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

REBUTTAL TESTIMONY & EXHIBIT OF:

KATHLEEN SLATTERY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

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DOCKET NO. 080677-EI

AUGUST 6, 2009

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. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following rebuttal exhibit:

- KS-10, Endnotes to Rebuttal Testimony of Kathleen Slattery

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this testimony is to rebut the testimony of Office of Public Counsel (OPC) witness Brown regarding FPL's (FPL or the Company) compensation and benefits plan. Specifically, I recap FPL's total compensation and benefits philosophy, demonstrate the reasonableness of the costs, and explain why it is important to allow FPL flexibility in designing the optimal components of the program. I also identify inaccuracies and refute assertions witness Brown makes with respect to staffing and payroll, and incentive compensation. Lastly, the testimony demonstrates why the Company's incentive plans provide for improved performance and serve the needs of all constituents, particularly customers.

SUMMARY

Q. Please summarize your rebuttal testimony.

A. No witness in this case has shown or even suggested that FPL's total compensation and benefits costs are too high or otherwise unreasonable. Neither has any witness alleged that FPL's performance has in any way been less than stellar. As I explained in my direct testimony, this is a true litmus test of a company's hiring and compensation policies, a test that FPL certainly passes.

The only witness to take issue with any aspect of FPL's compensation and benefits plan is OPC witness Brown, whose testimony completely misses the mark by focusing on design mechanics and performing theoretical exercises. Compensation is not an exercise in accounting or mechanics, but an overall approach and philosophy. Whether intentionally or not, she has failed to evaluate total compensation and benefit costs and has demonstrated a lack of understanding of what it takes to attract and retain an engaged, high-performing workforce. In isolating the incentive compensation component and focusing on only one side of the total rewards equation, she has failed to recognize the Company's foresight and proactive measures to address the talent management challenges of the last decade and to position the Company well for the future.

With the overarching goal of motivating superior performance, an objective that benefits both customers and shareholders, the Company realigned its pay and benefit programs, shifting value from fixed-cost benefit programs to more flexible pay programs, while controlling total compensation and benefits program costs. My direct testimony provided evidence of the reasonableness of FPL's total compensation and benefits costs as measured by inflation indices, market surveys, and benchmark comparisons with competitors. In addition, total compensation and benefit costs are in line with other Florida investor-owned utilities as evidenced by commonly filed documents (MFR C-35) for the most recent dockets, even without considering differences in size, scale, complexity, and cost of living. Finally, the results—the Company's superior operating performance and comparatively low rates—show that the programs are working.

My rebuttal testimony describes why it is important to allow the Company flexibility in designing the optimal components of its total rewards program, so that FPL can maximize economic efficiency and attract, retain and engage the employees who are the engine that drives the performance-based culture that has directly benefited customers. My testimony is supported by FPL witness Richard Meischeid of Towers Perrin who expands on the value and prevalence of including variable and incentive pay programs in this total rewards mix in order to ensure that FPL is competitive in the employment market and can continue to attract and retain the talent necessary to build on its history of superior performance for customers. FPL witness Meischeid will also provide testimony on the need for market competitive executive pay programs in driving value for customers.

TOTAL COMPENSATON AND BENEFITS EXPENSE

Q. Is FPL's projected total compensation and benefits expense for 2010 and 2011 reasonable?

A. Yes. As previously demonstrated in direct testimony (Exhibit KS-1), FPL's projected total compensation and benefits expense is fair and reasonable. The reasonableness of the cost is clearly evident when the growth in the cost is compared to inflation indices, such as CPI and WorldatWork. The result shows that FPL's actual costs are in line with CPI inflation, and lower than the projected values customers would have experienced if cost grew in line with the wage-based inflation index published by WorldatWork. The comparison of FPL's compensation cost to those of other utilities provides another useful measure of reasonableness, and, as demonstrated in my direct testimony (Exhibit KS-4), total compensation is lower than most comparable utilities on a per employee, per operating revenue, and per customer basis. Finally, the reasonableness of FPL's benefits programs is demonstrated through the use of an analytical survey that benchmarks the plans to those of peers, and the relative value of the Company's benefits plans is consistently below average when compared to its peers in the utility industry.

Q. OPC witness Brown has taken issue with specific components of FPL's total compensation. In your view, is it appropriate to consider the individual components on a stand alone basis?

