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STEEL
HECTOR
& DAVIS

Steel Hector & Davis LLP
200 South Biscayne Boulevard
Miami, Florida 33131-2398
305.577.7000
305.577.7001 Fax
www.steelhector.com

January 28, 2002

John T. Butler, P.A.
305.577.2939
jbutler@steelhector.com

- VIA HAND DELIVERY -

Ms. Blanca S. Bayó
Director of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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COMMISSION
CLERK

Re: Docket No. 001148-EI

Dear Mr. Bayó:

I am enclosing for filing in the above docket the original and fifteen (15) copies of the prefiled testimony and exhibits for the following Florida Power & Light Company ("FPL") witnesses:

	Mark R. Bell 01061-02	K. Michael Davis 01067-02
	M. Dewhurst 01062-02	Paul J. Evanson 01068-02
	William W. Hamilton 01063	Steven P. Harris 01069-02
01064	Dr. J. Stuart McMenamin	Rosemary Morley 01070-02
	Armando J. Olivera 01065	James K. Peterson 01071-02
	John M. Shearman 01066	Samuel S. Waters 01072-02

FPL is filing these witnesses' testimonies today in accordance with Order No. PSC-02-0089-PCO-EI, dated January 15, 2002. FPL's witnesses sponsor and explain the MFRs FPL has previously filed in this docket. Together with the MFRs, their testimonies demonstrate that FPL's 2002 test year results do not support any reduction in FPL's base rates.

- AUS _____
- CAF _____
- CMP _____
- COM Stay
- CTR _____
- ECR _____
- GCL _____
- OPC _____
- MMS _____
- SEC _____
- OTH _____

Sincerely,

John T. Butler, P. A.

Enclosures
cc: Counsel of record (w/copy of enclosures)

RECEIVED & FILED

[Signature]
FPSC BUREAU OF RECORDS

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the prefiled testimony and exhibits of Mark R. Bell, K. Michael Davis, M. Dewhurst, Paul J. Evanson, William W. Hamilton, Steven P. Harris, Dr. J. Stuart McMenamain, Rosemary Morley, Armando J. Olivera, James K. Peterson, John M. Shearman and Samuel S. Waters were served by hand delivery (*) or overnight delivery this 28th day of January, 2002 to the following:

Robert V. Elias, Esq.*
Legal Division
Florida Public Service Commission
2540 Shumard Oak Boulevard
Room 370
Tallahassee, FL 32399-0850

Florida Industrial Power Users Group
c/o John McWhirter, Jr., Esq.
McWhirter Reeves
400 North Tampa Street, Suite 2450
Tampa, FL 33601-3350

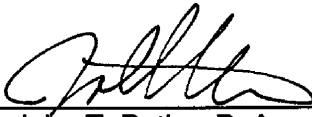
Thomas A. Cloud, Esq.
Gray, Harris & Robinson, P. A.
301 East Pine Street, Suite 1400
Orlando, Florida 32801

J. Roger Howe, Esq.
Office of the Public Counsel
c/o Florida Legislature
111 W. Madison Street
Room No. 812
Tallahassee, Florida 32399-1400

Michael B. Twomey, Esq.
Post Office Box 5256
Tallahassee, FL 32314-5256

Andrews & Kurth Law Firm
Mark Sundback/Kenneth Wiseman
1701 Pennsylvania Ave., NW, Suite 300
Washington, DC 20006

Joseph A. McGlothlin, Esq.
Vicki Gordon Kaufman, Esq.
McWhirter Reeves
117 South Gadsden
Tallahassee, FL 32301

By: 
John T. Butler, P. A.

SCANNED

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 001148-EI
FLORIDA POWER & LIGHT COMPANY**

JANUARY 28, 2002

**IN RE: REVIEW OF THE RETAIL RATES
OF FLORIDA POWER & LIGHT COMPANY**

TESTIMONY & EXHIBITS OF:

JAMES K. PETERSON

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
TESTIMONY OF JAMES K. PETERSON
DOCKET NO. 001148-EI
JANUARY 28, 2002

Q. Please state your name and address.

A. My name is James K. Peterson. My business address is 700 Universe Boulevard, Juno Beach, FL 33408.

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

A. I am employed by Florida Power & Light Company (FPL) as Director, Human Resources. I am responsible for the Compensation and Benefits program at FPL. I am also responsible for the Human Resources/Corporate Services (HR/CS) planning and budgeting process, which includes the Aviation Department and Corporate Real Estate.

Q. Please state your education and business experience.

A. I have been employed by FPL for twenty-six years, held various management positions in Human Resources and have been responsible for the Compensation and Benefits functions for the last ten years. I have a Bachelor of Science degree from the University of Minnesota and have attended various management development programs, including the University of Michigan Advanced Human Resources Program. In addition, I have been involved in various activities within the State, such as the Governor's Task Force on

1 Health Care and the Hospital Cost Containment Advisory Board. I also have
2 served as the Chairman of the Board of the Florida Health Coalition whose
3 purpose was to reduce the cost of health care and improve the quality of life
4 for employees within the State of Florida.

5 **Q. Have you previously submitted testimony to the Florida Public Service**
6 **Commission?**

7 A. In 1984, I testified before the Florida Public Service Commission, Docket No.
8 830465-EI concerning FPL's Dental Plan.

9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to present and explain an overview of the
11 payroll and fringe benefits expenses as shown in MFR C-33 and MFR C-66,
12 demonstrating that FPL's payroll and fringe benefit expenses are reasonable.
13 In addition, I will demonstrate that FPL operates an efficient, safe and cost-
14 effective Corporate Aviation Department.

15 **Q. Have you prepared or caused to be prepared under your supervision,**
16 **direction and control exhibits in this proceeding?**

17 A. Yes, I have. I have one exhibit consisting of thirteen (13) documents.

18 **Q. What MFRs do you sponsor?**

19 A. I sponsor C-33 and C-66; and co-sponsor B-10, B-12a, B-13b, B-20, B-27, B-
20 28a, C-8, C-12, C-31, C-65, F-5, F-6, F-7 and F-17. MFR C-33 was originally
21 filed on October 1, 2001. A revised version of this MFR was filed as part of
22 the October 15, 2001, MFR filing, reflecting the addition of information on

1 gross payroll that was not originally available. When I refer to MFR C-33
2 herein, I will be referring to the October 15 revision.

3

4 Subsequent to the October 15 MFR filings, the Company updated certain
5 MFRs on November 9, 2001, for the September 11 events and deteriorating
6 economic conditions. As indicated in the testimony of Mr. Davis, included in
7 the update is an \$11,900,000 increase to the Company's pension and the post
8 retirement medical benefit expense. The net impact on the figures shown in
9 MFR C-33 is \$8,207,000, which is comprised of an increase of the retirement
10 plan expense from (\$109,740,000) to (\$103,461,000), (Line 11), and an
11 increase of the post retirement medical benefit expense from \$26,510,000 to
12 \$28,438,000 (Line 20). The total retirement plan expense credit shown on
13 Lines 11 and 12 of MFR C-33 will change from \$86,325,000 credit to
14 \$80,046,000 credit. These adjustments increase FPL's total fringe benefit
15 expense shown on Line 26 of MFR C-33 from \$62,191,000 to \$70,398,000.
16 The total payroll and fringes shown on Line 28 of MFR C-33 will change
17 from \$752,905,000 to \$761,112,000, a percentage change of 1.09%. I will
18 refer throughout the remainder of my testimony, only to the updated expense
19 levels.

20 **TOTAL COMPENSATION AND BENEFITS**

21 **Q. What are FPL's total compensation and benefits expenses for the test**
22 **year?**

1 A. FPL's total compensation cost, wages and benefits, per the November 9
2 update, is \$761,112,000. The average number of employees forecasted for the
3 test year is 10,124. FPL has projected approximately 4,132 exempt
4 employees, 2,525 non-exempt employees and 3,467 union employees in 2002.
5 Exempt employees are classified as managerial, supervisory and professional
6 employees.

7 **Q. What is FPL's compensation and benefit philosophy reflected in MFR**
8 **C-33?**

9 A. There are four primary components of FPL's compensation philosophy. First,
10 we want to offer a compensation and benefit program to competitively reward
11 our employees based on national and local comparative markets. Second, our
12 compensation program reflects a pay for performance philosophy, linking
13 total cash compensation to attainment of corporate goals. Third, our objective
14 is for a total compensation program that emphasizes cash compensation rather
15 than traditional benefits. Fourth, we strive to keep FPL's total compensation
16 and benefit program expenses at a reasonable level. FPL's pay for
17 performance philosophy was an important factor in achieving the efficiency,
18 reliability and customer service improvements addressed by other witnesses.

19 **COMPENSATION**

20 **Q. Could you elaborate on FPL's total compensation philosophy?**

21 A. FPL's philosophy has been, and continues to be, to provide competitive
22 salaries based upon individual performance and contribution to the
23 Company's key goals. The performance based pay programs have provided

1 the ability for FPL to develop a sense of employee commitment and
2 ownership in the performance of the Company.

3
4 FPL has made great strides in improving operational performance, including
5 improved efficiency, reliability and quality of service. FPL accomplished this
6 exceptional performance while making significant reductions in workforce,
7 from approximately 14,941 in 1988 to 10,124 in 2002. FPL determined that
8 the organization could effectively serve its customers and improve service
9 through automation of some services; for example, Customer Service has
10 improved work processes while reducing its workforce. During this same
11 period of time, FPL's customer base increased by approximately 984,633
12 while overall sales increased by 36,044,565 MWh. The result of these efforts
13 is that FPL's projected 2002 overall total compensation costs (payroll and
14 benefits) are only 3.6% (\$26,169,000) higher than our levels reviewed and
15 approved by the Commission in the 1988 Tax Savings Docket, Docket No.
16 890319-EU, as shown on Document JKP-1. This document shows that, if
17 FPL's total compensation costs had grown only at the rate of CPI, they would
18 have been nearly \$339 million higher than we project for 2002, and would
19 have been about \$600 million higher than our 2002 projections, if compared
20 to the market indices that the Commission has previously directed FPL to use
21 for comparison purposes.

22
23 Also, as shown in Document JKP-2, in the same docket, average total cash
24 compensation for FPL was shown to be \$42,505 per employee in 1988. If

1 FPL's cash compensation had increased consistently with the historical
2 cumulative growth projections taken from the National Average Wage Index
3 (the National Average Wage Index is tabulated by the Social Security
4 Administration and is used to ensure total wage increases of the general public
5 reflects the general rise in standard of living), average total cash compensation
6 in 2002 would total \$78,724 per employee. However, average total cash
7 compensation for FPL per employee in 2002 totals \$68,227, as reflected in
8 Document JKP-2.

9 **Q. How does FPL evaluate its compensation program?**

10 A. FPL's recruiting department searches nationally for personnel to fill
11 managerial, professional and technical positions, so FPL must remain
12 competitive in national as well as the local markets. FPL utilizes nationally
13 recognized third party sources to provide comparative data for other national
14 and regional companies, both in general industry and the utility industry. It is
15 important to utilize both general and utility comparative market information
16 since our workforce encompasses multi-industry talents. Some of the
17 information sources that FPL utilizes include:

- 18 • Towers Perrin, a national human resources consulting firm;
- 19 • World at Work, formerly the American Compensation Association, a
20 global not-for-profit association of more than 26,000 compensation,
21 benefits and human resources professionals;
- 22 • William M. Mercer Incorporated, a national human resources consulting
23 firm;

- 1 • Social Security Administration (National Average Wage Index);
- 2 • Bureau of Labor Statistics (the Consumer Price Index).

