BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050045-EI
FLORIDA POWER & LIGHT COMPANY

MARCH 22, 2005

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

TESTIMONY & EXHIBITS OF:

ROBERT H. ESCOTO

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF ROBERT H. ESCOTO

DOCKET NOS. 050045-EI

MARCH 22, 2005

Q. Please state your name and business address.

A. My name is Robert H. Escoto. 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 Senior Vice President, Human Resources (HR).

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

A. I am responsible for the development and execution of all Human Resources strategies including compensation, employee benefits, talent and performance management, and organizational capability.

Q. Please describe your educational background and professional experience.

A. I have been employed by Florida Power & Light for twenty-nine years, working in a variety of technical, operational, and management positions in the areas of power generation, transmission and distribution, and for the last twelve years have held various management positions in the Human Resources business unit. I have a Bachelor of Science degree in Business Management from California Coast University and am a graduate of the University of Michigan Business School's

Senior HR Executive Program. I have also obtained certification in Employee Relations Law and advanced certification in Employment Law from The Institute for Applied Management & Law.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring an exhibit consisting of 9 documents, RHE-1 through RHE-9, which are attached to my direct testimony.

Q. Are you sponsoring or co-sponsoring any 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

Additionally, 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

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.

TOTAL COMPENSATION AND BENEFITS

Q. What are FPL's total compensation and benefits cost and employee count for 2006?

A. FPL's total compensation and benefits cost is projected to be $963 million for 2006. The average number of employees forecasted for 2006 is 10,558, consisting of 4,490 exempt (salaried) employees, 2,681 non-exempt (hourly) employees, and 3,387 union employees.

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

A. There are four primary objectives of FPL's total compensation and benefits approach. First, the Company strives to offer a compensation and benefits program to attract, retain and competitively reward its employees based on national and local comparative markets. Second, FPL's compensation program reflects a pay-for-performance philosophy, linking total cash compensation to attainment of corporate, business unit, and individual goals. A third objective of the approach is to control fixed costs by placing emphasis on variable cash compensation rather than traditional long-term retirement benefits. Fourth, the Company strives to keep its total compensation and benefit program expenses at a reasonable level. FPL's pay-for-performance compensation program has been an important tool in the Company's achieving the efficiency, reliability, and customer service improvements.

Q. Is FPL's total compensation and benefits cost reasonable?

A. Yes. Over the last twenty years FPL has made tremendous improvements in efficiency, reliability, and quality of service while significantly reducing headcount. During a period when customers grew by about 60%, FPL was able to reduce the work force from approximately 15,000 employees in 1985 to an average of 10,558 projected in 2006, 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 costs at a reasonable level, while providing optimum levels of employee productivity.

The reasonableness of FPL's total compensation and benefits costs is clearly evident when the growth in those costs is compared to historical costs escalated using principal inflation indices. Document RHE-1 shows the increase in FPL's total compensation (payroll and benefits) costs 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 costs escalated using key indices. The chart demonstrates that if FPL's total compensation costs had grown only at the rate of the Consumer Price Index (CPI) since 1988, they would be approximately $228 million higher than the projected costs for 2006. Document RHE-1 also compares FPL's total compensation costs escalated based on the World at Work index, formerly the American Compensation Association, which the Commission has previously used for comparison purposes. If compared to that index, FPL's escalated total compensation is lower by about $593 million. The chart further demonstrates that the Company's aggressive workforce management initiatives have allowed it to reward high performance while simultaneously controlling total compensation and benefits cost.

COMPENSATION

Q. What is FPL's compensation philosophy?

A. 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, and thus at-risk. The at-risk pay is linked to individual, business unit and corporate objectives, including budget and financial performance goals and operating efficiency milestones such as plant availability, customer reliability, and quality of service. The strategic emphasis on variable at-risk cash compensation rather than fixed salary costs lowers the Company's exposure to steadily increasing salary costs and adds flexibility in recognizing performance.

