direct impact on maintaining total compensation and benefits cost at a reasonable level, while providing optimum levels of employee productivity.

The reasonableness of FPL's total compensation and benefits cost is clearly evident when the growth in the cost is compared to historical cost escalation using principal inflation indices. Exhibit KS-1 shows the increase in FPL's total compensation (payroll and benefits) cost since the levels reviewed and approved by the Commission in the 1988 Tax Savings Docket, Docket No. 890319-EI, Order No. 23727 (1988 Review), compared to the 1988 cost escalated using key indices. The chart demonstrates that if FPL's total compensation cost (wages and fringe benefits) had grown only at the rate of the Consumer Price Index (CPI) since 1988, it would be approximately $111 million higher than the projected cost for 2011. Exhibit KS-1 also compares FPL's total compensation cost escalated based on the WorldatWork index, formerly the American Compensation Association, which the Commission has previously used for comparison purposes. Compared to that index, FPL's escalated total compensation is lower by about $538 million. The Company's aggressive workforce management initiatives have allowed it to achieve the high level of performance documented by other FPL witnesses, while simultaneously controlling total compensation and benefits cost.

TOTAL COMPENSATION

Q. What is FPL's total compensation philosophy?

A. As discussed previously, FPL considers total compensation and benefits as components of a total rewards program. FPL's philosophy has been, and continues to be, to provide competitive, market-based salaries with consideration of an individual's performance and contribution to the Company's key goals. The performance-based pay programs have provided the ability for FPL to develop a sense of employee commitment and ownership in the performance of the Company. Each exempt employee's compensation has a portion of pay that is variable. The variable pay is linked to individual, business unit and corporate objectives, including budget and financial performance goals and operating efficiency milestones such as plant availability, service reliability, and quality of customer service. The strategic emphasis on the variable incentive pay program, rather than fixed salary and benefits costs, encourages performance at an individual employee level and adds flexibility in recognizing that performance.

Q. What resources does FPL use to evaluate its compensation program?

A. FPL uses a variety of compensation survey resources to evaluate its program, because the Company's recruiting department searches nationally for personnel to fill managerial, professional, and technical positions. Most of the key nuclear energy and engineering positions can not be filled from the local labor pool, so FPL must remain competitive in national as well as local markets. FPL utilizes nationally recognized third party compensation survey sources to aggregate and provide comparative data from other national and regional employers, both in general industry and the utility industry. It is important to utilize both general and utility comparative market information since FPL's workforce encompasses multi-industry talents. FPL relies on the following primary information sources for compensation survey data:

- Towers Perrin, an international human resources consulting firm;
- William M. Mercer Incorporated, an international human resources consulting firm;

- Bureau of Labor Statistics (the Consumer Price Index or CPI);
- Hewitt Associates LLC, an international human resources consulting firm;
- Watson Wyatt Worldwide, an international human resources consulting firm; and
- WorldatWork, a global human resources association of more than 30,000 compensation, benefits and human resources professionals.

The FPSC has previously recognized WorldatWork's market projections as an appropriate basis for compensation comparisons (1988 Tax Savings Docket).

Q. How does FPL's cash compensation program compare to the market?

A. FPL's base pay levels are comparable to the rates paid by its competitors for employees performing similar jobs and with similar skill sets. FPL performs a detailed annual benchmarking analysis of its pay rates to determine "position to market." The most recent market analysis completed in 2007 included market survey data from 69 sources, including Towers Perrin, Hewitt, Mercer, and Watson Wyatt. Exhibit KS-2 demonstrates that, as of the date of this latest study, FPL has maintained its average base pay for exempt and non-exempt jobs at or below the market at the median or 50^{th} percentile in the aggregate.

Q. How has FPL's compensation cost changed since the last rate case and since the last Commission review of compensation cost (1988), and is the cost reasonable?

For the period from 2006 to 2011 represented on MFR C-35, FPL's compensation or gross payroll expense per employee is forecasted to increase from about

$84,600 to $96,500. Gross payroll as represented on MFR C-35 includes all wages and salaries, overtime pay, premium pay and miscellaneous other earnings. The 2006 to 2011 increase of approximately 14 percent in gross payroll per employee is just slightly higher than the projected CPI growth of 12.8 percent for the same period. While FPL strives to keep gross payroll in line with CPI, the Bureau of Labor Statistics' Compensation per Hour (Non-Farm Business Sector) index is a far more appropriate measure of wage growth than CPI, because the CPI increases have understated national salary increases for many years. CPI represents the changes in price of all goods and services purchased by households and does not adequately account for factors such as company and individual performance, market competitiveness, and industry trends that directly impact annual pay budgets. For the period from 2006 to 2011 represented on MFR C-35, the Compensation per Hour index projects an increase of approximately 18.6 percent, considerably higher than the projected 14 percent increase in FPL's compensation or gross payroll cost per employee. Finally, it is worth noting that FPL's projected increase in gross payroll per employee is also well below the WorldatWork Index's projected growth of 17.5 percent.

FPL's cash compensation levels historically trend below the escalated rates of the key market indices. When the average wage per employee that was approved in the 1988 Review is trended with market data from the WorldatWork index on Exhibit KS-3, FPL's average wage is below the trend. FPL has managed to keep cash compensation expense increases about 10 percent below the WorldatWork

Index and about seven percent below the Bureau of Labor Statistics' Compensation per Hour (Non-Farm Business Sector) Index, as shown in Exhibit KS-3. And, although the escalated compensation cost per employee is slightly above the non-wage based CPI benchmark, as stated previously, Exhibit KS-1 demonstrates that FPL's total payroll and benefits cost has escalated at a rate less than CPI for the period since the last formal Commission review.

Q. **How does FPL's gross payroll cost compare with that of other utilities?**

A. FPL's total compensation cost is comparable to that of other utilities as demonstrated by review of Federal Energy Regulatory Commission (FERC) Form-1 report data. FPL has reviewed its total compensation cost and compared it to that of other comparable utilities. The companies in the comparison included other regional utilities as well as other vertically integrated utilities of similar size. As shown on Exhibit KS-4, FPL continues to be one of the more efficient utilities from a total compensation standpoint. This efficiency is particularly evident when one looks at total compensation -- whether on a per-customer, operating revenue, or operating expense basis.

Q. **Please describe FPL's annual performance-based merit program.**

A. There are two components to FPL's annual performance-based merit program. The first component is a merit award determined by an individual's performance level and salary position relative to market. The second component is a variable incentive pay program that provides a lump sum payment based on each individual's contribution as well as Company and business unit results in comparison to pre-established objectives. FPL's incentive compensation is awarded based on an individual's contribution to corporate, business unit, and individual performance indicators. These performance indicators include Operations & Maintenance (O&M) costs, financial indicators, and operating efficiency milestones such as plant availability, service reliability, and quality of customer service.

Q. How does FPL's annual pay increase program compare to market?

A. FPL regularly benchmarks its annual pay increase program against relevant market data. As shown in Exhibit KS-5, the annual merit base and variable incentive pay awards have been at or below market for the period from 2005 through 2008.

BENEFITS

Q. Please describe FPL's benefits package.

A. FPL's benefits program is designed and managed as part of a total rewards package. The benefits package includes a full complement of benefits, comprised of three primary components: health and welfare benefits, retirement plans, and various benefits required by law.

Q. What are FPL's projected benefits costs for the 2010 Test Year and the 2011 Subsequent Year?

A. Total benefits cost is projected to be about $198 million in 2010 and $232 million in 2011, the major components of which are as follows:

	2010	2011
• Health and welfare benefits	$110,032,000	$122,880,000
• Retirement benefits		
○ Pension plan	($55,719,000)	($37,715,000)
○ Post-employment benefits	$29,875,000	$29,800,000
○ Employee savings plan	$32,702,000	$34,803,000
• Total Retirement Benefits	$6,858,000	$26,888,000
• Benefits required by law	$81,465,000	$81,984,000
Total Benefits Cost	$198,355,000	$231,752,000

Benefits required by law include social security tax, federal and state unemployment taxes, and workers' compensation.

Below, I will discuss the major benefit plans, specifically the medical and retirement plans.

Q. **How has FPL's total benefits cost changed since 2006?**

A. Total benefits cost is projected to increase from a total of $133 million in 2006 to $198 million in the 2010 Test Year and $232 million in the 2011 Subsequent Year.

Q. **What is driving the increase in the benefits cost?**

A. The primary drivers of the increased benefits cost are increases to the medical and pension plans. The cost increases in these two plans are typical of those experienced by companies across the utility and general industry and have accounted for over 80 percent of the total benefits cost increase for the 2006 to 2011 period. I will address both issues in more detail.

Q. **How does FPL evaluate the design and cost of its benefit plans and how do the plans compare to those of other companies?**

A. FPL uses the Hewitt Benefit Index, an actuarial tool that compares the value of benefit plans. Hewitt Associates is an internationally recognized benefits consulting firm that provides analysis and consultation on the competitiveness of participating companies' benefit programs and produces the Hewitt Benefit Index. The study methodology first analyzes the value of each benefit plan for each individual in the plan and then converts the individual values to a composite value for the entire employee population by applying a standard set of actuarial and employee participation assumptions. An index of 100.0 always indicates the average of the comparator companies selected. FPL has used the Hewitt study to compare its benefits programs to those of companies in the general industry and utility industry sectors, and to those of participating Fortune 500 companies.