A. No, it is not appropriate to analyze the various components of total compensation separately. As stated in my direct testimony, FPL employs a total rewards approach. One of the stated objectives of this approach is to control fixed costs by placing emphasis on variable pay rather than fixed pay and traditional benefits. The strategic emphasis on variable pay rather than fixed salary costs lowers the Company's exposure to steadily increasing salary and fringe benefit costs and adds flexibility in recognizing performance. This approach has worked. FPL witnesses Santos, Stall, Hardy, Spoor, Keener, and Bennett have all detailed the types of superior performance and cost management that FPL has been able to drive with its total rewards program and pay for performance culture.

PAYROLL AND STAFFING LEVELS

Q. OPC witness Brown has made recommendations for FPL's required staffing and payroll for 2010 and 2011. Has she evaluated the required staffing level in view of FPL's specific workload or productivity measures?

A. No. She has relied on historical staffing levels, but has evidently made no attempt to analyze FPL's specific productivity measures or workload trends.

Q. Please explain the gap between forecast and actual staffing that OPC witness Brown has identified?

A. The staffing-level forecasts are management's reasonable estimates of what is required to do the work based on optimal staffing levels. Every effort is made to fill the forecast positions, but a number of factors have made it increasingly difficult for the Company to fill all open positions. Among these are the massive fluctuations in the South Florida housing market, limited availability of a technical and engineering related labor force, workforce demographics including growing numbers reaching retirement eligibility, and the fiscal constraints the Company has placed on the competitiveness of its pay and benefits package. All of these factors have historically resulted in the hiring process lagging slightly behind expectations. But this does not mean that the Company does not incur the costs corresponding to the budgeted headcount in ensuring that the budgeted work is completed.

Q. Citing the observed historical gap between budgeted and actual staffing, OPC witness Brown recommends a staffing level, and corresponding payroll reductions, for the 2010 Test Year. Should the Commission accept that analysis?

A. No. Her conclusion is premised on the incorrect assumption that there is a direct and predictable correlation between staffing levels and the payroll budget or between staffing levels and revenue requirements. FPL has historically estimated employee projections based on optimal staffing levels, but historically somewhat under-estimates salaries and wages. This is because FPL budgets employee projections at the staffing level necessary to most efficiently get the work done to ensure the Company delivers on its commitments to customer service and reliability. However, market conditions and workforce demographic factors have caused the Company to fall slightly short of its staffing goals. The result is that the Company has to sometimes rely on less efficient staffing models (such as contractors, outsourcing, overtime, etc.), which drive costs up. In order to insulate customers from these potentially higher costs, the Company focuses on total compensation and benefits at needed staffing levels when formulating its forecast. Therefore, the recommendation made by OPC witness Brown, which only considers one input in a dynamic equation, makes no sense, underestimates FPL's actual costs, and should be rejected.

Q. Have you reviewed the analysis OPC witness Brown performed in recommending adjustments based on FPL's historic staffing levels?

A. Yes. Witness Brown's calculations are a creative attempt to make an argument we all intuitively know to be false--that it is somehow more efficient to incur labor costs at overtime rates. Witness Brown appears to facilitate this false premise by underestimating the amount of overtime necessary to fill the gap left by open positions. In addition, witness Brown's technique is baffling, selectively excluding the Distribution business unit due to an observed variance, but ignoring significant variances in other business units, such as Transmission and Human Resources, for purposes of her calculations. No effort was made to question the underlying drivers of the staffing changes. Moreover, while OPC witness Brown's calculations seem quite complicated, they fail to take several basic costs associated with less than ideal staffing into account, including but not limited to the following: (1) under FPL's existing collective bargaining agreement, some overtime work requires that FPL provide compensation in excess of the time-and-a-half pay she modeled; (2) employees working excessive overtime are less productive and efficient than employees working standard hourly schedules, resulting in the need to pay for excess labor hours (at premium rates); and (3) the stress of increased work demands on existing employees leads to increased healthcare, benefits costs, and other costs associated with retaining and engaging these employees. The bottom line is that FPL's business unit leaders have developed reliable methods to determine the work hours they need to continue reliable performance for customers, and no witness, including OPC witness Brown, has shown why those methods should be criticized or second-guessed. The Company based its forecast on the optimal staffing levels which were developed through these methods and which correspond to this workload.