3 The 1988 Commission review utilized World at Work (formerly American
4 Compensation Association) market projections as well as a group of other
5 utilities.

6 **Q. How does FPL’s total cash compensation program compare to the**
7 **market?**

8 The Commission can review our total cash compensation cost and compare to
9 that of similar utilities, an approach approved in the 1988 Tax Docket
10 (Document JKP-3, page 2 of 2). Using the same comparison group, as shown
11 on Document JKP-3, page 1 of 2, FPL's relative position is essentially
12 unchanged for 2000 compensation expense (the most recent year for which
13 data is available). The exhibit clearly shows that FPL continues to be one of
14 the most efficient utilities from a total cash compensation standpoint. This is
15 true measured on a per employee, per customer, and per operating revenue
16 basis.

17
18 FPL's average total cash compensation levels are at market when compared to
19 other utilities and national third party sources of information, such as Towers
20 Perrin. Direct comparisons of FPL's average total cash compensation to
21 market are not available in market surveys, due to each company's unique job
22 mix. However, the average for FPL's cash compensation for any exempt or
23 non-exempt position is at or below market. There are exceptions where
24 particular positions cannot be filled by compensation at or below market due

1 to market demand or which are of strategic importance to the Company's level
2 of overall performance and reliability.

3 **Q. What other measurement is relevant to showing the reasonableness of**
4 **FPL's cash compensation?**

5 A. FPL has managed to keep cash compensation expense increases 15% below
6 the National Average Wage Index, as shown on Document JKP-2. In
7 addition, a comparison with the World at Work (formerly American
8 Compensation Association) index also reflects that the growth in FPL's
9 average cash compensation is 15% below that projected by World at Work.
10 Thus, there is a high degree of correlation between the National Average
11 Wage Index data and the World at Work index data. The National Average
12 Wage Index and World at Work index are more appropriate measures than
13 CPI. CPI increases have lagged behind actual salary increases for many years.
14 The growth in FPL's average salaries exceeds CPI growth, for the period from
15 1988 to 2002. However, when the average wage per employee that was
16 approved in the 1988 Tax Savings Docket is trended with market data from
17 the National Average Wage Index and the World at Work Index on Document
18 JKP-2, FPL is well below the trend. And, of course, my Document JKP-1
19 shows that FPL's 2002 total compensation cost is hundreds of millions of
20 dollars below the level that would be expected from trending of FPL's 1988
21 total compensation cost, even using CPI.

22 **Q. Describe how your pay for performance philosophy is demonstrated in**
23 **your cash compensation program.**

1 A. FPL's compensation philosophy, pay for performance, applies to all non-
2 union employees within the organization. Exempt employees are rewarded
3 based, not only their individual accomplishments, but also the success of the
4 organization.

5 **Q. Describe FPL's annual merit salary increase program and how this
6 program reflects your pay for performance philosophy.**

7 A. There are three components to FPL's annual salary performance-based review
8 program. The first component is a merit award to base payroll on an
9 individual's performance level and relative position in their market-based
10 salary range. The second component is a variable pay program, which
11 provides a lump sum incentive payment based on the achievements of the
12 individual as well as the Company. The third component of the salary
13 program provides select exempt employees with a long-term incentive award.

14 **Q. How does your annual salary program compare to market?**

15 A. As shown in Document JKP-4, the percentage increase of the total annual
16 merit salary base increases and lump sum incentive payments are below
17 market. Long-term incentive awards do not lend themselves to market
18 comparisons due to lack of comparability.

19 **Q. How is incentive compensation awarded?**

20 A. FPL's success is measured by performance indicators that include O&M
21 costs, operating efficiency milestones, such as plant availability, service
22 availability, customer reliability, quality of service, and financial indicators.
23 Our programs are designed to reward achievement for above target

1 performance. Similarly, if FPL's performance indicators are not met or fall
2 short of target, employees are not eligible for or may receive a reduced
3 incentive payment.

4 **BENEFITS**

5 **Q. What is FPL's benefit expense projected for 2002?**

6 A. Total benefit expense is \$70,398,000. I will discuss the major components of
7 the benefit program, which include medical, dental, retirement, and workers'
8 compensation.

9 **Q. How should FPL's benefit programs be evaluated?**

10 A. It is difficult to meaningfully compare total benefit expenses because these
11 expenses are the result of a number of factors, many of which are not directly
12 related to the design of the benefit program (i.e. employee demographics).
13 Therefore, FPL uses the Towers Perrin Ben Val Study in which relative
14 benefit values are developed by applying a standard set of actuarial methods
15 and assumptions to a common employee population. This method of
16 comparison neutralizes the effect of differences in employee demographics,
17 geographic trends and related issues. As shown on Document JKP-5, FPL's
18 Ben Val index for the total benefit program is below average compared to the
19 662 general industry companies and the 57 utilities that participated in the
20 2000 Towers Perrin Ben Val Study (FPL rated 87 versus 98 for General
21 Industry and 103 for Utilities (average is 100)). Towers Perrin is a national
22 benefits consulting firm whose Employee Benefit Information Center
23 conducts a bi-annual survey that analyzes the competitiveness of participating
24 companies' benefit programs.

1 **Q. What is FPL's projected medical expense for the test year?**

2 A. FPL projects \$44,158,000 for active employees and \$28,438,000 for retirees.

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

4 A. On a comparative basis, the value of FPL's medical plans is below the average
5 based on the Towers Perrin Ben Val. FPL rated 85 versus 99 for General
6 Industry and 102 for Utilities as illustrated by Document JKP-6.

7 **Q. How has FPL managed medical costs historically, and what factors are
8 affecting FPL's health care plans in 2002?**

9 A. FPL has been very aggressive in managing its health care costs and, as a
10 result, has managed to keep health care expenses close to the national average
11 and well below other large utilities in the Mercer/Foster Higgins National
12 Survey of Employer sponsored Health Plans. (This comprehensive annual
13 survey collects information on a wide range of issues concerning employer
14 health plans, including costs, strategic planning, plan provisions, and scope
15 and limitations of coverage.) Please see Document JKP-7 for an illustration
16 of FPL's performance since 1998. Some of FPL's initiatives include the use
17 of national plan administrators, proactive cost containment, promotion of
18 personal responsibility for health, creation of a healthy work environment,
19 support of informed choices in medical decisions and helping employees
20 become smart consumers. FPL has and will continue to look for ways to
21 provide employees with a choice of quality medical plans at the most
22 competitive cost. However, double-digit health care cost inflation is currently
23 having a tremendous impact on FPL as well as the rest of the nation. FPL has

1 also undertaken a number of initiatives to control retiree health care costs,
2 including FPL's elimination of retiree medical benefits for new hires in 1997,
3 a decision that saved approximately \$600,000 annually. In addition, those
4 who were grandfathered into the retiree program have begun reaching a
5 Company premium contribution cap imposed by FPL. This results in
6 approximately \$12 million in annual cost avoidance.

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

8 A. The promotion of employees' responsibility for health and the creation of a
9 healthy work environment are evidenced by the Company's comprehensive
10 FPL-Well program. The program has proven to have a direct impact on
11 lifestyle related health care costs. A six year study by Johnson & Johnson
12 determined that every dollar spent on FPL-Well produces a \$3 return on
13 investment.

14 **Q. What factors are driving medical costs in the U.S. to rise?**

15 A. There are a number of reasons why national medical costs will continue to
16 climb:

- 17 • Managed care plans are no longer delivering incremental improvements in
18 cost because the discounts carriers were able to negotiate in the early
19 1990s are steadily eroding. The erosion of the discounts results in medical
20 cost increases to employers.
- 21 • Demands of healthcare providers' shareholders for increased profitability:
22 many health plan providers focused on growing market share during the
23 late 1990s, which required a policy of attractive pricing. As markets have

1 matured, emphasis has shifted to shareholder demands for improved
2 profitability, according to the Towers Perrin 2001 Health Care Cost
3 Survey, which analyzes major trends in employee and retiree health care
4 costs.

5 • Pharmacy costs are expected to continue to increase faster than other
6 segments of health care expenditures. Prescription drug costs increased
7 16.8% in 2001 and are expected to increase 15% in 2002, according to the
8 2001 Mercer/Foster Higgins National Survey of Employer sponsored
9 Health Plans.

10 • An aging population, particularly the growth of the population group aged
11 65 and above, will drive overall costs up. Retiree plan participants are
12 “the single largest per capita consumers of prescription drugs and other
13 costly diagnostic and clinical procedures”, according to the Towers Perrin
14 survey.

15 • Increased use of new, technologically advanced and high cost medical
16 solutions. Plan participants have become more frequent users of the
17 internet. “The resulting ease of access to information on medical
18 advances, treatment options and available drug remedies may be fueling
19 demand for more services than ever before,” according to the Towers
20 Perrin survey.

21 **Q. What are the health care trends that have an impact on FPL’s cost in**
22 **2002?**

23 A. There are a number of factors that are causing medical costs at FPL to rise:

- 1 • Pharmacy costs, which are rising at a higher rate than medical costs,
2 represent approximately 30% of FPL's total medical costs. This is
3 attributable to an aging workforce and growing number of retirees.
- 4 • Most of FPL's medical claims occur in Florida, where health care costs for
5 employer-sponsored medical plans are among the highest in the United
6 States. Because hospitals and physicians in Florida serve a higher than
7 average Medicare population (53% in Florida, 43% nationally), financial
8 losses from the care of those patients are passed along to private sector
9 payers such as FPL. In addition, 10% of hospital patient days in Dade
10 and Broward Counties and 7% in Palm Beach County are for uninsured
11 patients compared to 4% nationally.
- 12 • 50% of FPL's medical plan participants are age 50 and over. Studies have
13 shown a correlation between increasing medical costs and an aging
14 population.
- 15 • The number of carriers offering Medicare HMOs continues to decrease.
16 FPL currently has only 4% of retirees enrolled in Medicare HMOs.
- 17 • Additional funding is necessary for FPL's medical cost reserves. FPL
18 minimizes its costs by self-funding its health benefits. However, the
19 claims cost can fluctuate significantly from year to year. The fluctuation
20 in costs is offset by the avoidance of paying additional premiums to an
21 insurance carrier for profit. To ensure there are sufficient funds to pay
22 claims, FPL's standard practice is to have medical reserves equal to 2 – 4
23 months of claims to cover incurred but not reported claims. As reserve

1 levels decrease, additional funds are budgeted to bring the reserves to an
2 appropriate level.

3 The net impact of these cost factors have resulted in a projected increase in
4 medical costs for the test year of approximately \$7.6 million.

5 **Q. How do FPL's projected medical costs for the test year compare to other
6 utilities and national averages?**

7 A. As shown on Document JKP-7, FPL's average medical cost per employee is
8 below the utility average because of the initiatives previously discussed.
9 However, the factors contributing to the increase in medical costs nationally
10 and at FPL specifically have resulted in an increase in medical costs in the
11 2002 test year, which have left us below the utility average, but have pushed
12 us modestly above the national average.