Exhibit KS-6 displays the relative value of FPL's total benefits program compared to a core comparator group composed of 14 electric utilities most similar to FPL in terms of revenue and workforce dynamics. The graph also displays relative value comparisons to a broader utility group (composed of 28 companies), to a general industry grouping, and to Fortune 500 companies that participated in the study. The graph shows that FPL's Benefit Index for the total benefit program is below average compared to the utility comparator group and each of the other industry groupings. FPL's total benefits program rated 92.4 as compared to a 100.0 average for the utility comparator group and to a 100.4 average for the broader utility group. These results are consistent with the Company's objective to emphasize cash compensation over traditional long-term benefits.

Q. What is FPL's projected medical cost for the Test Year and Subsequent Year?

A. FPL's projected medical cost is $95,537,000 for active employees and $22,600,000 for retiree benefits in the 2010 Test Year. For the 2011 Subsequent Year, projected medical cost is $106,988,000 for active employees and $22,300,000 for retiree benefits.

Q. How does FPL's medical plan compare to industry standards?

A. On a comparative basis, the relative value of FPL's medical plan for active employees is slightly below average when compared to other utility and general industry companies participating in the 2008 Hewitt Benefits Index. As illustrated by Exhibit KS-7, FPL's plan had a relative value of 97.0 as compared to the average of 100.0 for the 14 utilities in the comparator group and the average of 99.0 for the broader utility group. FPL's relative value for active medical is also below both the general industry and Fortune 500 company averages.

Q. How do FPL's projected medical costs for 2010 compare to those of other utilities and the national average?

A. Although the various factors driving health care costs higher both nationally and specifically at FPL are projected to result in a medical cost increase in 2010, FPL's average medical cost per employee is projected to remain below the industry average, as illustrated in Exhibit KS-8. The increase in FPL's health care costs for 2010 is consistent with national and utility industry trends provided by Hewitt Associates. In fact, Hewitt's forecasted utility industry benchmark is still approximately 12 percent above FPL's projected cost per employee of $11,238 in 2010.

Q. What has been FPL's experience in managing health care costs?

A. FPL's ability to keep per employee health care costs below the utility industry benchmarks and to project that costs remain below the utility industry benchmarks in 2010 and beyond has been the direct result of aggressive management of the drivers of health care costs. Exhibit KS-8 illustrates FPL's medical costs per employee for 2003 to 2008 and the projected costs through 2010 as compared to national and industry benchmarks. FPL has and will continue to look for ways to provide employees with a choice of quality medical plans at the most cost competitive level. However, health care cost inflation is a national concern in both the public and private sectors. Thus, while FPL has been successful in managing per-employee medical costs below the utility industry average, the Company expects total annual health care costs to increase in 2010 and beyond at a rate comparable to the forecasted national trend of approximately eight to 10 percent per year. Rising health care costs continues to be one of the largest concerns for companies and their employees.

Q. What specific initiatives has FPL pursued to control health care costs?

A. FPL has made health care cost control a key strategic initiative, applying the continuous improvement process from its quality program to develop an integrated health strategy that will optimize value and control costs for both the Company and employees. The Company's successful cost control strategy has included a variety of initiatives, including the following:

- Price incentives to encourage cost effective plan selections, including spousal surcharges
- Dependent eligibility audits
- Emphasis on employee consumer responsibility
- Comprehensive health promotion and care management programs
- Incentives to drive behavior changes
- Aggressive vendor management
- Value-based pharmacy design to promote therapeutic compliance
- Cost transparency, i.e., transparent full pass-through contract with pharmacy benefit manager.

Q. Are there other initiatives FPL has taken to control health care costs?

A. FPL has pursued initiatives to control the cost of post-retirement medical benefits, as measured under Financial Accounting Standard (FAS) 106. Those initiatives include implementing medical premium contribution caps in 1992 and eliminating eligibility for post-retirement medical coverage for all employees hired after April 1997. Together, these initiatives have resulted in an annual cost avoidance in the service cost component of FPL Group's FAS 106 expense attributed to active FPL employees of about $38 million in the Test and Subsequent Years.

One further key long-term cost control initiative has been the aggressive promotion of the employee's responsibility for health and the creation of a healthy work environment, as evidenced by the Company's comprehensive health and well-being programs. FPL's comprehensive health and well-being programs, developed over the past 15 years, have led to reductions in health risk factors for the employees who have participated in them, which will benefit our employees through better health and our customers through lower plan cost in the Test Year and beyond.

Q. Has FPL received recognition for successful management of its health care programs and costs?

A. Yes. The effectiveness of the programs has been acknowledged through frequent national recognition, including:

- "Best Employers for Healthy Lifestyles" Platinum Award from the National Business Group on Health—2005, 2006, 2007
- 2007 Leadership Award in Health from the Florida Health Care Coalition
- 2008 "Innovations in Prevention" Gold Award from the Department of Health and Human Services
- 2007 feature on FPL-WELL program on ABC World News Tonight for impact on managing health and well-being.

Q. What factors are driving the substantial increases in health care costs projected to occur over the next few years in the U.S.?

A. There are a number of factors impacting recent increases in national medical costs that will continue to cause costs to climb:

- Growing number of uninsureds putting pressure on the health care system;
- Technological enhancements in medical treatments and services driving greater utilization and cost;
- Continued focus on direct consumer advertising by pharmaceutical companies;
- Increased utilization and pricing of prescription drugs;
- Impact of specialty pharmacy;
- Threat of malpractice leading physicians to practice defensive medicine;
- Trend toward hospital consolidation, reducing competition and increasing cost pressure leading to more aggressive negotiation of contracts by hospitals with plan providers;
- Increased inpatient costs;
- Federal and state mandates, i.e., mental health;
- Political future of Federal mandates and potential for elimination of Employee Retirement Income Security Act (ERISA) preemption.

Q. In addition to these national trends, are there other health care factors and trends that will specifically impact FPL's medical costs?

A. Yes. Those factors are as follows:

- Sixty-seven percent of FPL's medical plan participants are age 40 and over. Studies have shown a correlation between an aging population and increasing medical costs.
- Pharmacy costs, which are rising at a higher rate than medical costs, represent approximately 18 percent of FPL's total medical costs. This is attributable to the Company's aging workforce.
- Health care costs for employer-sponsored medical plans in Florida are among the highest in the United States. Because hospitals and physicians in Florida serve a higher than average uninsured population (21.2 percent in Florida, 17.7 percent in Georgia, 17.9 percent in North Carolina, 10 percent in Pennsylvania, 14 percent in New York, and 9.4 percent in Connecticut as of 2006), financial losses from the care of those patients are passed along to private sector payers such as FPL.
- FPL covers a higher number of dependents than other large companies (three percent more dependents covered for non-union employees and 15 percent more dependents covered for union employees).

The impact of these cost factors is projected annual increases in medical costs of approximately $12.5 million in 2010 and $11.4 million in 2011, and a projected increase of over $40 million from 2006 through 2011.

Q. **Does FPL offer retirement plans to employees and is that consistent with industry practices?**

A. Yes, FPL offers its employees retirement plans consisting of a pension plan and a 401(k) employee savings plan, as do approximately 80 percent of utility industry companies included in the Hewitt Benefits Index. The Company also provides post-employment medical, life, and disability benefits; however, as discussed previously, the post-employment medical and life benefits were discontinued for employees hired after April 1997.

Q. **What is FPL's projected retirement expense in the Test Year and Subsequent Year?**

A. The projected expense for the 2010 Test Year is $6,858,000. This is the net expense of the pension plan credit of $55,719,000 together with the 401(k) employee savings plan expense of $32,702,000 and the post-employment medical, life, and disability benefits expense of $29,875,000. For the 2011 Subsequent Year, projected retirement expense is $26,888,000, the components being a pension credit of $37,715,000 together with expenses of $34,803,000 for the employee savings plan and $29,800,000 for post-employment medical, life, and disability benefits.

Q. **Why is the employee pension benefit reflected as a credit?**

A. The assets of the pension plan have been beneficially invested such that the expected return on assets exceeds the actuarially determined projected obligation.

Q. Please discuss the significant change in the pension cost in the 2010 Test Year and 2011 Subsequent Year reflected on MFR C-35.

A. FPL's projected pension benefit for 2010 and 2011 reflects the impact of the decline in 2008 in the financial markets, in which a significant portion of its pension funds are invested.

The pension plan's trust holds investments in a mix of equity and fixed income securities, which totaled $3.48 billion at the end of 2007. During 2008 and into 2009, worldwide financial markets entered a period of extreme declines due to, in large part, a credit freeze resulting from the collapse of the housing markets and related financial investments collateralized by investments in those markets. As a result the pension plan's assets declined by $983 million, due primarily to a decrease of approximately 24.7 percent in market value in 2008.