Q. Given that FPL's historic staffing levels have fallen slightly short of the targeted staffing levels set in the budget process, has history supported OPC witness Brown's theory that vacancies will cause costs to go down?

A. No. The historical budget impact has been exactly what one would expect. Because of the inefficiencies I have previously discussed, the Company's historical experience is that vacancies have resulted in actual gross payroll (including overtime) *exceeding* the budget projections. This, not headcount, is the appropriate measure of FPL's true costs.

INCENTIVE COMPENSATION

Q. Are cash annual incentive compensation and long-term incentive compensation plans necessary components of a total rewards package?

A. Yes. As stated in the testimony of FPL witness Meischeid, performance-based variable pay programs are a required element of a competitive total pay and benefits package in the utility industry. Furthermore, without them FPL would not be able to compete with general industry companies for staff and leadership talent. A competitive annual incentive and long-term incentive program is a critical strategy for retaining employees, attracting new talent and motivating desired performance and behaviors. A company without such programs is at a distinct disadvantage in a talent market already stressed by changing workforce demographics and skills shortages.

Q. Do you have concerns with OPC witness Brown's testimony regarding FPL's incentive compensation?

A. Yes. In her testimony, OPC witness Brown raises three issues regarding incentive compensation: (1) the relative shareholder orientation of FPL's incentive programs; (2) the mechanics FPL employs in accruing incentive compensation in the budgeting process; and (3) FPL's management of the executive compensation programs in light of current economic conditions. OPC witness Brown's portrayal, her analysis and her recommendations regarding each of these issues are inaccurate.

Q. What concerns do you have with OPC witness Brown's efforts to characterize FPL's incentive plan as shareholder and not customer-oriented?

A. OPC witness Brown's emphasis on FPL's annual proxy statement as support for her contention that FPL's incentive compensation approach serves primarily to further the interests of the Company's shareholders is simply misguided. Her testimony on this issue reflects a trendy (among consumer advocates), but inaccurate, representation of both the intent and effect of what is a high quality, well-designed compensation policy that has helped to produce overall superior performance in FPL's operations and cost control, with direct benefits to FPL's customers. These results and the benefits to FPL's customers are described in detail by FPL witness Reed in both his direct and rebuttal testimony.

Q. Please elaborate.

A. The basic problem with OPC witness Brown's position on this point is that the interests of shareholders and customers are *not* mutually exclusive. For example, where FPL's management and employees succeed in increasing fuel efficiency, bringing capital projects in at or under budget, improving productivity, or otherwise controlling costs, the Company's customers directly benefit. Thus, the Company's executive total compensation and benefits program serves all of FPL's major constituents well. To maintain her position, she must improperly ignore the benefits to customers of FPL's overall compensation program and the individual elements of the program that serve the interests of shareholders and customers.

In support of her position that FPL's executives work for shareholders to the exclusion of customer interests, OPC witness Brown has selectively quoted from FPL Group, Inc.'s Proxy Statement (DEF 14A-Definitive Proxy, dated April 3, 2009). As I have stated, OPC witness Brown fails to acknowledge the overarching philosophies and objectives of a well-designed compensation program and the alignment of both shareholder and customer benefits. But even beyond that, in order to sustain her position she must ignore the more thorough discussion of FPL's compensation program described in the same Proxy Statement. Page 38 of this Proxy Statement, for example, states, "The Compensation Committee and the Board believe that it is in the best interest of the Company, its shareholders and its important non-shareholder interest groups (such as customers, regulators and employees) to have highly-talented, able, highly-motivated and high-performing leaders who can sustain and improve upon the Company's strong performance and manage the Company appropriately in all economic circumstances."

The discussion on this page goes on to state the importance of a competitive executive compensation and benefits program to all constituents: "Proven, capable senior leaders who know the Company, have continuity with recent industry and Company experience, are of high character and have a track record of success are extremely valuable. Those individuals are attractive to competitors and have many other opportunities available to them, both in public companies and in other sectors of the economy. The cost of locating or developing alternative executives, whether internally or through external recruiting, is high."

Q. OPC witness Brown has pointed to the financial matrix published in the Company's Proxy Statement (Exhibit SLB-16) in support of her contention that the Annual Incentive Plan is shareholder, and not customer-oriented. Is this an accurate representation of the plan's mechanics?