13 **Q. Does FPL provide a dental plan for its employees?**

14 A. Yes. All of the 662 general industry and 57 energy companies in the Towers
15 Perrin Ben Val Study offer at least one type of dental plan. The current
16 prevalence of dental plans indicates that the offering of a dental plan is viewed
17 by employees and employers as an integral and essential part of a company's
18 total benefit package. FPL would not compete effectively for employees
19 without a dental plan.

20 **Q. How much is FPL's projected dental plan expense in the test year?**

21 A. FPL's projected dental plan expense for the test year is \$4,950,000, as
22 reflected in the MFR C-33.

23 **Q. How does FPL's dental plan compare to the industry?**

1 A. The chart shown in Document JKP-8 depicts the value of the FPL plan as
2 measured by the Towers Perrin Ben Val Study. FPL's dental plan is
3 comparable to other participants in the Ben Val Study. While FPL's dental
4 plan value is slightly above average (FPL is 109 and other utilities average
5 106), FPL's average dental cost per employee was \$573 in 2000 compared to
6 the average dental cost for utilities of \$672, according to the February 2001
7 Mercer Health Care Survey Report prepared for FPL (most recent data
8 available). FPL's average dental cost per employee is projected to be \$634 in
9 2001 and \$685 in 2002. These increases are attributable to expected inflation
10 of dental care costs and increases in utilization.

11 **Q. Does FPL offer retirement plans to its employees?**

12 A. Yes, FPL offers a pension and 401(k) retirement plan for its employees, as do
13 98% of the utilities and 73% of general industry companies in the Towers
14 Perrin Ben Val study.

15 **Q. What is the projected retirement plan expense in the test year?**

16 A. A credit of \$80,046,000. This is the net expense of the Retirement Plan
17 (pension plan) and the Employee Savings Plan (401(k)).

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

19 A. FPL's retirement plans are less favorable than those of both the general
20 industry and utility companies in the Ben Val study, as illustrated in
21 Document JKP-9 on the benefits value comparison chart. The value of FPL's
22 plans is 88 compared to Utilities at 103, and General Industry at 94.

23

1 **Q. What are the workers compensation expenses in the test year?**

2 A. FPL's projected expense for workers compensation in the test year is
3 \$11,389,000.

4 **Q. Are FPL's Workers Compensation expenses reasonable?**

5 A. Yes. FPL has historically self-funded this mandated benefit, resulting in
6 significant savings over fully insuring the plan. Please refer to Document
7 JKP-10, which shows that FPL's costs are significantly lower than the
8 estimated commercial premium the Company would incur if the plan were
9 insured.

10 **Q. What are the advantages of being self-insured?**

11 A. The advantages of self-insurance include:

- 12 • reduced costs;
- 13 • improved cash flow;
- 14 • increased control of claims process;
- 15 • direct contact with injured employees.

16 In addition, being a self-insured public utility gives FPL the ability to cover
17 contractors and subcontractors under the plan and, in turn, allows FPL to
18 reduce overall contractor expense. Due to economies of scale and the
19 increased group size, including contractors with FPL's employee population is
20 less expensive than the corresponding workers compensation expense of the
21 contractors separately.

22 **Q. What additional advantages are achieved by being self-insured?**

1 A. FPL is also able to integrate Workers Compensation with its disability benefit
2 programs (short and long term disability and Family Medical Leave Act) into
3 one Integrated Disability Management program. This integration facilitates
4 consolidated claims administration, lower costs and improves communication
5 to injured parties.

6 **Q. Are there any disadvantages to being self-insured?**

7 A. The major disadvantage of being self-insured is that the Company bears the
8 risk of large losses. However, FPL purchases excess (stop-loss) reinsurance
9 to limit the Company's liability for catastrophic claims. Any amount over the
10 \$2 million stop-loss deductible is covered by the reinsurance company.

11 **Q. What factors determine reserve amounts and claims cost?**

12 A. Because the plan is self-insured, the Company must set adequate reserve
13 levels to offset potential claims volatility. The following factors are used to
14 determine reserve amounts and the overall cost of a claim:

- 15 • medical costs;
- 16 • the severity of injuries;
- 17 • weekly wages;
- 18 • age of workforce and length of employment;
- 19 • the cost of permanent total disability claims;
- 20 • litigation/legal costs.

21 **Q. What accounts for the increase of workers' compensation expenses in**
22 **2001 and forward?**

1 A. In 2000, in an effort to increase the accuracy of future projections, an
2 independent actuarial firm reviewed FPL's loss experience and reserving
3 practices. They determined that losses were running higher than prior
4 projections because of the assumptions used for the severity and length of
5 claims. Therefore, FPL's reserves were significantly increased in 2001. The
6 18% increase in 2002 is due to several factors, primarily medical inflation.
7 We also anticipate an increased level of litigation in this area.

8 **Q. How do claims vary in Florida from other areas of the nation?**

9 A. A recent study, Florida Workers Compensation Cost Drivers Overview,
10 completed by the National Council on Compensation Insurance, Inc.
11 (September 2001), shows the frequency of permanent total claims is three
12 times greater in Florida than in the rest of the country. Florida's total cost for
13 permanent total claims is more than 2.5 times greater than the national
14 average.

15 **Q. Please summarize your testimony concerning FPL's Compensation and**
16 **Benefits for 2002.**

17 A. FPL's pay for performance philosophy has served the Company and its
18 customers very well since the last review of compensation by the Commission
19 in the 1988 Tax Savings Docket. FPL has successfully provided value to its
20 employees and its customers through efficient use of compensation to drive a
21 culture that provides improved efficiency, reliability and service. But as FPL
22 moves forward, we must continue to compensate and provide competitive
23 benefit programs to our employees in order to attract and retain the best talent.

1 The 2002 projected level of compensation and benefits expense is necessary
2 to attract and retain the caliber of employees that are the heart of our success.

3 **AVIATION**

4 **Q. When did FPL first establish an Aviation Department?**

5 A. As the Company grew, it was determined in 1948 that an Aviation
6 Department needed to be established.

7 **Q. How many and what types of aircraft does FPL own and utilize?**

8 A. FPL has owned two helicopters since 1979 and currently has two Agusta
9 109Ps that were purchased in 1999 & 2000. FPL has owned airplanes since
10 1948 and currently has three airplanes, two Citation CE-560s that were
11 purchased in 1995 and one Falcon 2000 that was purchased in 1999.

12 **Q. What is the level of aircraft net investment and expenses projected in the
13 test year?**

14 A. Our net investment in the test year is \$31,024,914. In the past, FPL has
15 typically owned its aircraft for an 8 to 10 year period before selling the assets
16 on the pre-owned market. The average resale has consistently been around
17 75% of the original cost. The 2002 total operating costs for these aircraft is
18 budgeted at \$3,808,885. The cost of ownership is shared with affiliates.

19 **Q. How does FPL utilize aircraft in its operations?**

20 A. The primary reason FPL utilizes aircraft is to improve human productivity.
21 Also, the aircraft are a crucial element in responding to natural disasters such
22 as hurricanes and other critical events that impact reliability and the quality of
23 electric service. Most major businesses within the United States utilize
24 corporate aircraft. Over 70% of the S&P 500 companies operate business

1 aircraft. Of the investor owned electric utilities in the southeastern United
2 States, Duke Energy, Carolina Power & Light, Reliant, the Southern
3 Company, Dominion Resources and Entergy, to name a few, all operate their
4 own business aircraft with flight departments.

5

6 In recent years, concerns about safety and security have strengthened the need
7 for reliable and safe aircraft. Absolute control over the aircraft, crews and
8 maintenance can significantly reduce the risk of hijacking, cargo tampering,
9 and other criminal pursuits. Also, reduced travel visibility further ensures the
10 safety of employees. FPL has worked diligently to achieve one of the finest
11 safety records in all of corporate business travel aircraft and has been
12 recognized by the Industry with flight safety awards.

13

14 With nearly 7,000 miles of transmission network across the state, FPL uses its
15 aircraft to respond to reliability, safety and security issues. Aircraft are also
16 utilized to patrol and inspect the transmission lines given the impact of the
17 security of FPL's transmission network on service reliability

18 **Q. What is the impact of aircraft operation on FPL's quality of service?**

19 A. There are situations where rapid response to a critical situation is required,
20 and FPL's aircraft, especially the helicopters, are called into immediate
21 service. Transportation of essential people, parts and equipment during critical
22 system reliability events is necessary in maintaining our quality of service. As

1 evidenced during the recovery following Hurricane Andrew, helicopters
2 became an absolute necessity for ferrying human resources, power plant and
3 transmission line parts, accomplishing damage assessments, and
4 communicating with essential customers such as hospitals, governmental
5 agencies and food providers. FPL uses its airplanes to timely meet customer
6 service needs throughout our geographically dispersed service area. The
7 airplanes have also allowed us to more effectively implement our quality
8 control efforts with major vendors.

9 **Q. How does the use of aircraft improve employee productivity?**

10 A. Travel on FPL aircraft significantly reduces hours spent enroute to
11 destinations, through more direct routes and avoided wait time. It also allows
12 us to accomplish many trips on the same day rather than as overnight trips. In
13 addition, travel on FPL aircraft provides an enhanced opportunity for
14 individual and group work enroute.

15
16 We believe it is important to enhance employee productivity at all levels of
17 FPL. Of the total passenger miles flown by FPL's aircraft, 79% are by non-
18 executive employees.

19
20 Another dimension of enhanced productivity is the ability of FPL's aircraft to
21 fly much closer to their intended destination than could be accomplished with
22 commercial travel. There are many more private airports available for FPL's
23 aircraft than there are commercial airports. Also, commercial travel forces

1 passengers to experience one or more stops at their hubs as compared to
2 private aircraft that will fly directly to their destination.

3 **Q. What impact does enhanced productivity have on FPL's cost?**

4 A. Enhanced productivity can be quantified in two ways:

- 5 • time saved;
- 6 • avoided travel expenses, including overnight stays, commercial airfares
7 and driving expenses.

8 As shown on Document JKP-11, we have quantified the improvement
9 associated with increased productivity that results from our use of FPL
10 aircraft. The total productivity benefit projected for the test year is
11 \$3,869,000. This compares very favorably with our projected operational
12 budget amount of \$3,808,885 for the test year aviation expense. The total
13 projected productivity benefit savings of \$3,869,000 is based on actual 2000
14 travel data. This includes:

- 15 • \$2,033,371 - productivity savings;
- 16 • \$1,560,000 - avoided travel expenses;
- 17 • \$276,570 - avoided overnight stays.

18 Given the impact of increased airport security requirements, our estimate of
19 avoided travel time, which is based on 2000 data, is conservative. This
20 estimate does not include the benefit of aircraft ownership associated with
21 reliability, quality of service, or safety.