FPL's pension benefit is calculated based on Financial Accounting Standard (FAS) No. 87, Employers' Accounting for Pensions. Whereas many utilities must recover a pension cost associated with providing a retirement plan to its employees from customers, FPL has, through prudent investment over time, been able to grow its pension assets at a faster rate than the costs of its plan obligations. Even after the major market correction, the pension trust still exceeds its obligations, and therefore, creates a negative expense (a credit) to the benefit of customers. However, the size of that credit has and will continue to decline significantly, due to the recent change in market investment returns.

Q. How do FPL's retirement plans compare to the industry?

A. As shown in the Hewitt Benefit Index's comparison chart (Exhibit KS-9), FPL's retirement plans are valued similarly to the general industry (87.0 for FPL vs. the general industry average of 83.8) and well below the averages of the comparator companies and the utility industry (100.0 for the comparator and 103.7 for the utility companies).

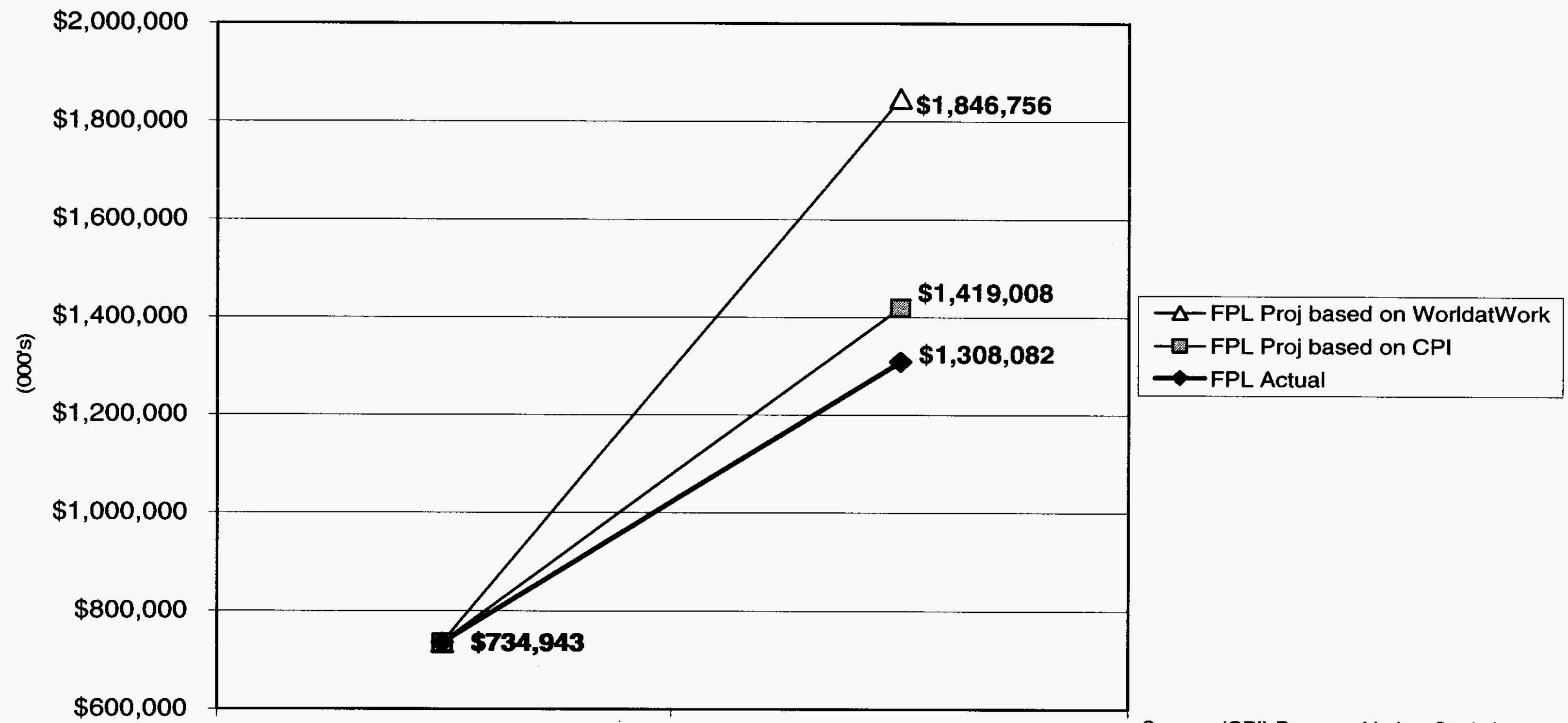
Q. How does this evaluation demonstrate the reasonableness of FPL's qualified retirement plans?

A. FPL provides both a pension and 401(k) employee savings plan to its employees in order to attract and retain high quality employees. FPL has been able to do this despite the fact that the relative value of these plans is considerably less than average in the utility industry as demonstrated by the Hewitt Benefits Index.

Q. Does this conclude your direct testimony?

A. Yes.

Projected Total Payroll & Benefits Costs
Based on Escalation of 1988 Actuals
1988 Through 2011

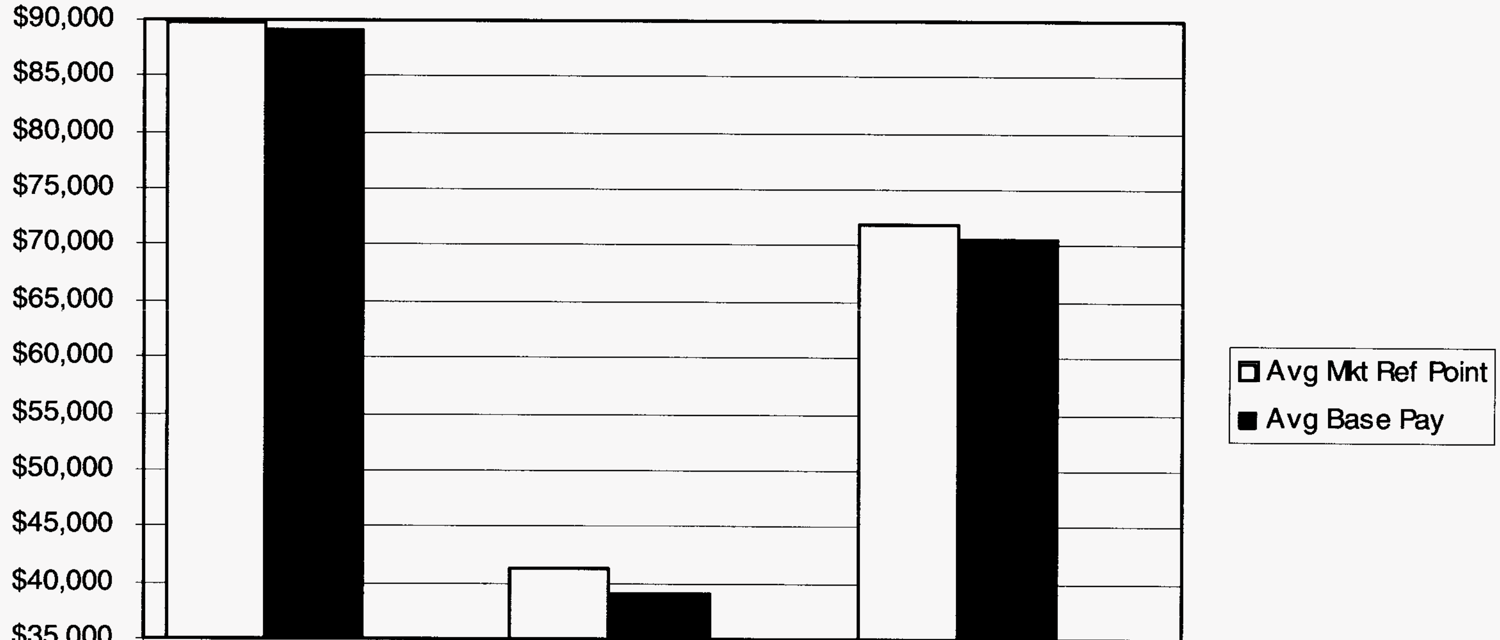


Source: (CPI) Bureau of Labor Statistics; WorldatWork (formerly ACA)

FPL has managed growth of total payroll and benefits costs below CPI and key inflation indices over the past 20 years.