A. No. OPC witness Brown's representation of FPL's incentive plan needs clarification. The Annual Incentive Plan described by OPC witness Brown in her testimony on pages 46 through 48 is a Plan document that covers only the Executive Officers, a group limited to only 13 senior officers of Florida Power & Light Company and FPL Group, Inc. OPC witness Brown implies the specific elements of this Plan apply to all executives or for that matter to all employees; they do not. The purpose of having a very specific plan for this small number of executives is to ensure deductibility of the related compensation expense under Section 162m of the Internal Revenue Code, which contains very specific requirements to ensure that performance-based compensation paid to proxy-named officers is tax deductible. To ensure that no annual incentive compensation deduction is lost, FPL makes all senior officers subject to the plan since the five or six who will be named in the proxy may change over time.

OPC witness Brown further implies, on page 48, that the Annual Incentive Plan's financial matrix developed at the beginning of 2008 and tied to FPL Group EPS growth and ROE impacted the payout of awards to all executives, when in fact it only impacted the top 13 officers as described above. The financial matrix is only applicable to the top 13 officers and only for a portion of their award determination. For all officers below the top 13, only the "operating indicators" are applicable.

However, with regard to the 13 people to whom this financial matrix does apply, it is both appropriate and fundamental to their overall roles within the Company to consider some financial metrics in connection with the performance of these individuals. The fallacy in OPC witness Brown's position is that these indicators benefit only shareholders, and she could not be more wrong. It would be detrimental to customers if in fact the Company's compensation package did not encourage senior management to keep the Company financially strong. As FPL witnesses Avera and Pimentel describe in detail in their testimony, a financially strong company has greater access to capital and a lower cost of capital, which in turn benefits customers through a lower cost structure and lower rates. The fact that shareholders also benefit should be irrelevant to the discussion if the Company's overall compensation program and incentive structure are reasonable and produce customer benefits. In theory, every action that FPL's management and employees take benefits the Company's shareholders through the prudent investment in and operation of the necessary plant to meet the Company's obligation to serve. Such actions are what allow the Company's shareholders to earn a return of and on their investment and the Company to recover the reasonable and prudent costs of service. This fact does not mean that payroll costs and incentive compensation are not properly charged as a cost of the utility's service.

Q. Did OPC witness Brown recommend any adjustment to the Company's recovery of incentive pay?

A. Yes. OPC witness Brown has recommended that the Commission disallow 50% of the plan cost with no real discussion of the overall reasonableness and effectiveness of the program.

Q. On what basis does OPC witness Brown make this recommendation?

A. OPC witness Brown alleges in her testimony that, "Financial factors, such as those recognizing earnings, income, and shareholder returns recognize benefits that accrue to shareholders at ratepayer expense."

Q. Is this an accurate assumption?

A. No. As I have previously discussed, it is inaccurate to assume that the interests of customers and those of shareholders are mutually exclusive. Both benefit from the strong financial performance of FPL. To the extent that the performance goals underlying the incentive plans result in increased efficiency and productivity, it is true that shareholders benefit, but ultimately such improvements in efficiency and productivity are reflected in lower revenue requirements and lower rates for customers. In addition, the participants in FPL's incentive plans work to ensure the Company achieves its goals of providing customers with safe and reliable service. The participants also work toward providing an adequate return to shareholders, which indirectly benefits customers by having a Company that is able to attract needed capital at a reasonable cost to deliver on its promise to provide safe and reliable service to customers. Thus, both shareholders and customers benefit.

Q. OPC witness Brown asserts that only 50 percent of annual incentive and long-term incentive compensation expense should be included because both shareholders and customers benefit equally. Do you agree?

A. No. The underlying performance goals are heavily weighted toward providing benefits to customers. They promote service reliability, high-quality customer service, cost containment, financial efficiency, productivity, safety, and environmental stewardship. The entire amount of these programs should be allowed because they are a required component of a competitive total compensation and benefits package that allows the Company to attract and retain a competent, stable workforce and drive a high-performance organization. By retaining high-performing employees, FPL provides direct benefits to customers, who benefit not only from the experience and expertise of the retained employees but also from the containment of turnover costs arising from recruiting, assimilating, training and developing new hires. This is particularly critical at senior leadership levels, where continuity of the management team required to develop and implement effective business strategies which span a multiple-year period is imperative. In addition, performance-based incentive compensation programs help to manage pay and benefit costs because incentive awards must be "re-earned" each year, unlike traditional base pay and benefits which tend to increase each year without requiring a corresponding increase in performance.