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

A. FPL uses national resources to evaluate its program. The Company's recruiting department searches nationally for personnel to fill managerial, professional, and technical positions. In addition, 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 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 our workforce encompasses multi-industry talents. The primary information sources that FPL relies upon include:

- Towers Perrin, a national human resources consulting firm;
- World at Work, a global not-for-profit association of more than 26,000 compensation, benefits and human resources professionals;
- William M. Mercer Incorporated, a national human resources consulting firm;
- Bureau of Labor Statistics (the Consumer Price Index);
- Hewitt Associates LLC, a national human resources consulting firm;
- Watson Wyatt Worldwide, an international human resources consulting firm.

The FPSC has previously recognized World at Work market projections as an appropriate basis for compensation comparisons.

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 those of its competitors to determine "position to market." The most recent market analysis completed in 2004 included market survey data from 62 sources, including Towers Perrin, Hewitt, Mercer, and Watson Wyatt. Document RHE-2 demonstrates that FPL has maintained its average base pay for exempt and non-exempt jobs at or below the market at the 50th percentile. Currently on an individual basis the Company occasionally needs to target the 75th percentile to attract certain critical talent.

In addition, FPL's cash compensation levels are consistently trending below the escalated rates of key market indices. When the average wage per employee that was approved in the 1988 Review is trended with market data from the World at Work Index on Document RHE-3, FPL's average wage is well below the trend. FPL has managed to keep cash compensation expense increases about 15% below the World at Work Index, as shown in Document RHE-3. The World at Work index is a more appropriate measure 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. To further illustrate this point, for the period from 2002 to 2006 represented on MFR C-35, the Global Insight Price Indices project an increase of 14.5% in Compensation per Hour (Non-farm Business Sector) compared to 6.6% growth in CPI. Notwithstanding, as stated above, Document RHE-1 demonstrates that FPL's total payroll and benefits costs have escalated at a rate less than CPI.

Furthermore, FPL's total compensation levels are comparable to those of other utilities as demonstrated by FERC Form-1 report data. FPL has reviewed its total cash 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 Document RHE-4, FPL continues to be one of the most efficient utilities from a total cash compensation standpoint. This efficiency is particularly evident when one looks at total cash compensation whether on a per customer or operating revenue basis.

Q. Describe FPL's annual merit pay increase program.

A. There are two components to FPL's annual merit pay performance-based review program. The first component is a merit award determined by an individual's performance level and their salary position relative to market. The second component is a variable incentive pay program that provides a lump sum payment based on the achievements of the individual as well as the Company against 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 O&M costs, financial indicators, and operating efficiency milestones such as plant availability, customer reliability, and quality of service.

Q. How does your annual pay program compare to market?

A. As shown in Document RHE-5, the annual merit base and incentive pay awards have been at or below market in six of the last seven years from 1998 to 2004.

BENEFITS

Q. Describe FPL's benefits package.

A. FPL's 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 is FPL's projected benefits cost for 2006?

A. Total benefits cost is projected to be $154,241,000 in 2006, the major components of which are as follows:

• Health and welfare benefits		$97,387,000
o Pension plan and other post-employment benefits	($34,493,000)	
o Employee savings plan	<u>$24,270,000</u>	
• Total retirement benefits		($10,223,000)
• Benefits required by law		<u>$67,077,000</u>
Total 2006 Benefits Cost		$154,241,000

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

In my testimony, I will discuss the major benefit plans, specifically the medical and retirement plans.

Q. How does FPL evaluate the design and cost of its benefit programs?

A. FPL uses the Towers Perrin BENVAL Study, an actuarial tool that compares the value of benefit plans. The study methodology first analyzes the value of each benefit plan and then converts the plan values to a series of relative value indices by applying a standard set of actuarial methods and assumptions. This method of comparison neutralizes the effect of differences in employee demographics, geographic differences, and related issues. Towers Perrin is a nationally recognized benefits consulting firm whose Employee Benefit Information Center analyzes the competitiveness of participating companies' benefit programs and produces the BENVAL Study.