Docket No. 080677_EI
Projected Total Payroll & Benefits Costs
Based on Escalation of 1988 Actuals
1988 Through 2011
Exhibit KS-1, Page 1 of 1

Position to Market (2008 Base Pay)



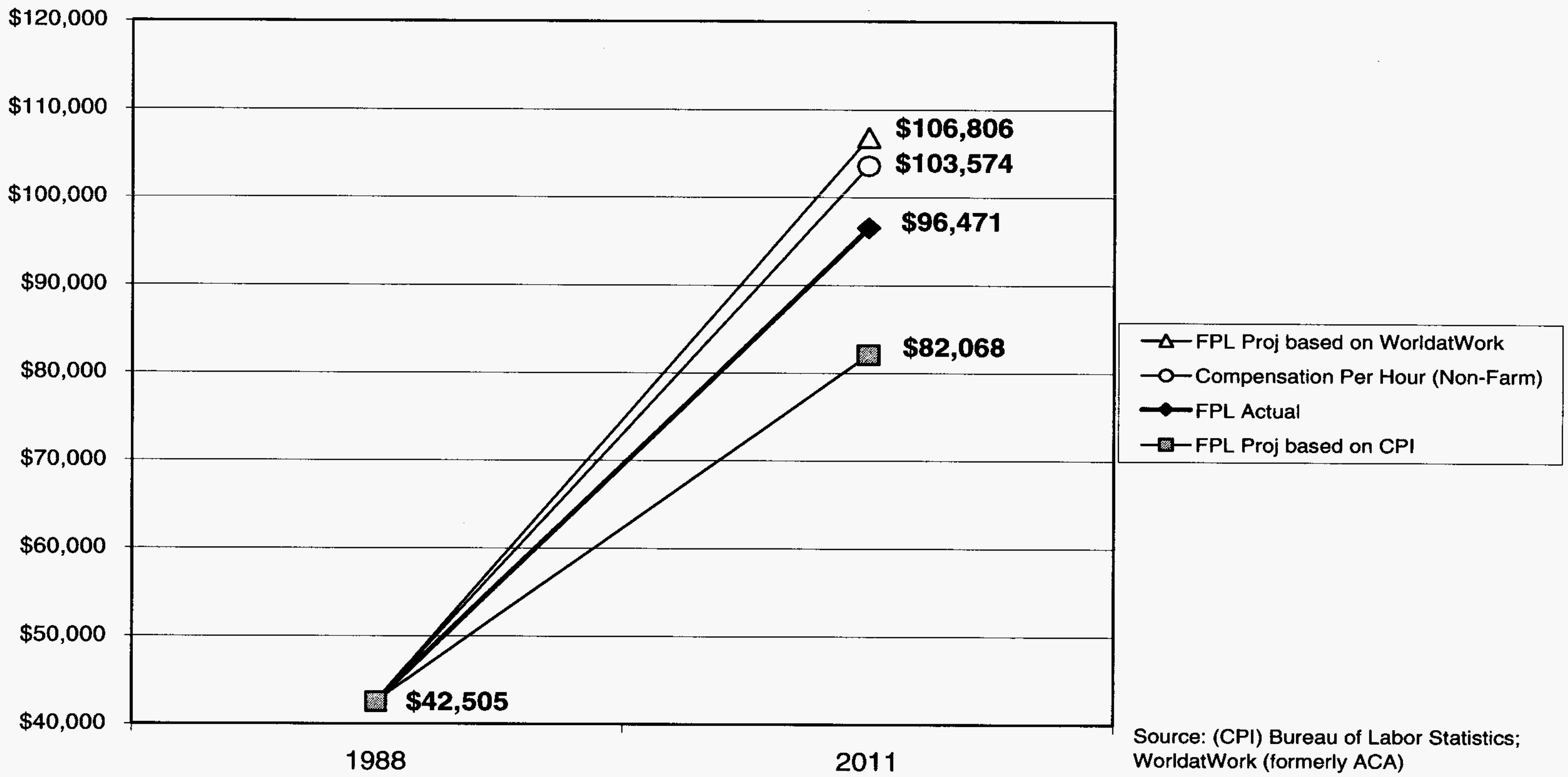
	Exempt	Non Exempt	Org Wide
Avg Mkt Ref Point	$89,851	$41,250	$71,846
Avg Base Pay	$89,086	$38,982	$70,524
Pos to Mkt	-0.9%	-5.5%	-1.8%

Market reference points are determined via benchmarking conducted internally utilizing current industry survey sources including Tow ers Perrin, Mercer and Watson Wyatt.

FPL's average base pay for exempt and non-exempt jobs is below market.

Docket No. 080677_EI
Position to Market (2008 Base Pay)
Exhibit KS-2, Page 1 of 1

Projected Total Cash Compensation per Employee Based on Escalation of 1988 Actuals 1988 Through 2011

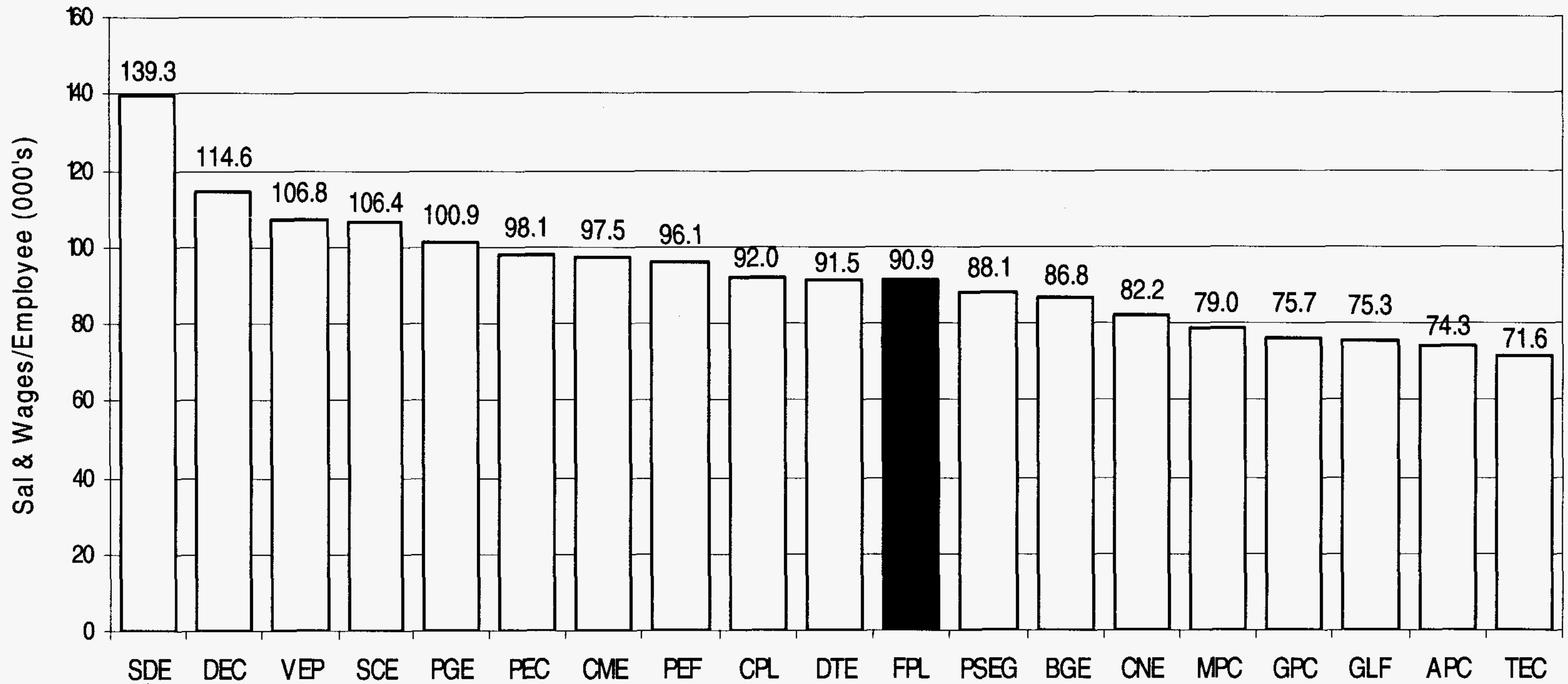


Source: (CPI) Bureau of Labor Statistics; WorldatWork (formerly ACA)

Growth of FPL's total compensation cost is below key wage inflation indices over the past 20 years.

Docket No. 080677_EI
Projected Total Cash Compensation per Employee Based on Escalation of 1988 Actuals
1988 Through 2011
Exhibit KS-3, Page 1 of 1