OPC witness Brown's position would assume, incorrectly, that customers would receive the same level of performance and service if the incentive compensation of employees were simply cut by the amount she recommends that the Commission disallow from the Company's cost of service. Similarly, her position implicitly and incorrectly assumes that shareholders wouldn't benefit at all if either (a) employees' compensation was cut by the amount she recommends the Commission disallow or (b) particular incentive factors that she claims are shareholder-oriented, were simply replaced with other factors. Her position is simply a results-oriented approach to lower FPL's cost of service. Simply stated, to disallow any portion of these costs because shareholders also benefit from the work that employees perform is not only nonsensical, but effectively deprives the Company of its true cost of providing high quality electric service and would send precisely the wrong signal to utilities regulated by the Commission and the labor markets in which they compete.

Q. OPC witness Brown provides a list of regulatory decisions from other jurisdictions to support her request to remove 50% of FPL's prudently incurred incentive compensation. How much weight should the Commission give this information?

A. None. The Commission should make a decision based on its own regulatory history and practice, the public policy it wishes to maintain in Florida, and the prudence and reasonableness of FPL's costs. Those decisions are a misguided and short-sited approach to the evaluation of the reasonableness of utility compensation plans and the Commission should not give them any deference.

Specifically, the removal of prudently incurred costs that clearly benefit customers, merely because some components of these costs may also provide benefits to shareholders, does not make sense from a regulatory perspective. The correct inquiry in Florida (and most jurisdictions) has been, and should remain, whether FPL's projected total compensation and benefits expense is reasonable. This standard has been affirmed in recent proceedings in a number of jurisdictions[1] and should be applied by this Commission.

Q Please summarize why it would be inappropriate to disallow 50% of the cost of the incentive plans as recommended by OPC witness Brown?

A. There are four primary reasons: (1) the plans are part of a competitive total rewards program that has been demonstrated to be prudent, reasonable and generating the desired results; (2) the incentive plan relies heavily on operating performance to determine employee payouts; (3) the motivational features of the incentive plan provide direct benefit to customers; and (4) strong financial performance by FPL ultimately benefits customers.

Q. In her testimony, OPC witness Brown also objects to the mechanics FPL employs in accruing cash annual incentive compensation and Performance Share Award equity expense. Why are FPL's accrual method and corresponding budgeting process appropriate and necessary?

A. FPL's accrual method is appropriate and necessary because accounting rules require it. Specifically, Generally Accepted Accounting Principles (GAAP) accounting rules require that the stock awards be expensed ratably as they vest, and that the annual incentive awards be expensed as earned, at levels which will reasonably cover the expected liability, which is generally interpreted as a requirement to accrue current period awards based on historic aggregate payout levels. FPL regularly validates the assumptions used in the accrual of its incentive compensation to ensure that Financial Accounting Standards Board and Sarbanes-Oxley requirements are met. FPL then budgets expense accordingly.

Q. What is OPC witness Brown's specific objection to the mechanics used by FPL to budget and accrue cash annual incentive compensation and Performance Share Award equity expense?

A. Of the numerous assumptions that FPL employs in developing its incentive compensation budgets, OPC witness Brown has objected to only one, the performance assumption. In so doing it appears that witness Brown has misunderstood FPL's internal mechanism used to measure performance. As I will explain below, if her position is accepted on this point, FPL will under recover its actual compensation expense.

The performance factor is a percentage determined through assessment of whether the Company and business unit operational performance metrics have been achieved, exceeded or missed, and the degree of difficulty of achieving each metric. FPL sets performance objectives that are generally equal to or better than top quartile performance and assesses performance accordingly. The maximum performance multiple allowed under the annual incentive plan is 200%. Given the Company's superior performance record, FPL's historic performance multiples have always been somewhere between the plan maximum and the baseline the Company has set. FPL's scale for measuring operating performance has been consistent for many years.

Based on the Company's historic performance and corresponding aggregate payout levels, FPL sets budgets and accrues awards based on an assumed performance of 30% to 40% above the baseline. This practice has also been consistent for many years and the performance assumptions used for the 2010 Test Year and 2011 Subsequent Year are consistent with the historic years.