As shown in Document RHE-6, FPL's BENVAL Index for the total benefit program is below average compared to the 701 general industry companies and the 75 energy industry companies that participated in the 2005 Towers Perrin BENVAL Study (representing 2004 data). FPL's total benefits program rated 85.7 as compared to 94.1 for general industry and 98.7 for energy industry companies (index is 100). 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?

A. FPL projects medical cost to be $79,612,000 for active employees and $32,770,000 for retiree medical 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 is below the average based on the Towers Perrin BENVAL Study. FPL's plan rated 91.5 as compared to 96.0 for general industry and 97.9 for the energy industry, as illustrated by Document RHE-7.

Q. How do FPL's projected medical costs for 2006 compare to those of other utilities and the national averages?

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 2006, FPL's average medical cost per employee is projected to remain below the industry average, as illustrated in Document RHE-8. The increase in FPL's health care costs for 2006 is consistent with national and utility industry trends provided by Hewitt Associates. In fact, Hewitt's utility industry benchmark is still approximately 10% above FPL's projected cost per employee of $9,133 in 2006.

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

A. FPL has been very aggressive in managing health care costs and, as a result, has managed to keep per employee health care costs below the utility industry benchmarks, and projected costs remain below the utility industry benchmarks in 2006 and beyond. Document RHE-8 illustrates FPL's medical costs per employee for 2002 to 2004 and the projected costs through 2006 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, double-digit health care cost inflation is a national concern in both the public and private sectors. While FPL has been successful in maintaining its rate of increase below the national average of 14% in 2003 and 2004, the Company expects total annual health care costs to increase in 2005 and beyond at a rate comparable to the forecasted national trend of approximately 13% per year.

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
- Emphasis on employee consumer responsibility
- Comprehensive health promotion and care management programs
- Aggressive vendor management
- Restructuring of prescription drug program

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

A. FPL has also pursued initiatives to control retiree health care costs, including the elimination of retiree medical benefits for new hires after 1997. This decision resulted in an estimated cost avoidance of approximately $4 million in 2005. In addition, Company premium contribution caps imposed by FPL for those grandfathered into the retiree program have resulted in an annual cost avoidance projected to be approximately $22.4 million in 2005.

One further 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 FPL-Well program.

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 uninsured putting pressure on the health care system, especially in the state of Florida;
- 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 brand name prescription drugs;
- Growth of the aging population ;
- 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;
- Outpatient utilization increases;

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:

- Pharmacy costs, which are rising at a higher rate than medical costs, represent approximately 18% of FPL's total medical costs. This is attributable to an 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 (23% in Miami, FL, 8% in Boston, 9% in Seattle, 18% in Orange County, California, 12% in Newark, NJ), financial losses from the care of those patients are passed along to private sector payers such as FPL.
- Thirty-seven percent (37%) of FPL's medical plan participants are age 50 and over. Studies have shown a correlation between an aging population and increasing medical costs.
- FPL covers a higher number of dependents than other large companies within our labor market (7% more dependents covered for non-union employees and 13% more dependents covered for union employees).

The impact of these cost factors is a projected increase in medical costs for 2006 of approximately $11.5 million over 2005's medical costs, and an increase of nearly $38 million from 2002 to 2006.

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 95% of energy industry companies and 61% of general industry companies in the Towers Perrin BENVAL Study.

Q. **What is FPL's projected retirement expense in the test year?**

A. The projection for the test year is a credit of $44,393,000. This is the net expense of the pension plan (credit of $68,663,000) and the 401(k) employee savings plan (expense of $24,270,000).

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 pension cost.

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

A. As shown in the Towers Perrin BENVAL Study's comparison chart (Document RHE-9), FPL's retirement plans are valued below both general industry and utility companies on a relative basis. The value of FPL's plans is 93.8, as compared to energy industry companies at 102.5 and general industry at 97.6.

Q. **How does this evaluation demonstrate the reasonableness of FPL's 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 less than average as demonstrated by the BENVAL study.