22 **Q. How do FPL's aircraft operations compare to other similar companies**
23 **that operate business aircraft?**

1 A. FPL participated in an industry-wide study conducted by an independent
2 aircraft research firm, Aviation Research Group/U. S. Inc. (ARG/US).
3 ARG/US specializes in the field of aviation information collection, analysis
4 and distribution. Based on 2000 data (the most recent available), ARG/US
5 compared FPL with 35 companies, termed the Geo-Economic Group,
6 operating the same aircraft in cities of the same group. For aircraft-specific
7 information, the Geo-Economic group data is compiled from flight
8 departments operating the same make and model aircraft. As shown in
9 Document JKP 12, FPL's total expenses for its Aviation Department are 24%
10 below the average of the other companies in the Geo-Economic group.
11 Expressed on a total cost per statute mile basis, as shown on Document JKP-
12 13, FPL's airplanes operate at a cost 45% lower than the average for the
13 thirty-five companies in the ARG/US Group.

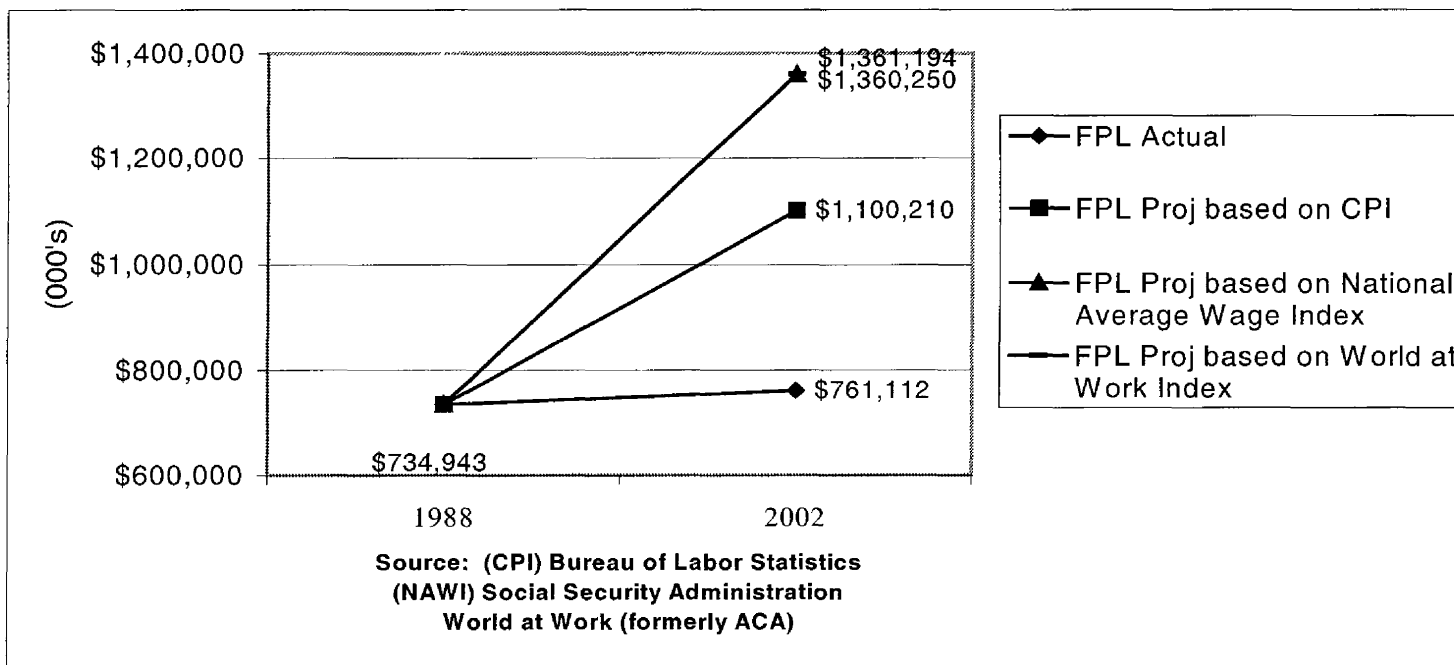
14 **Q. Please summarize your testimony concerning aviation costs.**

15 A. Business aircraft make a substantial improvement to FPL's overall employee
16 productivity and are important factors in maintaining system reliability and
17 quality of service. They play a critical role in our ability to rapidly respond to
18 any crisis involving system reliability and restoration. Commercial
19 alternatives do not offer FPL comparable economic or productivity benefits.
20 FPL's aircraft investment and operating expenses are justified and reasonable.

21 **Q. Does this conclude your testimony?**

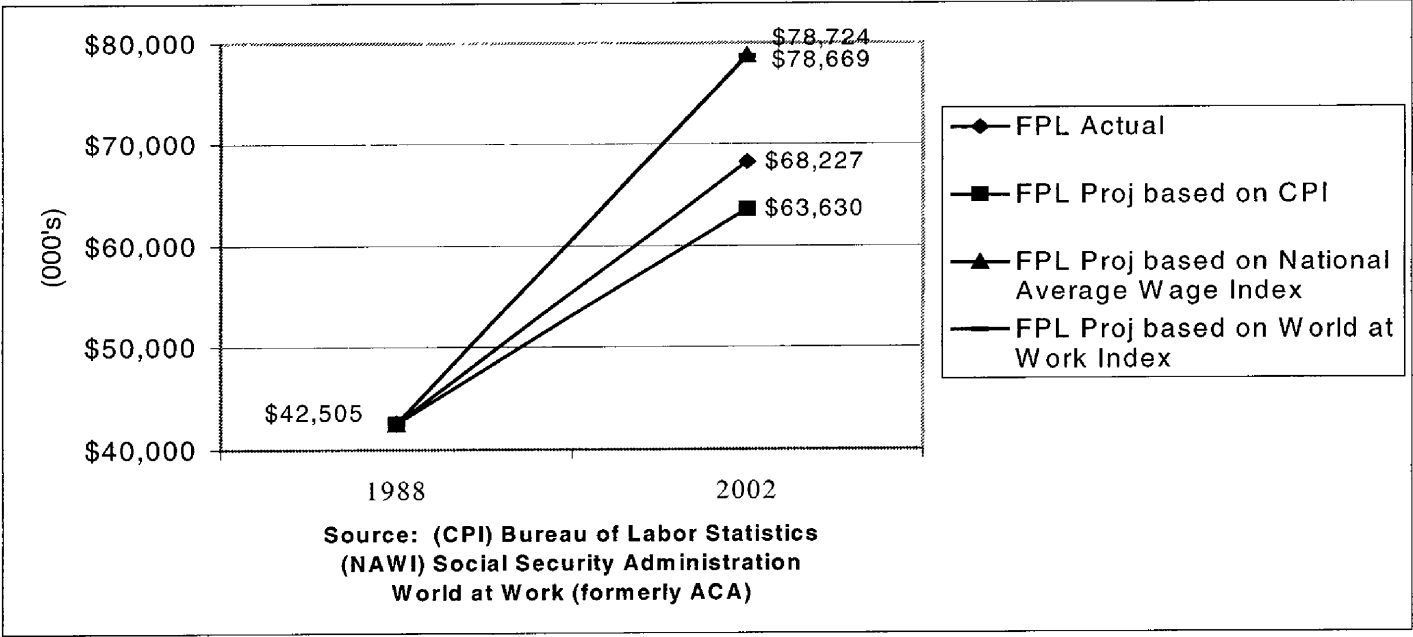
22 A. Yes, it does.

**FLORIDA POWER & LIGHT COMPANY
PROJECTED TOTAL COMPENSATION (PAYROLL & BENEFIT) COSTS
1988 THROUGH 2002**

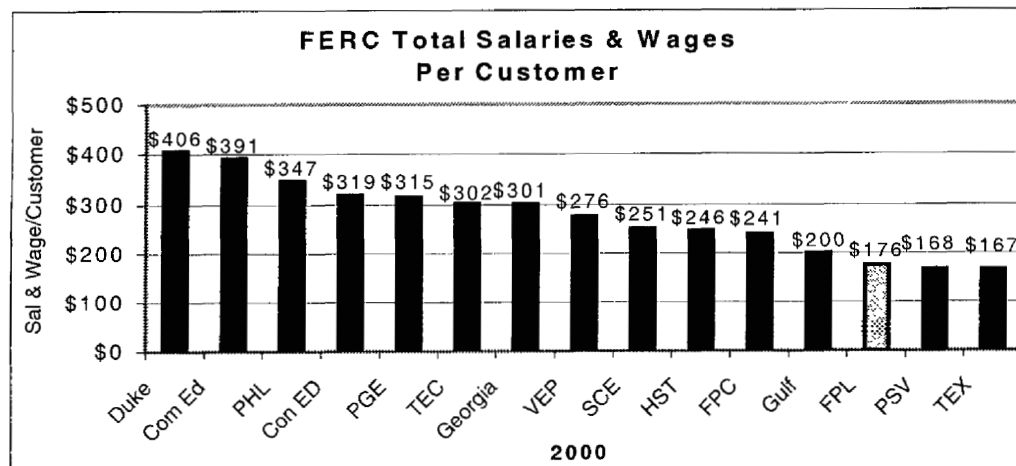
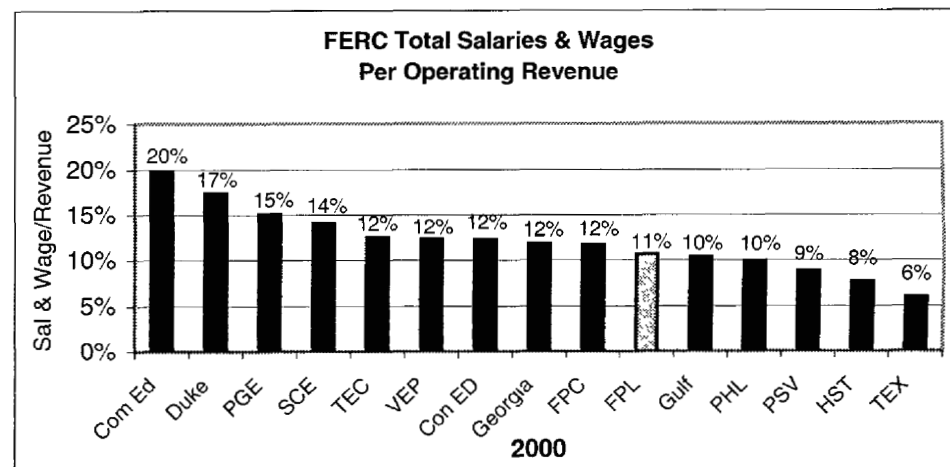
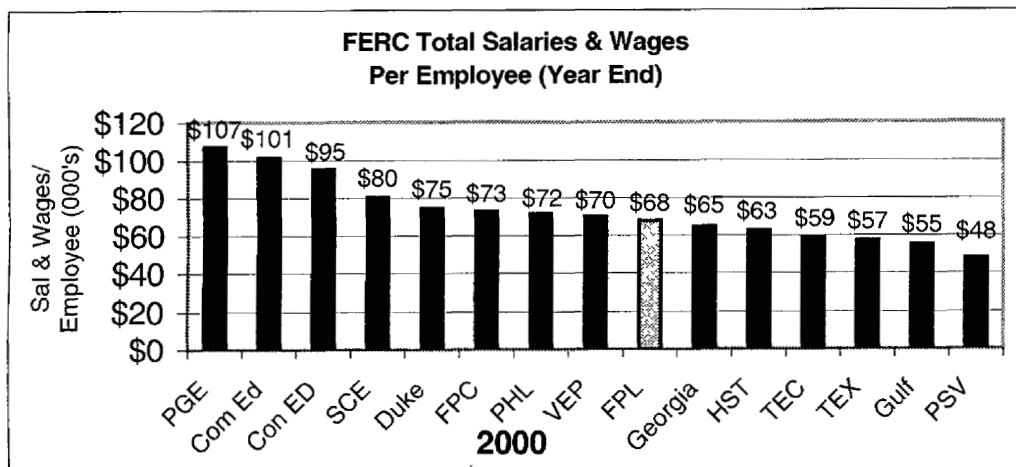


Note: The chart above utilizes 1988 as the base year. Our selection of base year reflects the most recent review of FPL compensation by the Public Service Commission. The results of the 1989 compensation review were deemed reasonable by the Public Service Commission during the Tax Reduction Docket.