Q. How is this performance assumption used in the budgeting process?

FPL's annual incentive program establishes for each salaried employee a baseline annual incentive award applicable to his or her role, expressed as a percentage of base pay. Similarly, for key employees who are nominated for Performance Share Awards, such awards are communicated to recipients as a number of shares subject to a performance factor. These starting points serve as an internal calibration tool and a means of communicating awards to employees. The aggregate award total of all participants is multiplied by a performance factor assumption, based on historic actual performance factors, of approximately 30% to 40% above the baseline to determine the required accounting expense and budget for FPL's incentive compensation programs.

Q. Is this a typical practice in incentive compensation design and administration?

Yes. A review of proxy statements of investor-owned utilities shows this is a common design and practice. Specifically, the annual proxy statements filed in each of the past three years by peer group companies show that the median payouts of annual incentive awards to proxy named officers have been well above 100% of the officers' pre-established "target" awards. Each company takes a different approach to setting incentive compensation expectations for its annual incentive plan participants, which is why FPL emphasizes benchmarking of <u>actual</u> incentive payouts in the peer group companies (rather than "target" annual incentive pay); it is the only way to ensure an apples-to-apples comparison and is therefore the most accurate view of market competitive incentive pay.

Q. If historically, FPL has consistently paid out cash annual incentive compensation and Performance Share Awards at a certain level, then why has FPL not adjusted the baseline level of these awards?

A. There is no reason to make changes to thoughtfully designed programs that work exactly as intended. FPL's incentive programs have worked to drive performance of our employees and business units, just as they were designed to do, as evidenced by the Company's superior performance. Furthermore, the calculations in question are merely an internal mechanism used to distribute performance-based compensation with enough variability among business units and individuals so that the payouts are meaningful with respect to each business unit's and each individual's contributions. The aggregate payout levels of FPL's programs are forecasted and budgeted with confidence based on expected performance and historic payout levels, which are in turn validated for appropriateness through benchmarking. This variability in payouts is an effective performance management tool which motivates the workforce to perform at high levels.

Q. Has witness Brown challenged any other assumptions used to develop the test year or subsequent year incentive compensation budgets?

A. No, nor has witness Brown challenged the overall reasonableness or prudence of the proposed expense.

Q. Would FPL need to consider restructuring its total compensation package if any incentive compensation expenses were excluded?

A. Yes. FPL would need to consider reallocating total compensation and benefits so as to reduce performance-based compensation programs while raising base salaries and/or other traditional fixed-cost programs. This would raise costs to customers in the long run. Doing so would also negatively affect the Company's performance and impede the ability to compete in attracting and retaining the talent needed to deliver on commitments to customers. Penalizing utilities that shift from traditional fixed-cost programs to more flexible, performance-based programs would encourage inefficient program design that would negatively affect performance and harm customers.

Q. OPC witness Brown has suggested that equity-based long-term incentive awards should be disallowed because they do not represent a cash outlay, referring to them as "paper" expenses. Is this a logical position?

A. No. Many components of revenue requirements are non-cash as rates are set on the basis of financial or GAAP accounting which is accrual, and not cash based. This same argument, if extended, would disallow recovery of all of the Company's depreciation expense among other such "non-cash" costs.

The Commission has already expressly recognized the appropriateness of the use of GAAP accounting in rates for purposes of deferred compensation expenses such as pension cost. (Order No. PSC-92-1197-FOF-EI in Docket No. 910890-EI, Petition for a rate increase by Florida Power Corp.) This is no different. The accrual amount is included in revenue requirements, not the cash benefits paid.

Finally, the Company sometimes utilizes a stock repurchase program under which it purchases on the open market many of the shares used to satisfy awards under the long-term incentive plan. Equity compensation may therefore be provided through the new issuance of shares or through stock repurchase as deemed appropriate by the Company's Treasurer.

Q. In her testimony, OPC witness Brown makes a largely unsubstantiated statement that FPL has not considered the impacts of the current economic climate in managing its executive compensation program. Is this observation correct?

A. No. OPC witness Brown's testimony on this issue is not accurate. Her conclusion is inconsistent with information included in the Company's filing, and the two documents from the record that she cites to support her thesis actually support the opposite conclusion–that the Company has diligently monitored the impact of the declining economic conditions on corporate pay practices and has made adjustments to its initial merit pay increase program that are consistent with the trends occurring in the market.