Q. **Please summarize your testimony concerning FPL's compensation and benefits for 2006.**

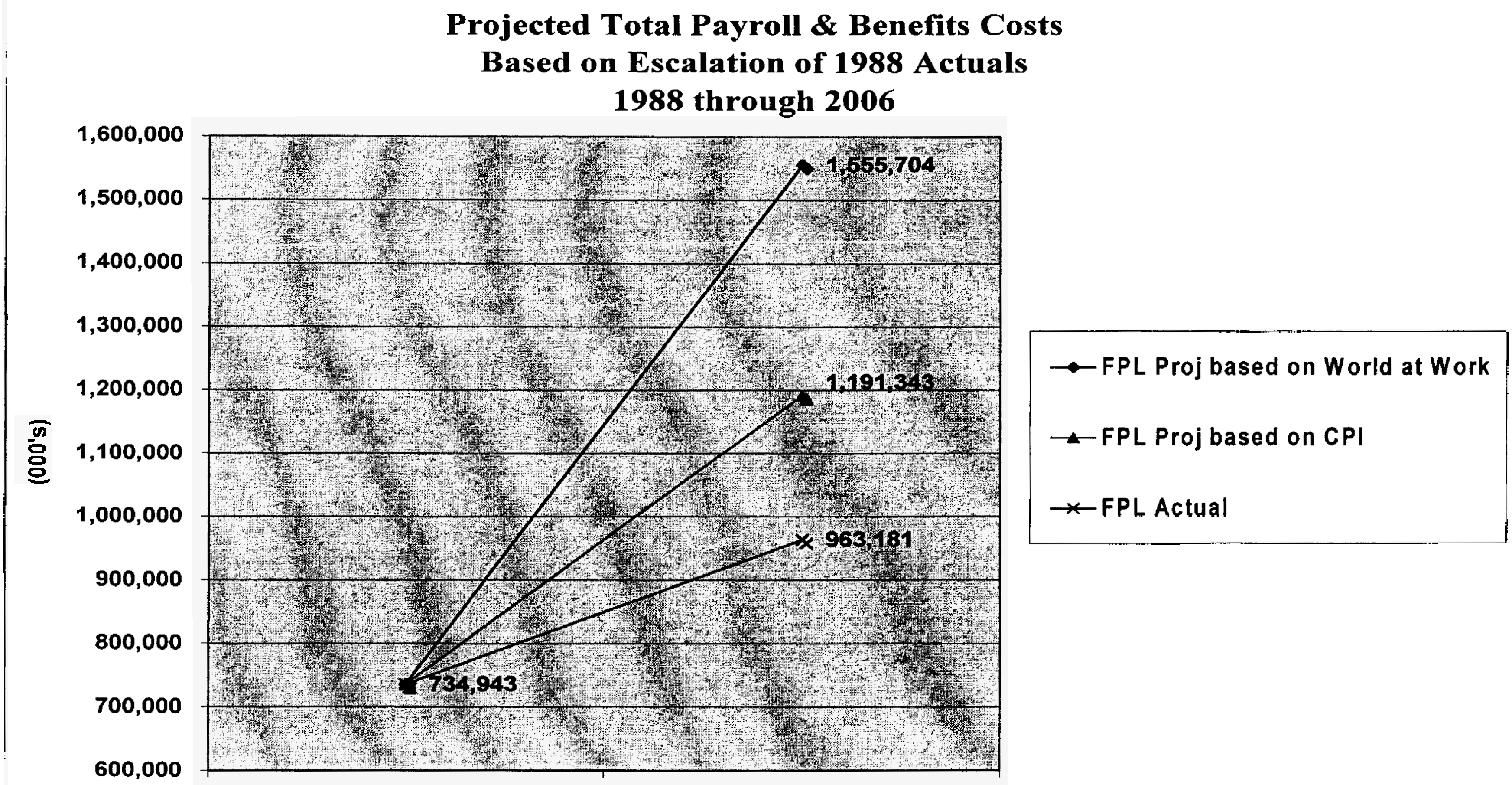
A. FPL's total compensation and benefits philosophy, emphasizing pay for performance, has served the Company and its customers very well since the last review of total compensation by the Commission in the 1988 Tax Savings

Docket. FPL has successfully provided value to its employees and its customers through efficient use of compensation to drive a culture that provides improved efficiency, reliability, and service. As FPL moves forward, it must continue to compensate and provide competitive benefit programs to its employees in order to attract and retain the best talent. The 2006 projected level of compensation and benefits expense is reasonable and necessary to attract and retain the caliber of employees that create a high-performance organization.