**FLORIDA POWER & LIGHT COMPANY
 PROJECTED GROWTH OF TOTAL CASH COMPENSATION PER EMPLOYEE
 1988 THROUGH 2002**

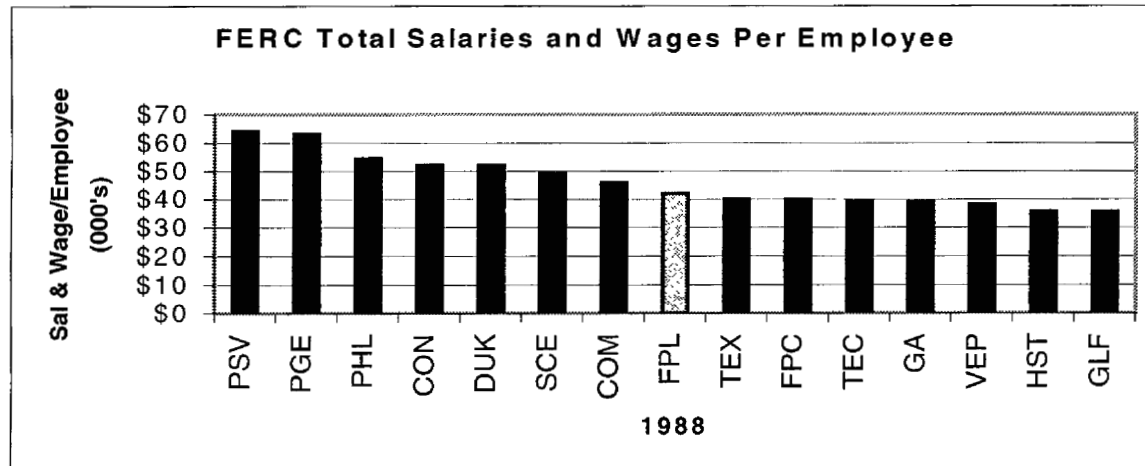


**FLORIDA POWER & LIGHT COMPANY
FERC TOTAL SALARIES AND WAGES
2000**



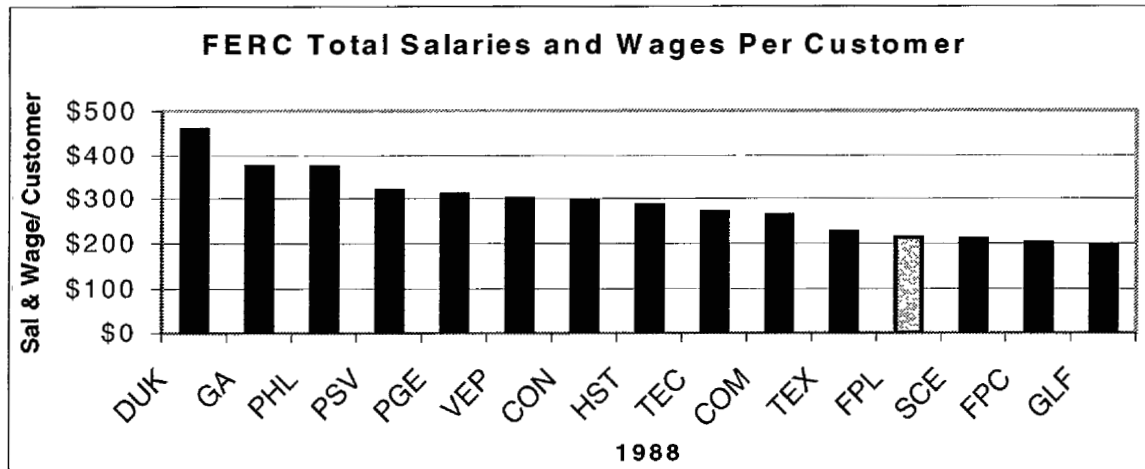
Com Ed- Commonwealth Edison Company
Con Ed- Consolidated Edison Company of New York, Inc.
Duke- Duke Energy Corporation
FPC- Florida Power Corporation
FPL- Florida Power & Light Company
Georgia- Georgia Power Company
Gulf- Gulf Power Company
HST- Reliant Energy HL&P
PGE- Pacific Gas and Electric Company
PHL- PECO Energy Company
PSV- Central Vermont Public Service Corporation
SCE- Southern California Edison Company
TEC- Tampa Electric Company
TEX- TXU Electric Company
VEP- Virginia Electric and Power Company

FLORIDA POWER & LIGHT COMPANY FERC TOTAL SALARIES AND WAGES 1988

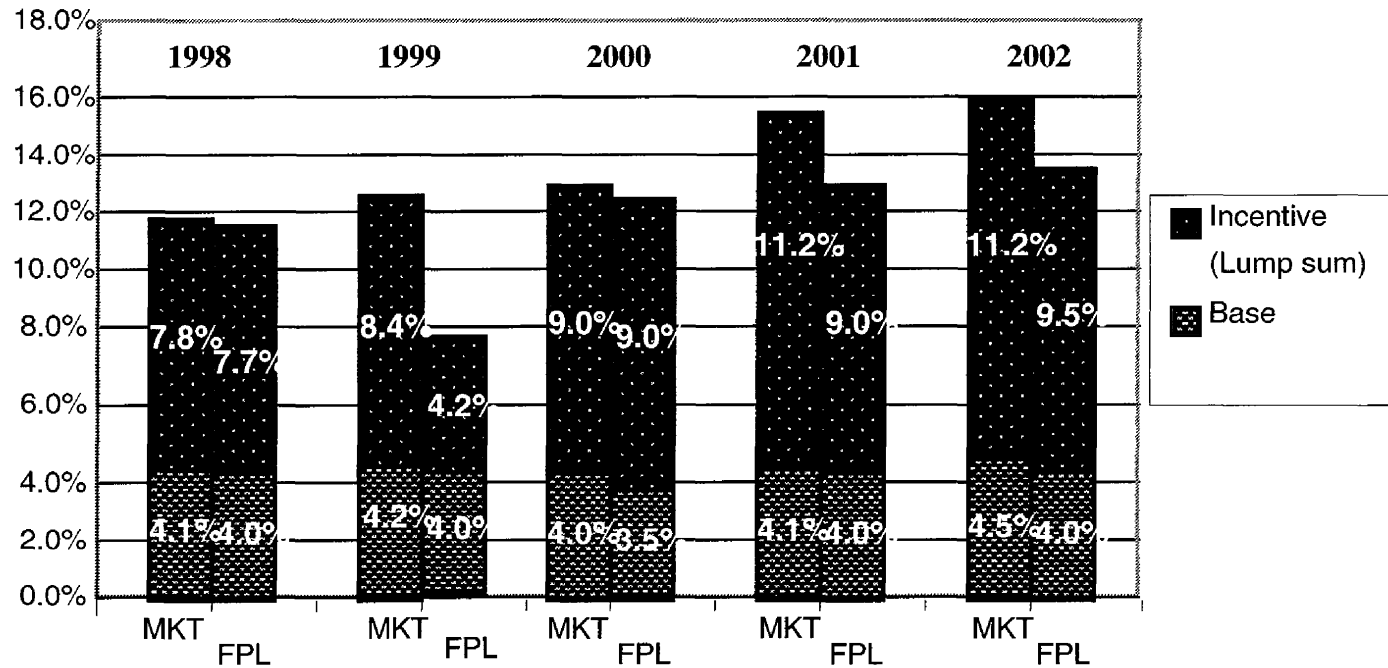


Note: 1988 Operating Revenue Information not available

COM- Commonwealth Edison Company
CON- Consolidated Edison Company of New York, Inc.
DUK- Duke Energy Corporation
FPC- Florida Power Company
FPL- Florida Power & Light Company
GA- Georgia Power Company
GLF- Gulf Power Company
HST- Reliant- Energy HL&P
PGE- Pacific Gas and Electric Company
PHL- PECO Energy Company
PSV- Central Vermont Public Service Corporation
SCE- Southern California Edison Company
TEC- Tampa Electric Company
TEX- TXU Electric Company
VEP- Virginia Electric and Power Company