Q. You mention two documents relied upon by OPC witness Brown. Can you provide more detail about these documents?

A. Yes. OPC witness Brown attempts to support her conclusion by supplying an internal FPL presentation developed in January of 2009 reporting the market data the compensation group had obtained from a number of sources on potential adjustments to merit pay budgets at other companies. In addition, OPC witness Brown paraphrases conclusions from a study by Watson Wyatt on the effects of the economy on executive compensation programs. In both cases, the information that OPC witness Brown selectively cites does not provide the whole, or even an accurate picture. The internal presentation is a perfect example of the type of diligence and rigor the Company provides to ensure that its pay programs are providing an appropriate and prudent level of benefits. Specifically, the presentation revealed that while companies had initially reported that their annual merit pay increases would be somewhere between 3.6% and 3.8%, updated benchmarking revealed that actual average salary increases would likely fall in the 2.5% to 2.9% range. As a result the Company reduced its 2009 merit pay increase budget to 2%, significantly below the average levels reported in each of the benchmarking surveys analyzed. With regard to the Watson Wyatt survey, OPC witness Brown neglected to mention that nearly 50% of the companies reported taking the same action as FPL (i.e. reducing their salary increases to reflect market conditions). Moreover, OPC witness Brown's testimony implies that a large proportion of companies are reducing their bonus and long term incentive opportunities. However, the data from the Watson Wyatt report leads one to the opposite conclusion. Specifically, less than 10% of the companies surveyed reported that they had reduced baseline bonus opportunities and only 11% reported having decreased performance based long-term incentive award opportunities.

Q. What conclusion can be drawn from the information OPC witness Brown provided on FPL's management of its executive compensation program?

A. I believe that a clear conclusion can be drawn. Specifically, FPL has been very actively engaged in monitoring the changing economic climate and has made prudent adjustments to its pay programs where appropriate. There is a reason that OPC witness Brown had a wealth of resources from which to selectively quote--these were documents that were provided to her by FPL during discovery. It is because the documents were collected and/or developed by the Company as part of an extremely thorough process through which pay levels are set and reviewed, indicative of the Company's efforts to establish a high quality, performance driven compensation plan that continues to deliver benefits to FPL's customers.

Q. Does OPC witness Brown in any way challenge the overall reasonableness of the total compensation and benefits package?

A. Importantly, she does not. And that is the real test of any total compensation and benefits plan. FPL's plan has been demonstrated to be prudent and reasonable, and supported the Company's achievement of superior performance.

Q. Does this conclude your rebuttal testimony?

A. Yes.

EXHIBIT KS-10

ENDNOTES TO REBUTTAL TESTIMONY OF KATHLEEN SLATTERY

[1] See e.g., Application of Suburban Water Systems (U339W) for Authority to Increase Rates Charged for Water Service, Decision 09-03-007; Application 08-01-004, California Public Utilities Commission 2009 Cal. PUC LEXIS 148 (March 13, 2009, Issued; March 12, 2009, Dated; January 2, 2008, Filed); WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP D/B/A PACIFIC POWER & LIGHT COMPANY, Respondent, In the Matter of the Petition of PACIFIC POWER & LIGHT COMPANY For an Accounting Order Approving Deferral of Certain Costs Related to the MidAmerican Energy Holdings Company Transition, DOCKET UE-061546; ORDER 08; DOCKET UE-060817; ORDER 08, Washington Utilities and Transportation Commission, 2007 Wash. UTC LEXIS 387; 257 P.U.R.4th 380 (June 21, 2007); WEST VIRGINIA-AMERICAN WATER COMPANY, Tariff Rule 42 application to increase water rates and charges, CASE NO. 03-0353-W-42T, West Virginia Public Service Commission, 2004 W. Va. PUC LEXIS 6; 231 P.U.R.4th 423 (January 2, 2004); IN THE MATTER OF THE APPLICATION OF ARKANSAS WESTERN GAS COMPANY FOR APPROVAL OF A GENERAL RATE CHANGE IN RATES AND TARIFFS, DOCKET NO. 02-227-U; ORDER NO. 17, Arkansas Public Service Commission, (2003 Ark. PUC LEXIS 397) Consumers Pennsylvania Company -- Roaring Creek Division, PENNSYLVANIA PUBLIC UTILITY COMMISSION, 1997 Pa. PUC LEXIS 141 (October 14, 1997) In the Matter of the Application of The Cincinnati Gas & Electric Company for an Increase in its Electric Rates for its Entire Service Area.