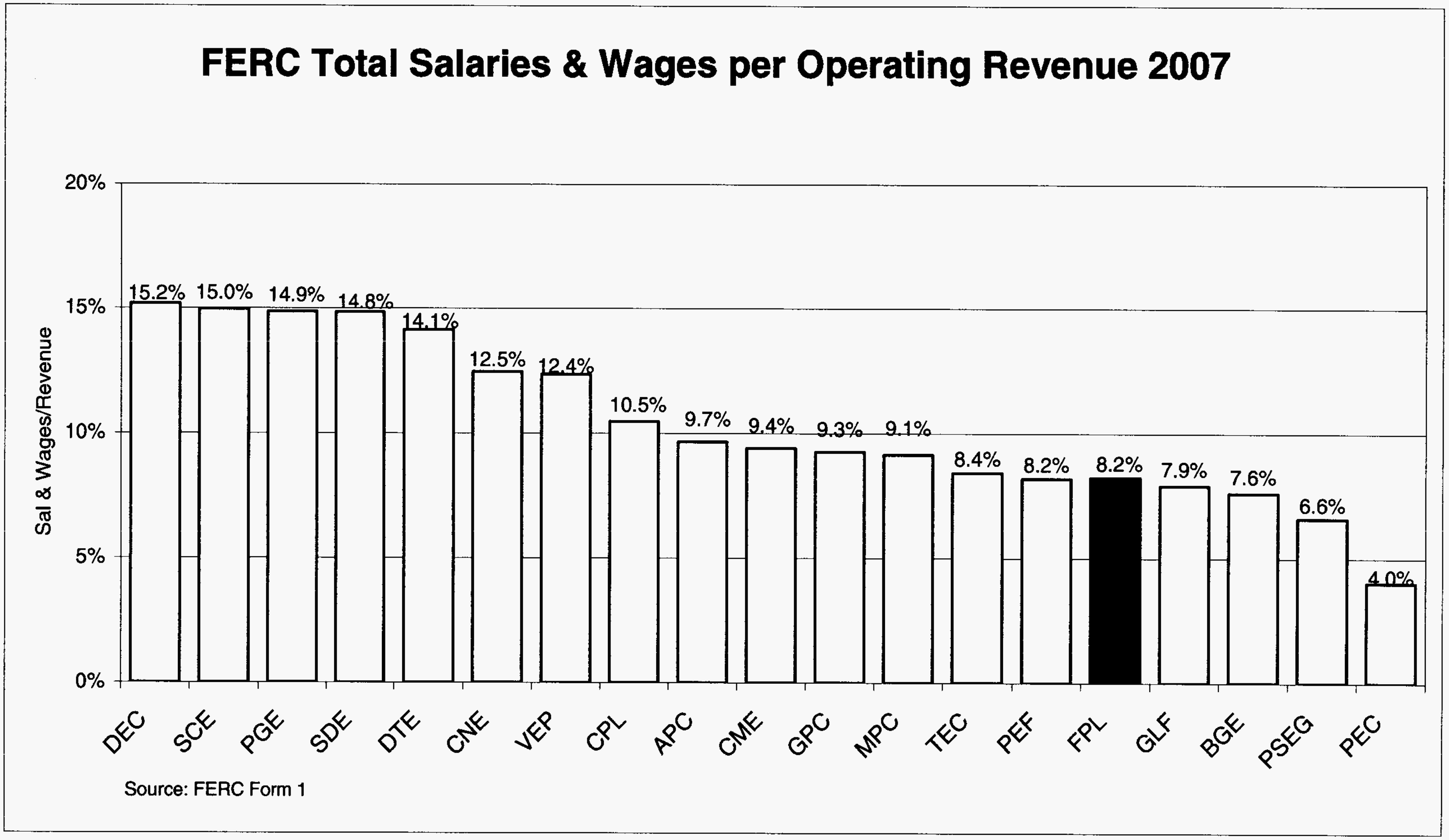
FERC Total Salaries & Wages per Employee 2007



Source: FERC Form 1

APC	Alabama Power
BGE	Baltimore Gas & Electric
CPL	Carolina Power & Light
CME	Commonwealth Edison
CNE	Consolidated Edison
DTE	Detroit Edison
DEC	Duke Energy Corp
FPL	Florida Power & Light
GPC	Georgia Power
GLF	Gulf Power
MPC	Mississippi Power
PGE	Pacific Gas & Electric
PEC	PECO Energy
PEF	Progress Energy Florida
PSEG	Public Service Electric & Gas
SDE	San Diego Gas & Electric
SCE	Southern California Edison
TEC	Tampa Electric
VEP	Virginia Electric & Power

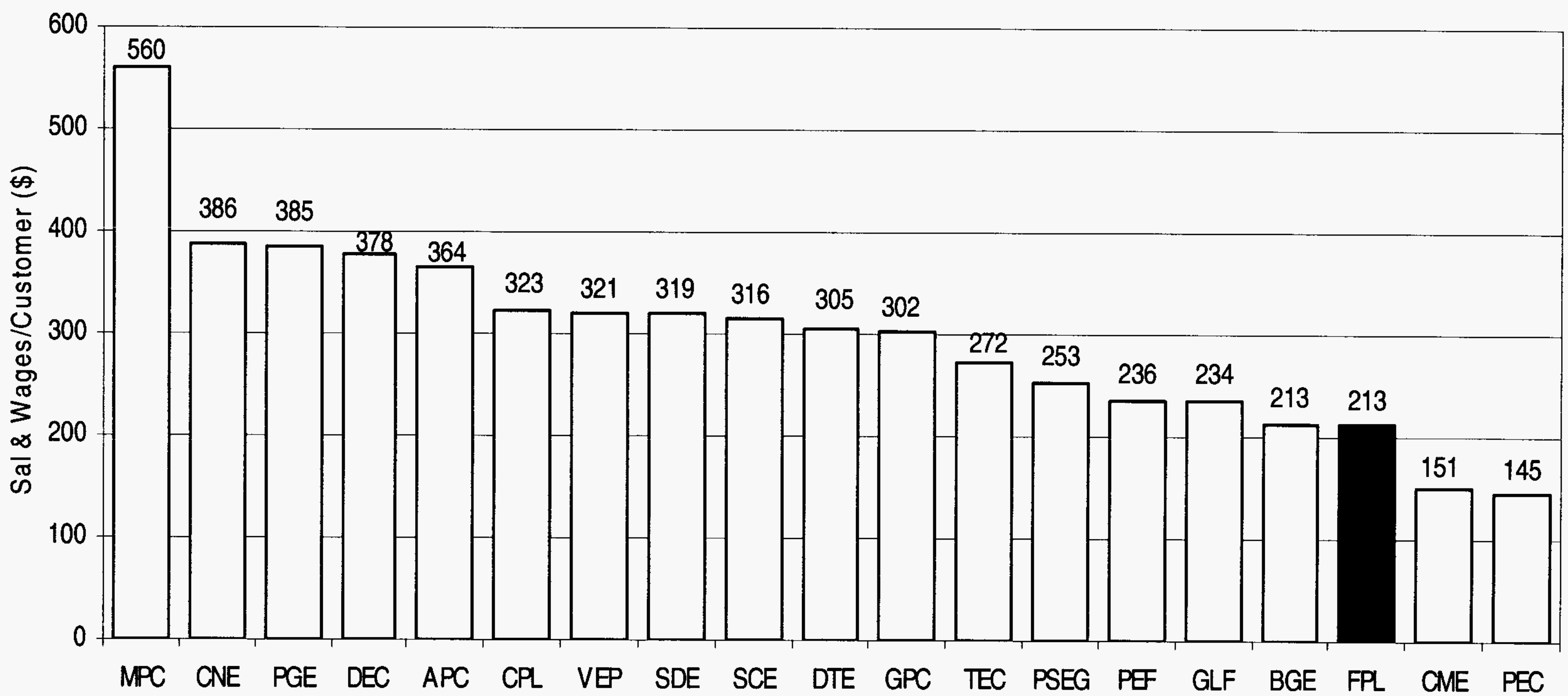
FPL's total salaries and wages per employee is below the average of comparable utilities.



APC	Alabama Power
BGE	Baltimore Gas & Electric
CPL	Carolina Power & Light
CME	Commonwealth Edison
CNE	Consolidated Edison
DTE	Detroit Edison
DEC	Duke Energy Corp
FPL	Florida Power & Light
GPC	Georgia Power
GLF	Gulf Power
MPC	Mississippi Power
PGE	Pacific Gas & Electric
PEC	PECO Energy
PEF	Progress Energy Florida
PSEG	Public Service Electric & Gas
SDE	San Diego Gas & Electric
SCE	Southern California Edison
TEC	Tampa Electric
VEP	Virginia Electric & Power

FPL's total salaries and wages as a percent of operating revenue is considerably below comparable utilities.

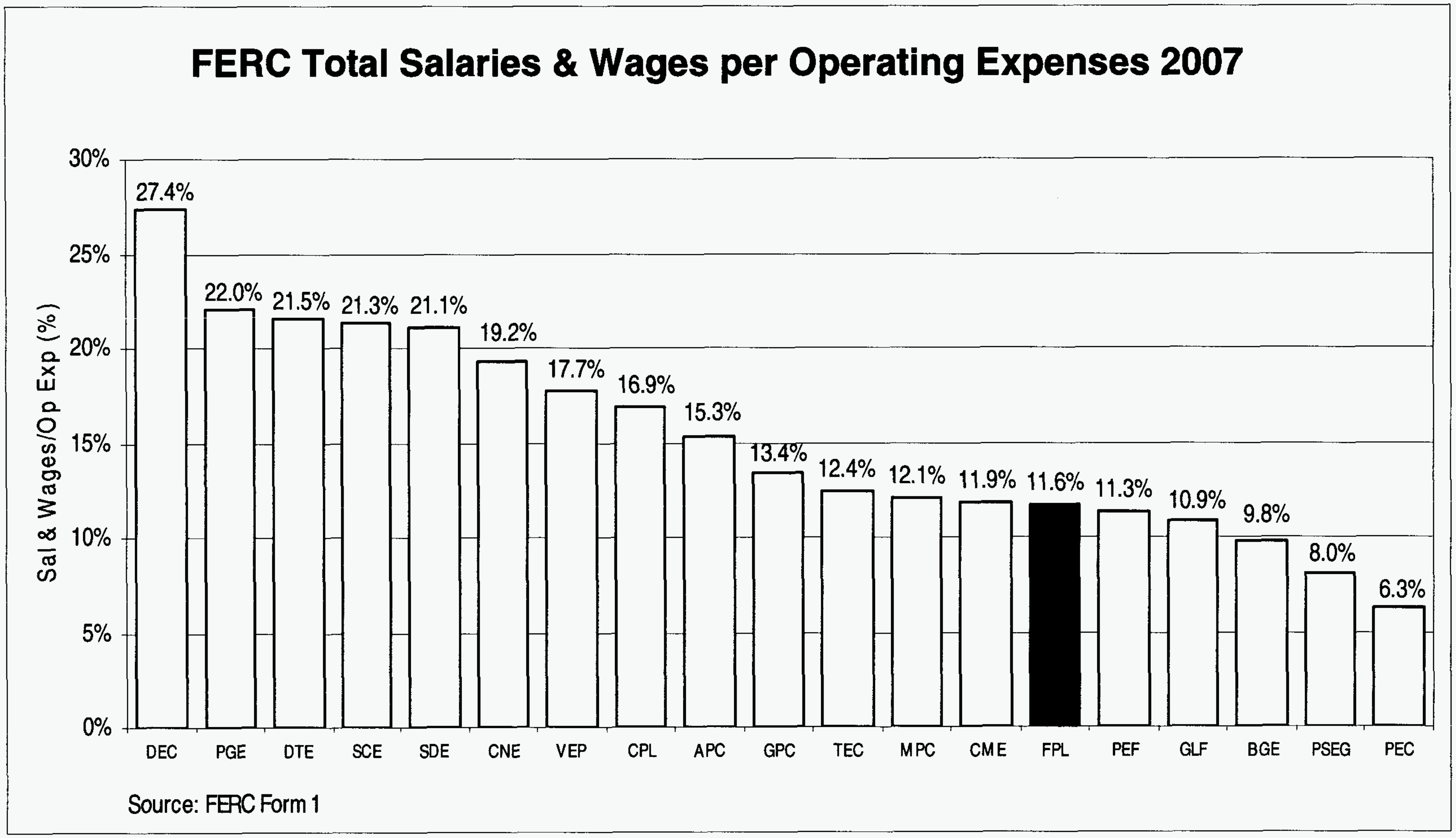
FERC Total Salaries & Wages per Customer 2007