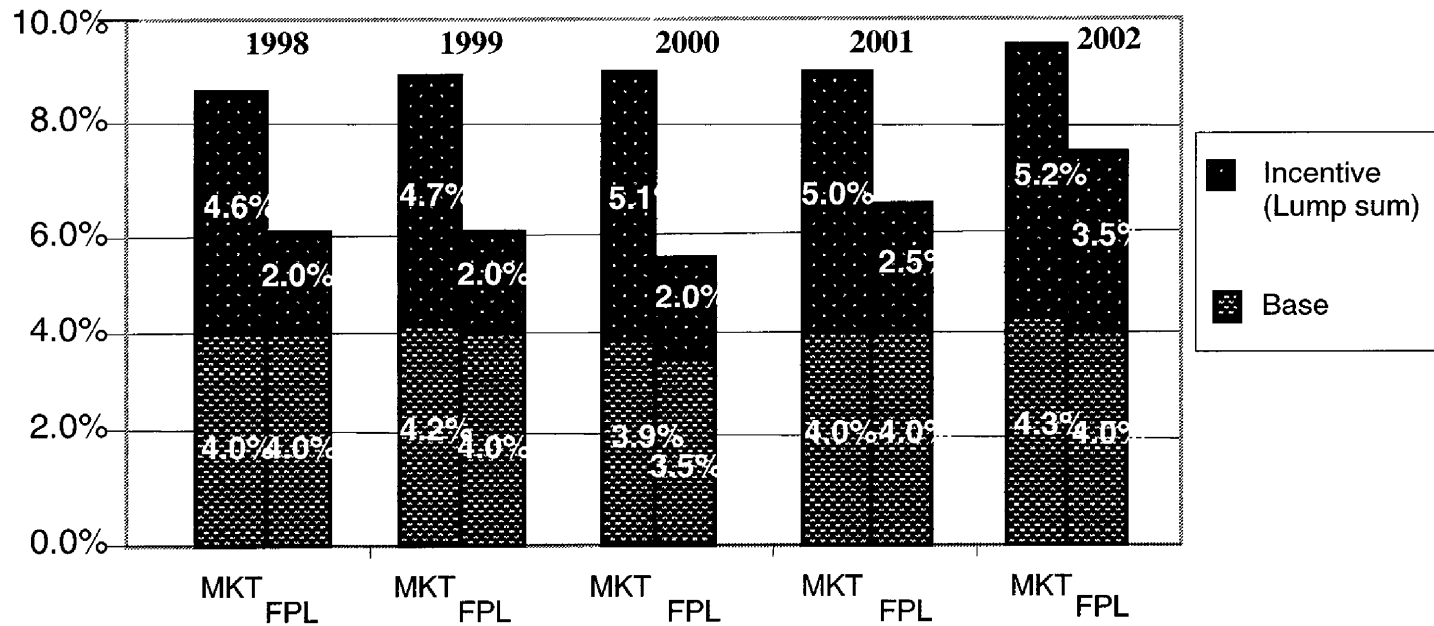


**FLORIDA POWER & LIGHT COMPANY
EXEMPT CASH COMPENSATION PERCENT INCREASE
1998 THROUGH 2002**



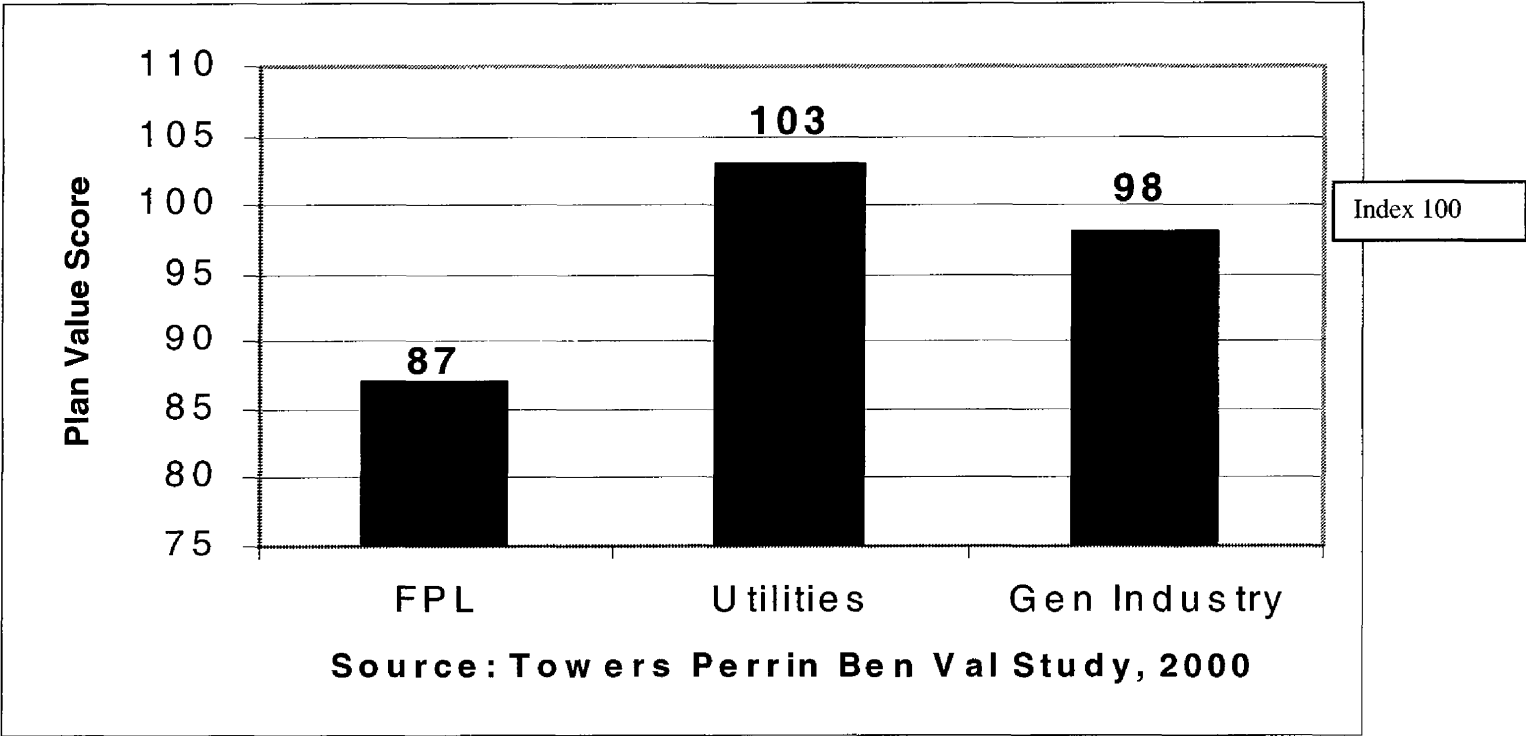
Source: Market Projection –Mercer & Towers Perrin

**FLORIDA POWER & LIGHT COMPANY
NON-EXEMPT CASH COMPENSATION PERCENT INCREASE
1998 THROUGH 2002**



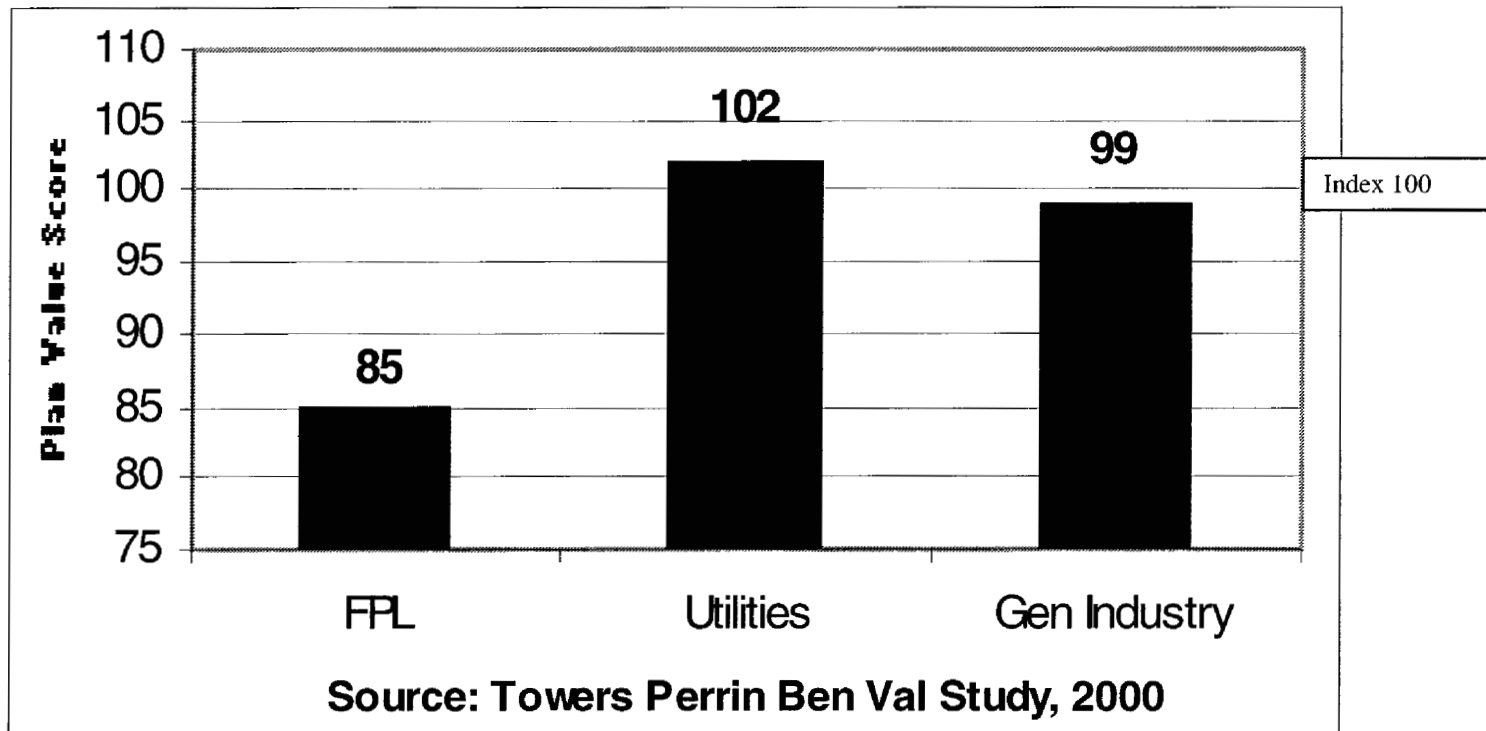
Source: Market Projection –Mercer & Towers Perrin

**FLORIDA POWER & LIGHT COMPANY
RELATIVE VALUE COMPARISON -- 2000
TOTAL BENEFITS**



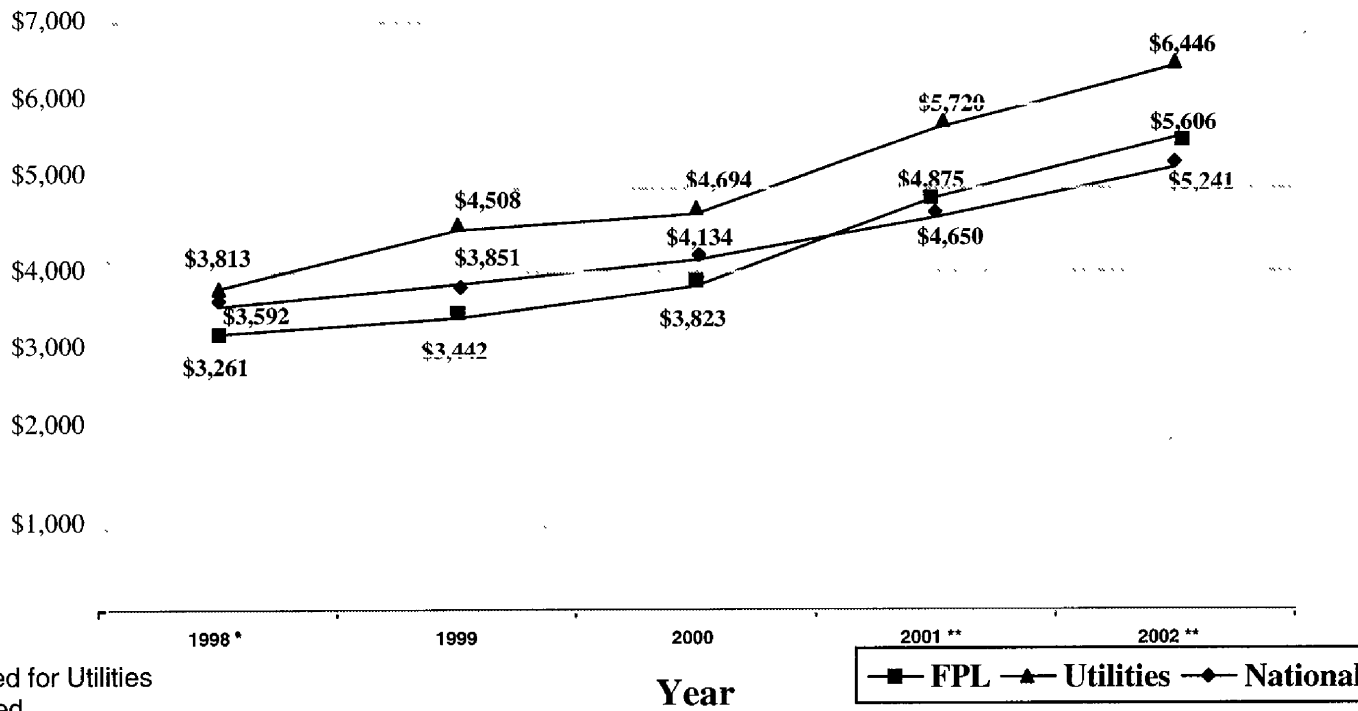
Note: Includes Medical, Dental, Pension, Thrift, Life insurance, Disability, Vacation and Holiday Benefits.