Source: FERC Form 1

APC	Alabama Power
BGE	Baltimore Gas & Electric
CPL	Carolina Power & Light
CME	Commonwealth Edison
CNE	Consolidated Edison
DTE	Detroit Edison
DEC	Duke Energy Corp
FPL	Florida Power & Light
GPC	Georgia Power
GLF	Gulf Power
MPC	Mississippi Power
PGE	Pacific Gas & Electric
PEC	PECO Energy
PEF	Progress Energy Florida
PSEG	Public Service Electric & Gas
SDE	San Diego Gas & Electric
SCE	Southern California Edison
TEC	Tampa Electric
VEP	Virginia Electric & Power

FPL's total salaries and wages per customer is among the lowest of comparable utilities.

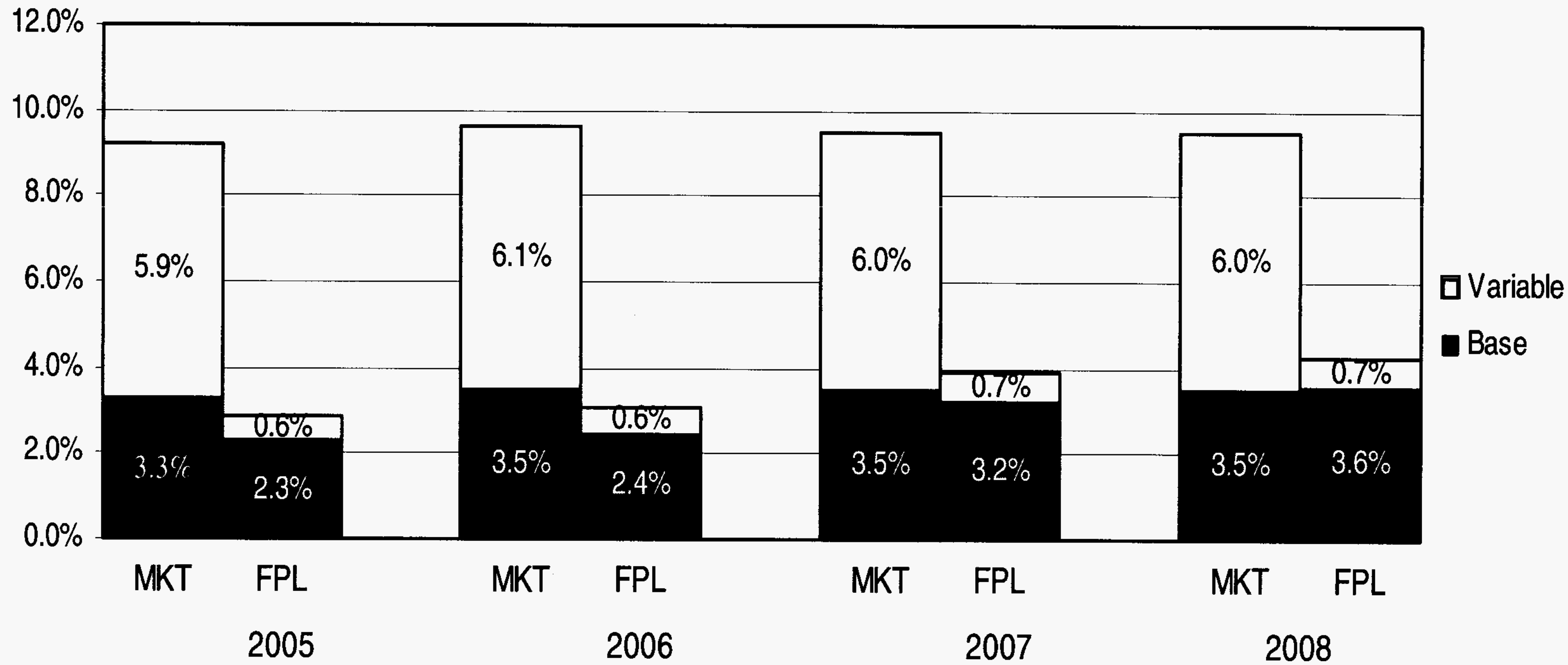


APC	Alabama Power	MPC	Mississippi Power
BGE	Baltimore Gas & Electric	PGE	Pacific Gas & Electric
CPL	Carolina Power & Light	PEC	PECO Energy
CME	Commonwealth Edison	PEF	Progress Energy Florida
CNE	Consolidated Edison	PSEG	Public Service Electric & Gas
DTE	Detroit Edison	SDE	San Diego Gas & Electric
DEC	Duke Energy Corp	SCE	Southern California Edison
FPL	Florida Power & Light	TEC	Tampa Electric
GPC	Georgia Power	VEP	Virginia Electric & Power
GLF	Gulf Power		

FPL's total salaries and wages as a percent of operating expenses is considerably below the average of comparable utilities.

Docket No. 080677_EI
Non-Exempt Merit Pay Program Awards
2005 Through 2008
Exhibit KS-5, Page 1 of 2

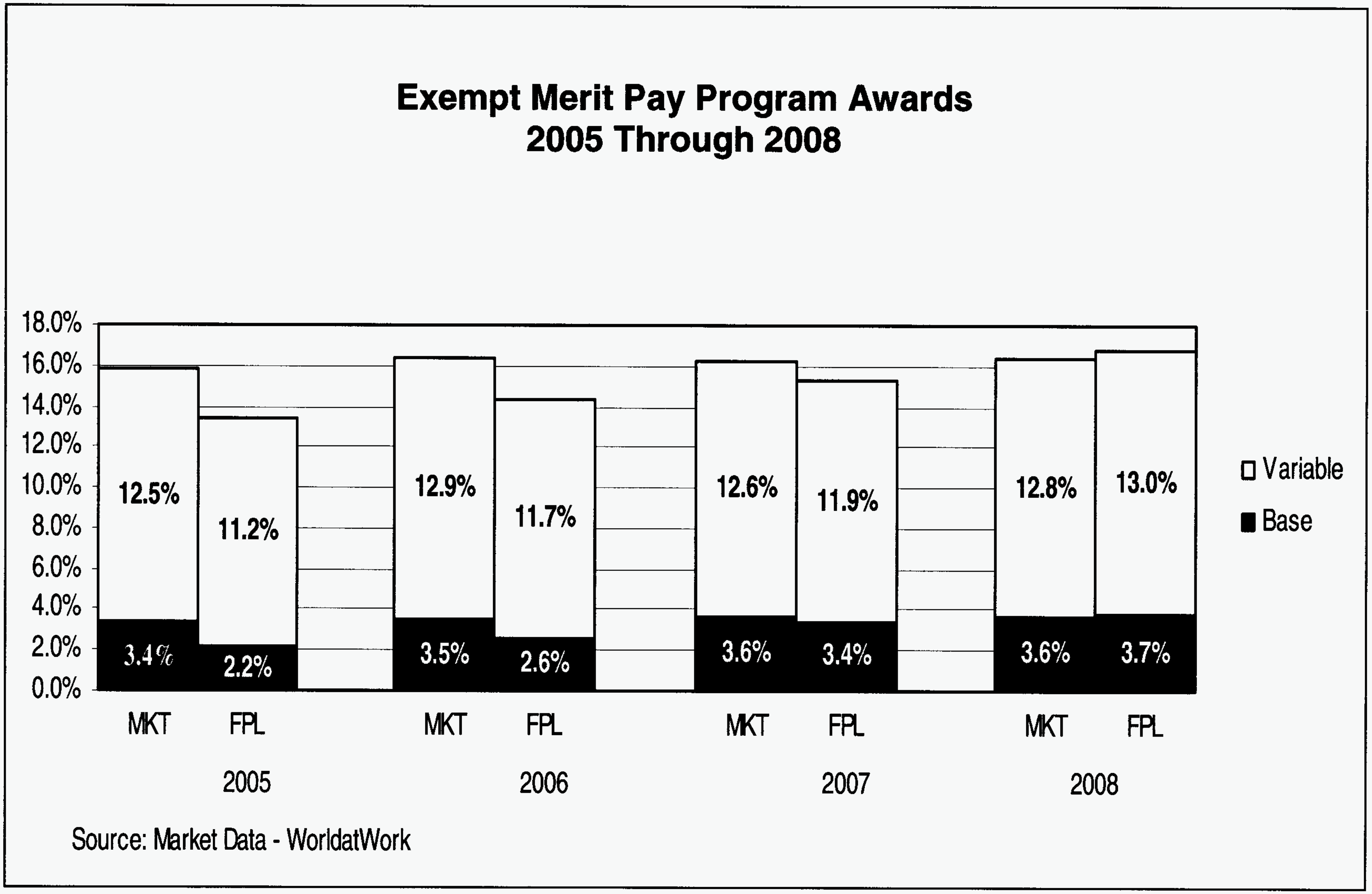
Non-Exempt Merit Pay Program Awards
2005 Through 2008