**FLORIDA POWER & LIGHT COMPANY
RELATIVE VALUE COMPARISON--2000
ACTIVE EMPLOYEE MEDICAL PLAN**



Note: Includes Medical only

**FLORIDA POWER & LIGHT COMPANY
AVERAGE MEDICAL COST PER EMPLOYEE
1998 THROUGH 2002**



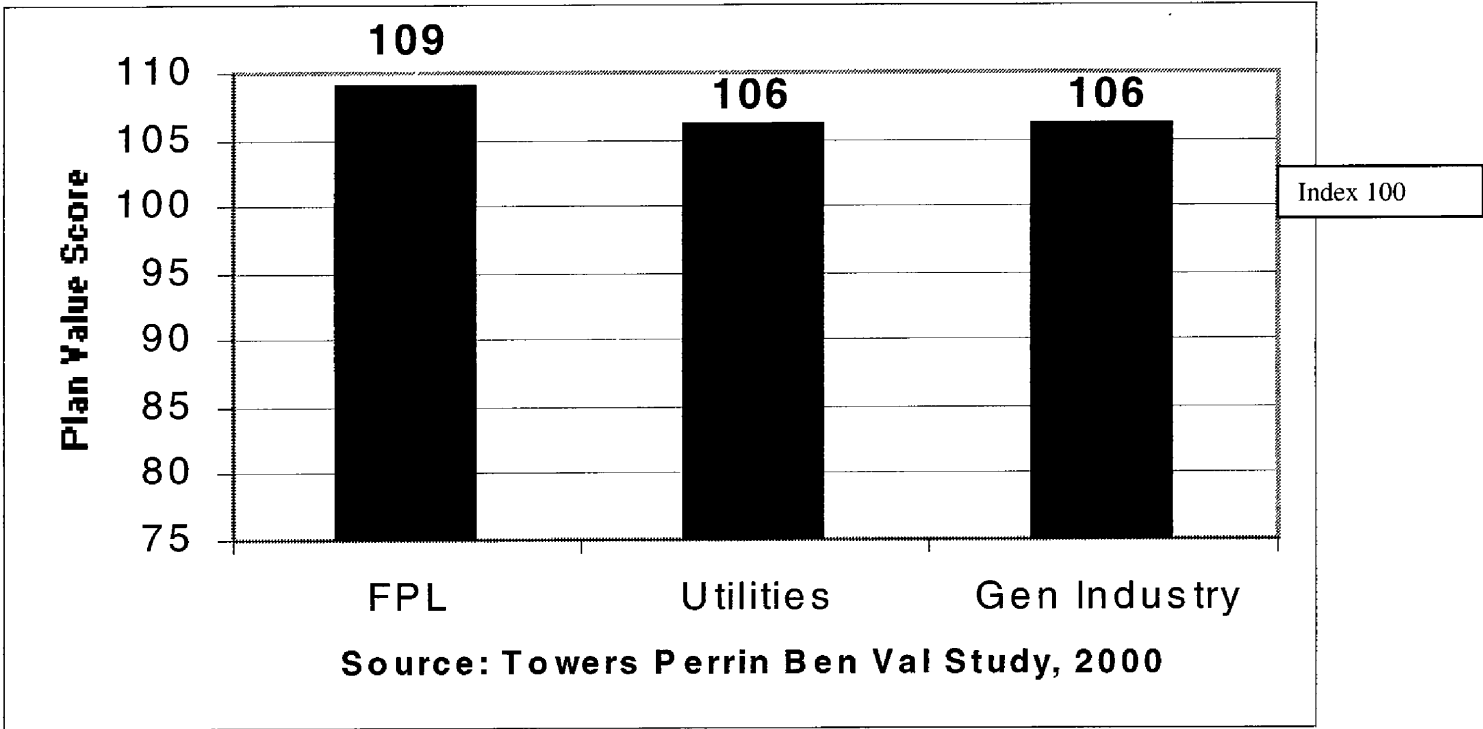
* Estimated for Utilities

** Estimated

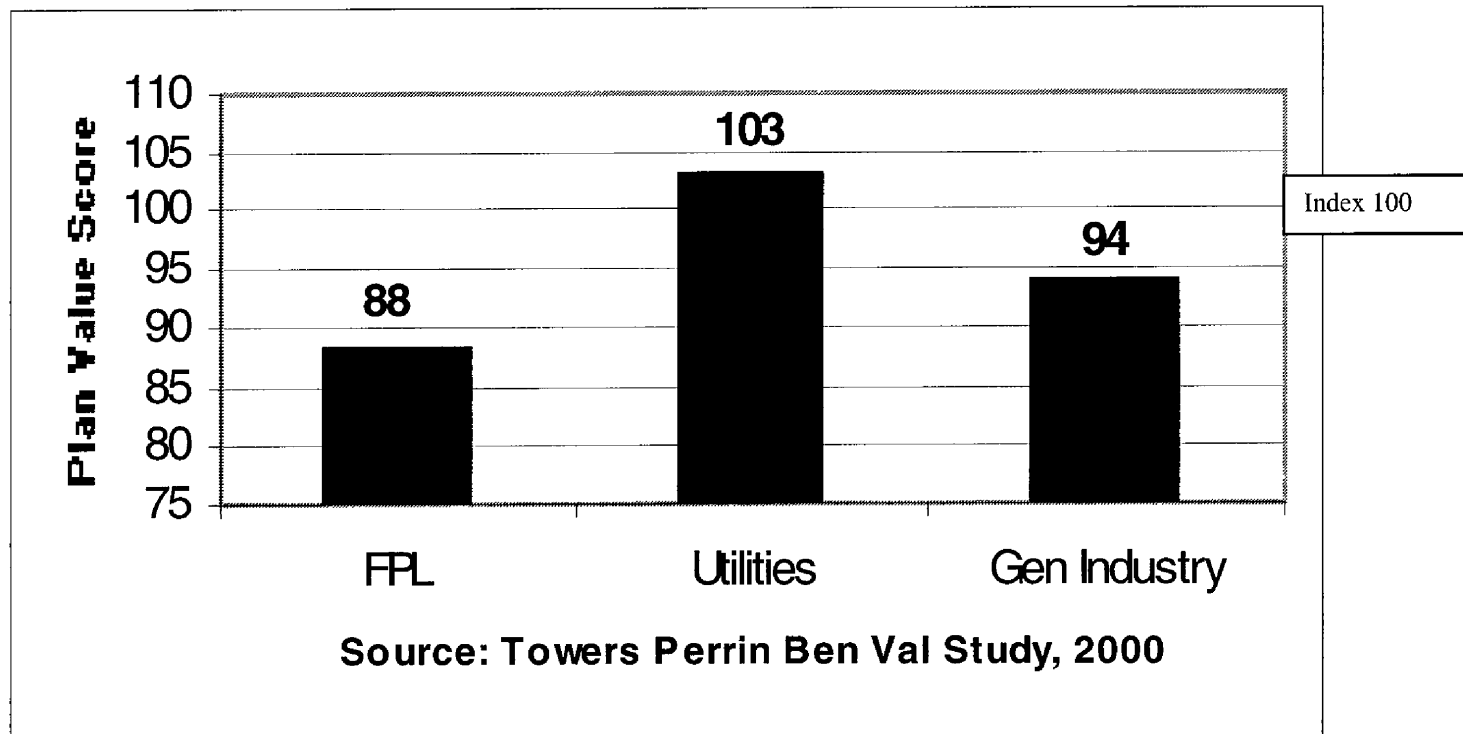
Source: Mercer/Foster Higgins National Survey of Employer-sponsored Health Plans

Docket No. 001148-EI
J.K. Peterson Exhibit No. ___
Document JKP-7, Page 1 of 1
Average Medical Cost per Employee 1998-2002