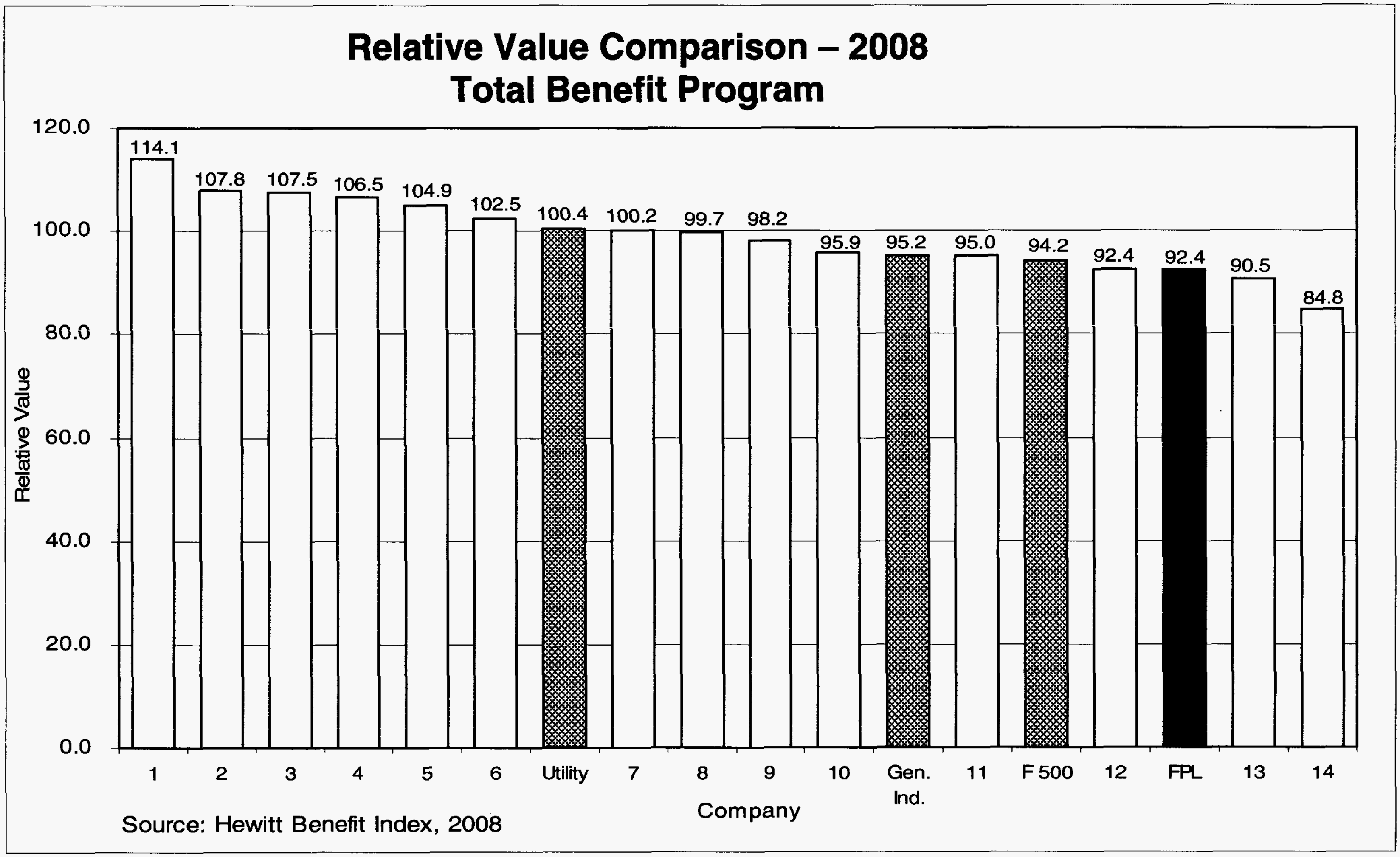
Source: Market Data - WorldatWork

* Variable pay (Bonus) eligible population is FPL EMT only.

FPL's non-exempt pay program awards have been consistently below market.



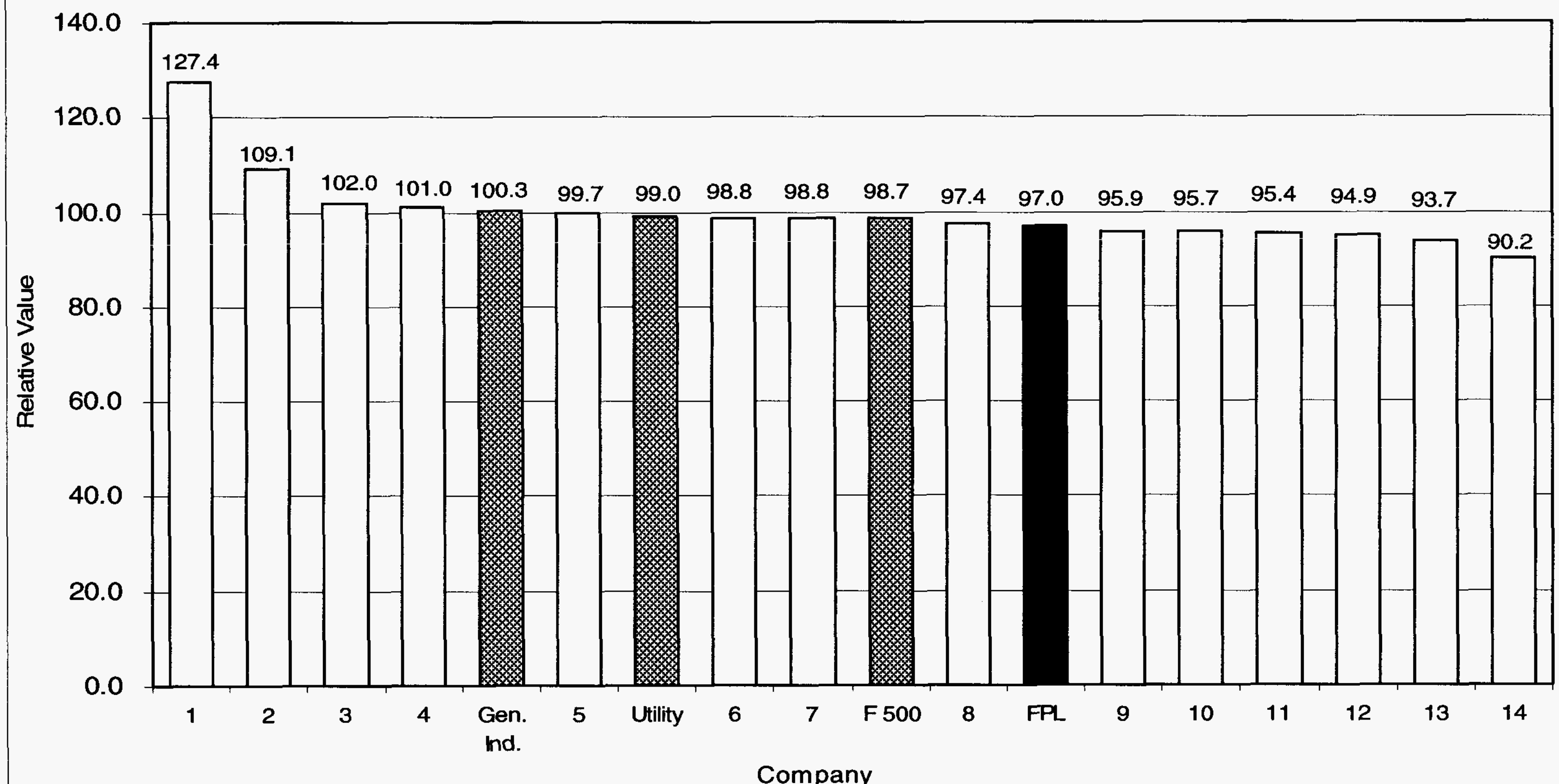
FPL's exempt pay program awards have been consistently at or below market.



- Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: American Electric Power, Consolidated Edison, Constellation Energy, Dominion Resources, Duke Energy, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise, Reliant Energy, Southern Company

The relative value of FPL's benefit programs is below those of comparable utility, general industry, and Fortune 500 companies.

Relative Value Comparison – 2008
Active Employee Medical Plan



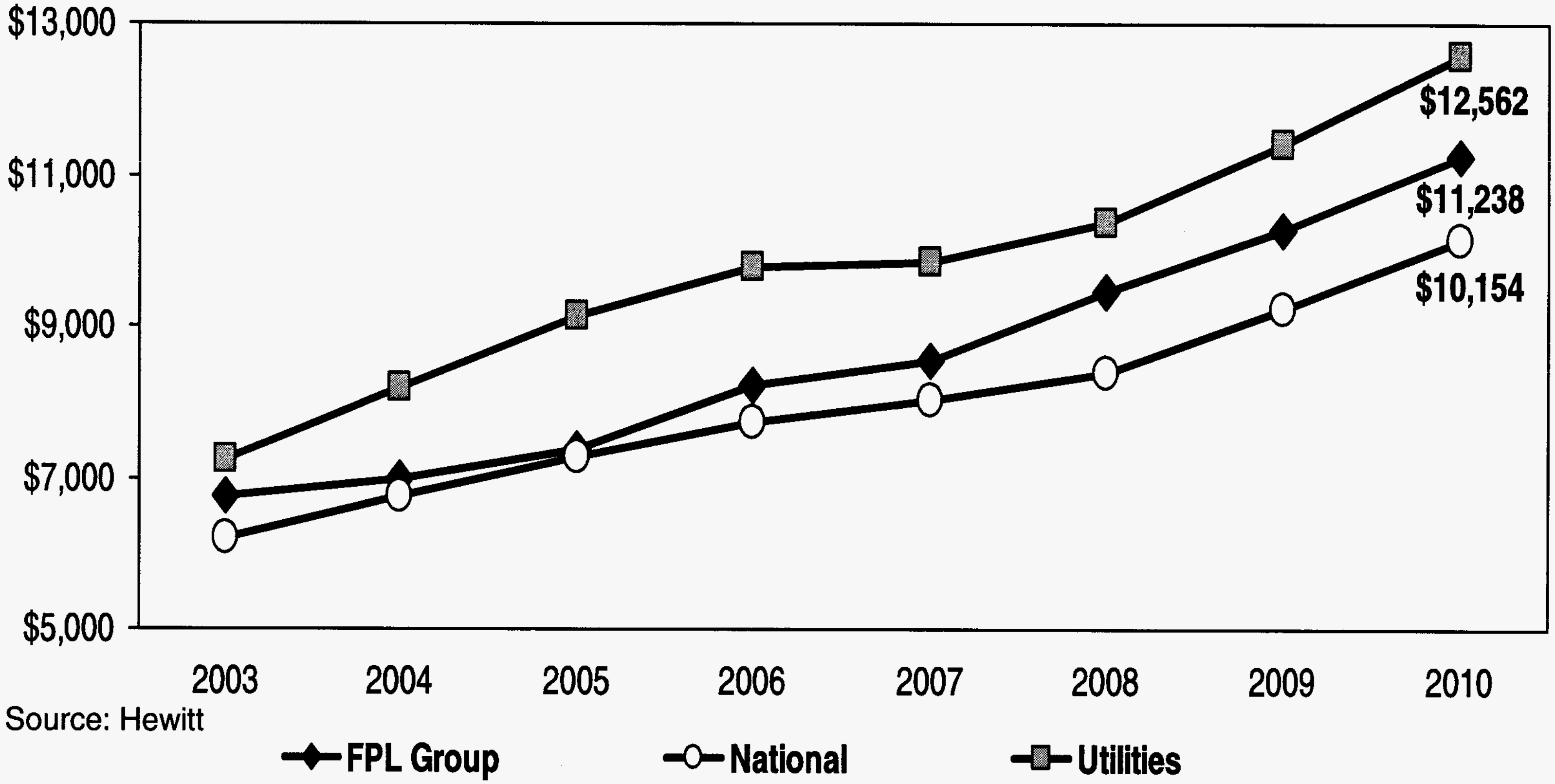
Source: Hewitt Benefit Index, 2008

- Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: American Electric Power, Consolidated Edison, Constellation Energy, Dominion Resources, Duke Energy, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise, Reliant Energy, Southern Company

The relative value of FPL's medical plan is below those of comparable utility, general industry, and Fortune 500 companies.

Docket No. 080677_EI
Relative Value Comparison – 2008
Active Employee Medical Plan
Exhibit KS-7, Page 1 of 1

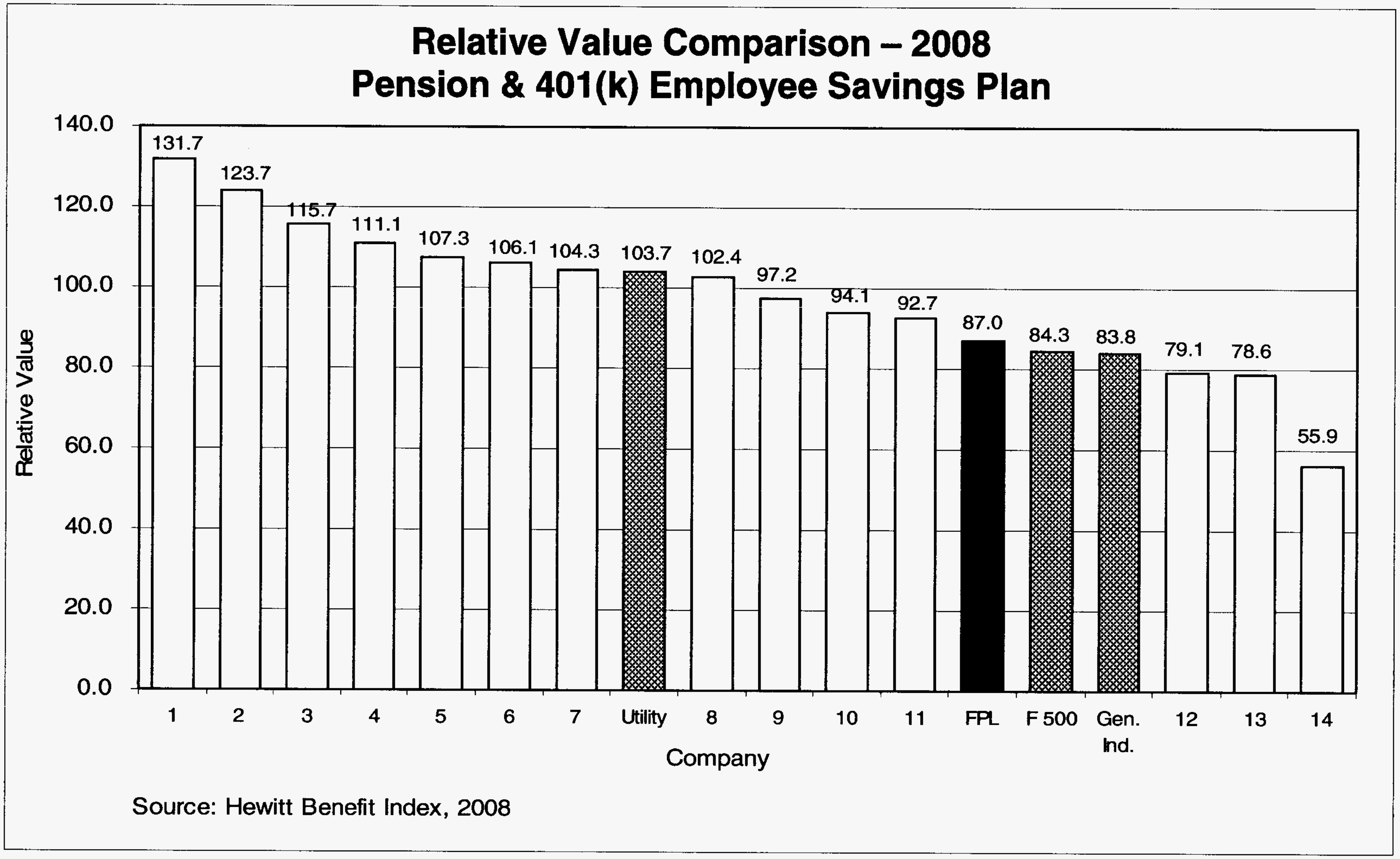
Average Medical Cost per Employee
2003 - 2010



Source: Hewitt

FPL's medical plan cost per employee has been consistently below utility industry benchmarks.

Docket No. 080677_EI
Average Medical Cost per Employee
2003-2010
Exhibit KS-8, Page 1 of 1



- Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: American Electric Power, Consolidated Edison, Constellation Energy, Dominion Resources, Duke Energy, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise, Reliant Energy, Southern Company

The relative value of FPL's retirement plans is well below those of other utilities and comparable to those of general industry and Fortune 500 companies.