**FLORIDA POWER & LIGHT COMPANY
RELATIVE VALUE COMPARISON—2000
DENTAL PLAN**

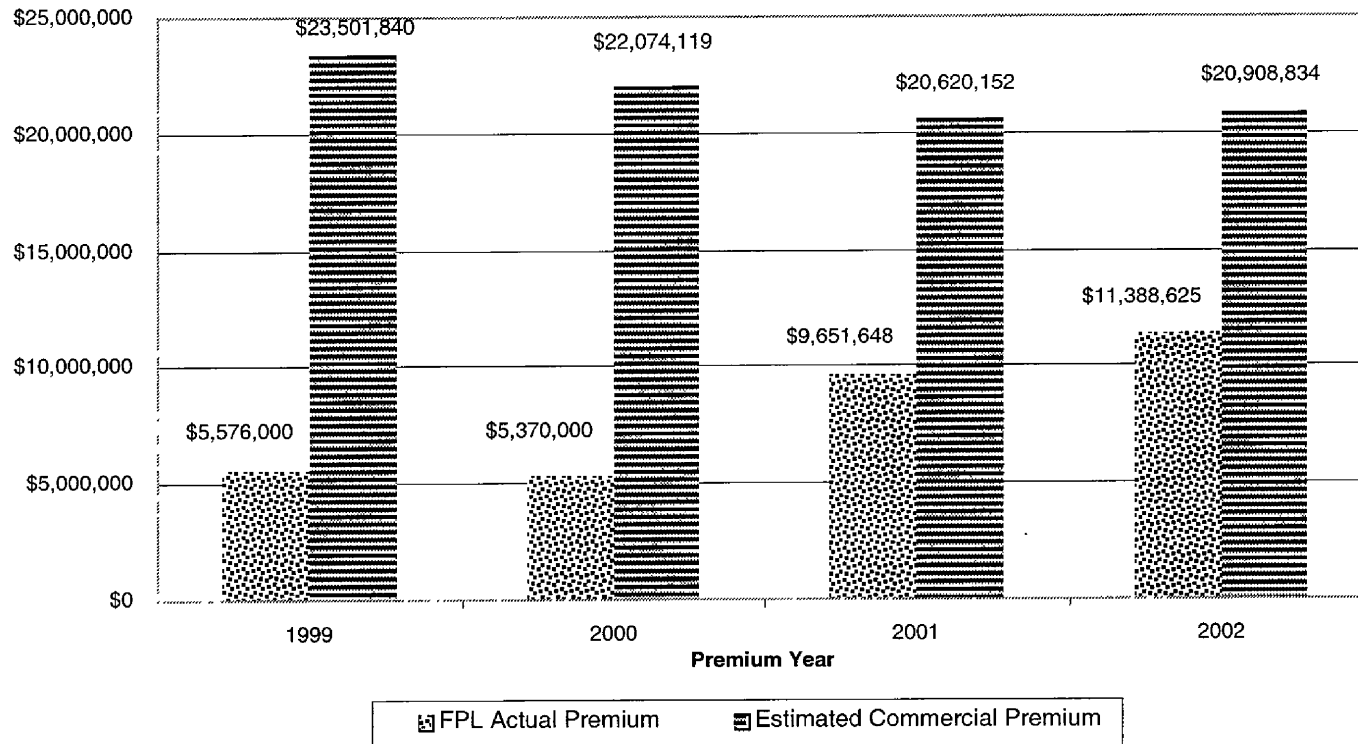


**FLORIDA POWER & LIGHT COMPANY
RELATIVE VALUE COMPARISON--2000
RETIREMENT PLAN BENEFITS**



Note: Includes Pension and Thrift Plans

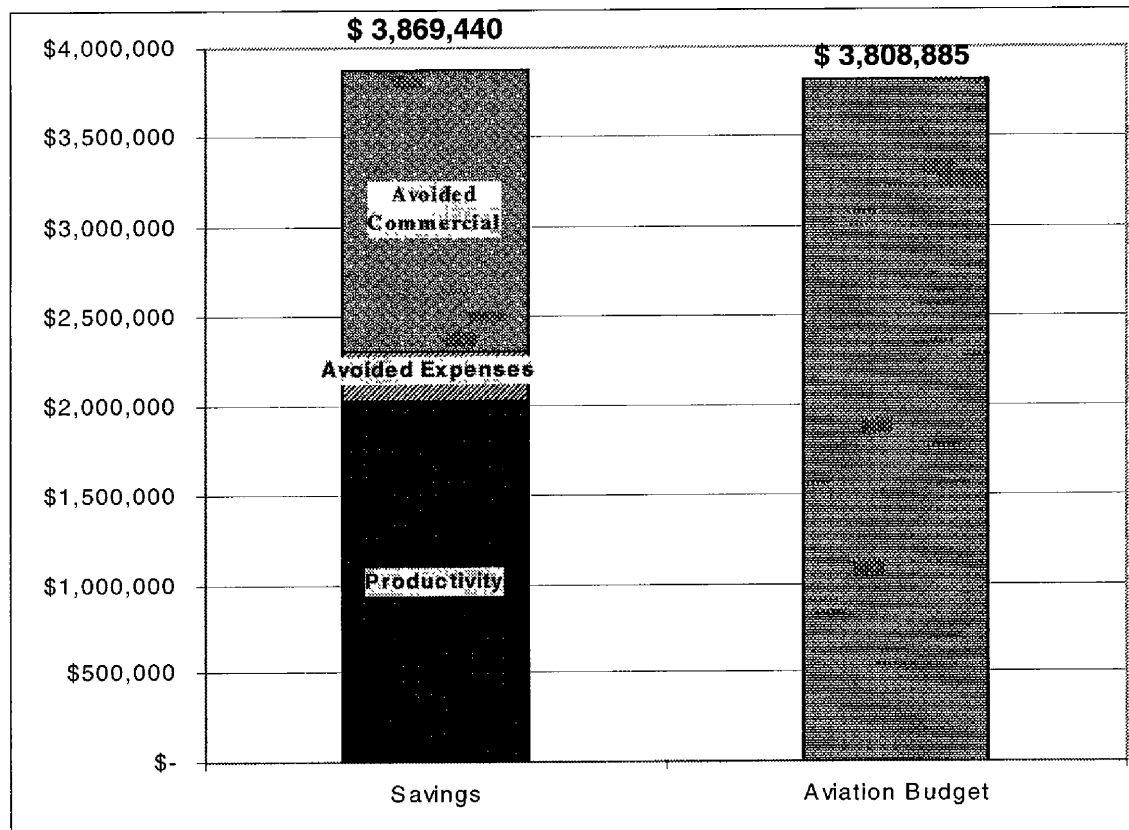
FLORIDA POWER & LIGHT COMPANY WORKERS COMPENSATION PREMIUMS 1999 THROUGH 2002



Source: March & McLennan Companies Enterprise Risk Consulting based on the National Council of Compensation Insurance rates

Docket No. 001148-EI
J.K. Peterson Exhibit No. ___
Document JKP-10, Page 1 of 1
Workers Compensation Premiums 1999-2002

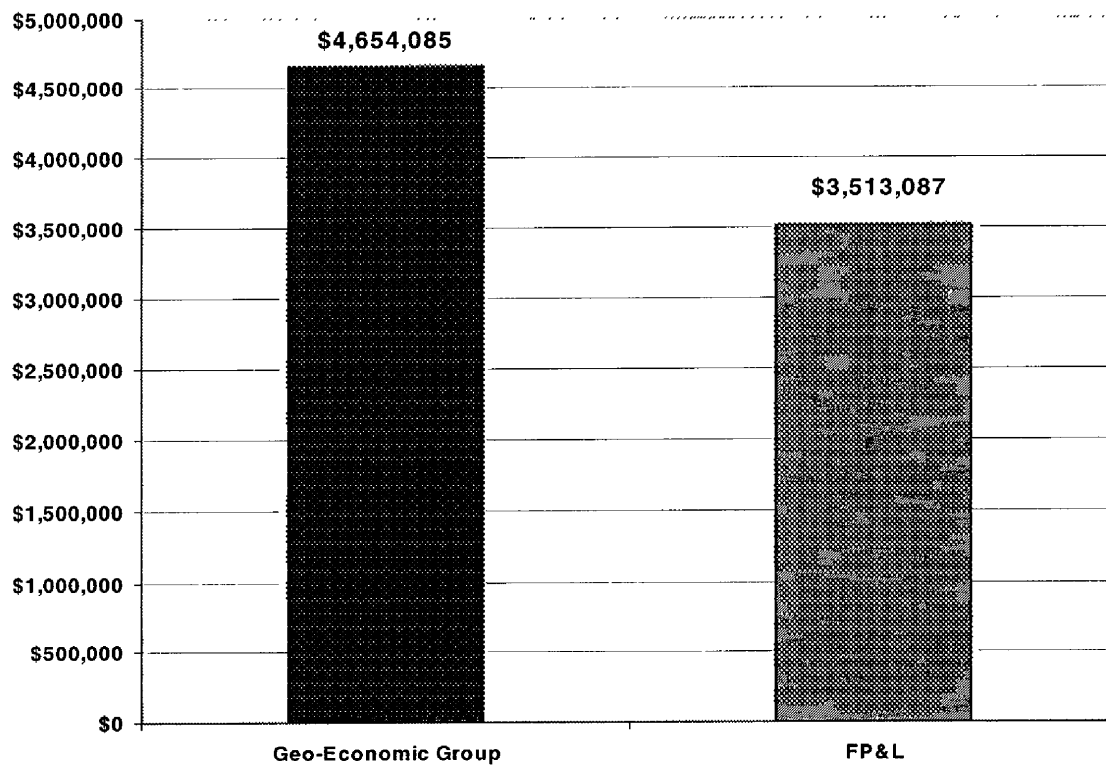
**FLORIDA POWER & LIGHT COMPANY
SAVINGS VERSUS 2002 BUDGET
AVIATION DEPARTMENT**



Source: Average actual FPL Commercial Airfare expense 2001
 Average actual FPL overnight lodging expenses 2001
 Business Aircraft Operations published by PRC Aviation (most recently available)

Docket No. 001148-EI
 J.K. Peterson Exhibit No. ____
 Document JKP-11, Page 1 of 1
 Aviation Savings versus 2002 Budget

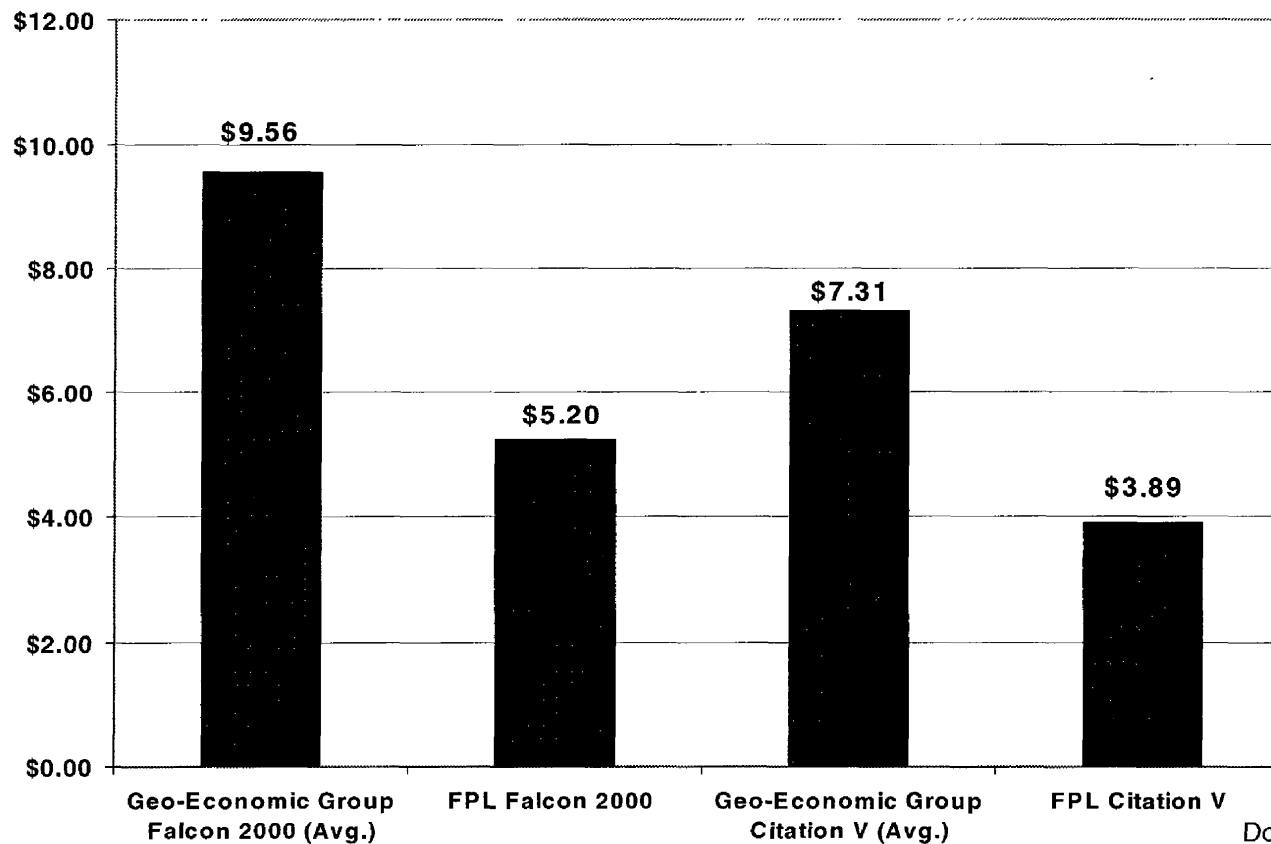
**FLORIDA POWER & LIGHT COMPANY
TOTAL AVIATION EXPENSES
2000**



Source: Aviation Research Group/ U.S. Inc.

Docket No. 001148-EI
J.K. Peterson Exhibit No. ___
Document JKP-12, Page 1 of 1
Total Aviation Expenses 2000

**FLORIDA POWER & LIGHT COMPANY
TOTAL COST PER STATUTE MILE
2000**



Source: Aviation Research Group/ U.S. Inc.

Docket No. 001148-EI
J.K. Peterson Exhibit No. ____
Document JKP-13, Page 1 of 1
Total Cost per Statute Mile 2000