Q. Does this conclude your direct testimony?

A. Yes.

FLORIDA POWER & LIGHT COMPANY

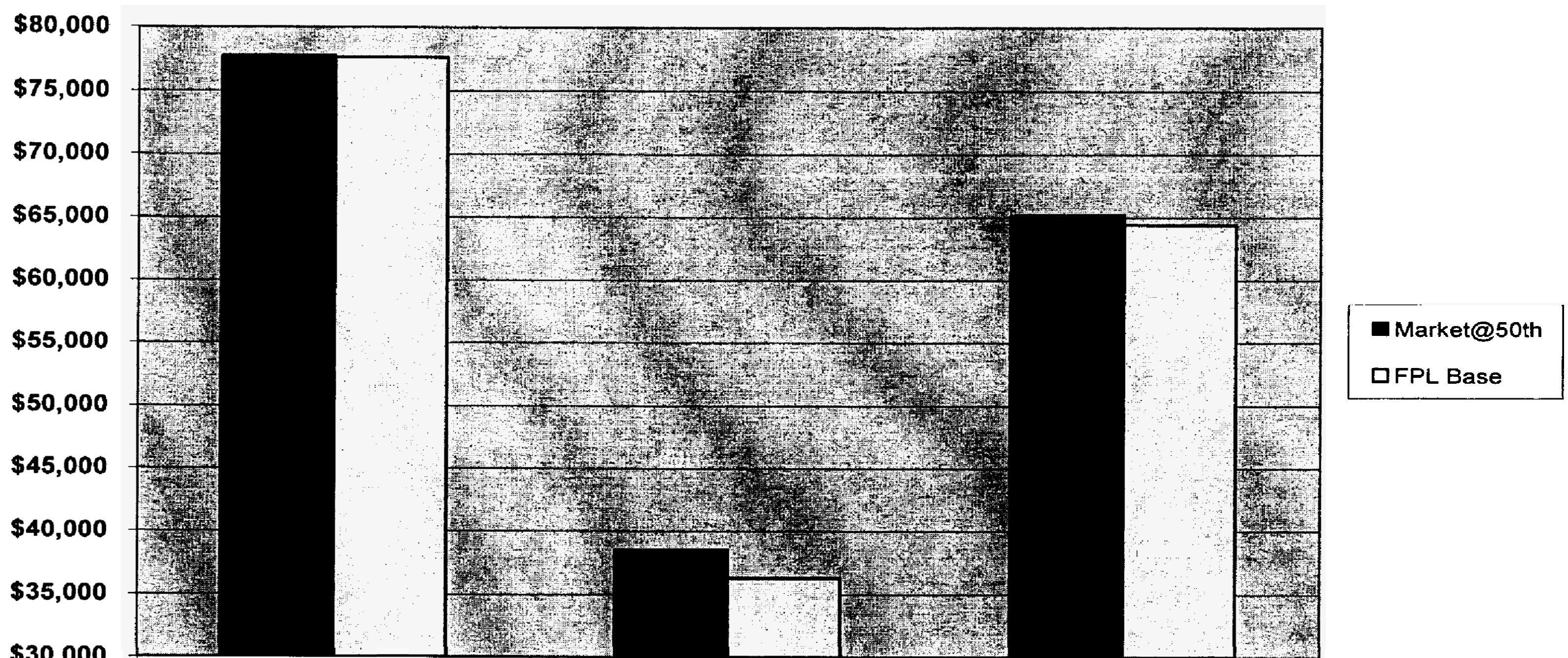


Source: (CPI) Bureau of Labor Statistics; World at Work (formerly ACA)

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-1, Page 1 of 1
Projected Total Payroll & Benefits Cost

FLORIDA POWER & LIGHT COMPANY

Position to Market
(2004 base pay)

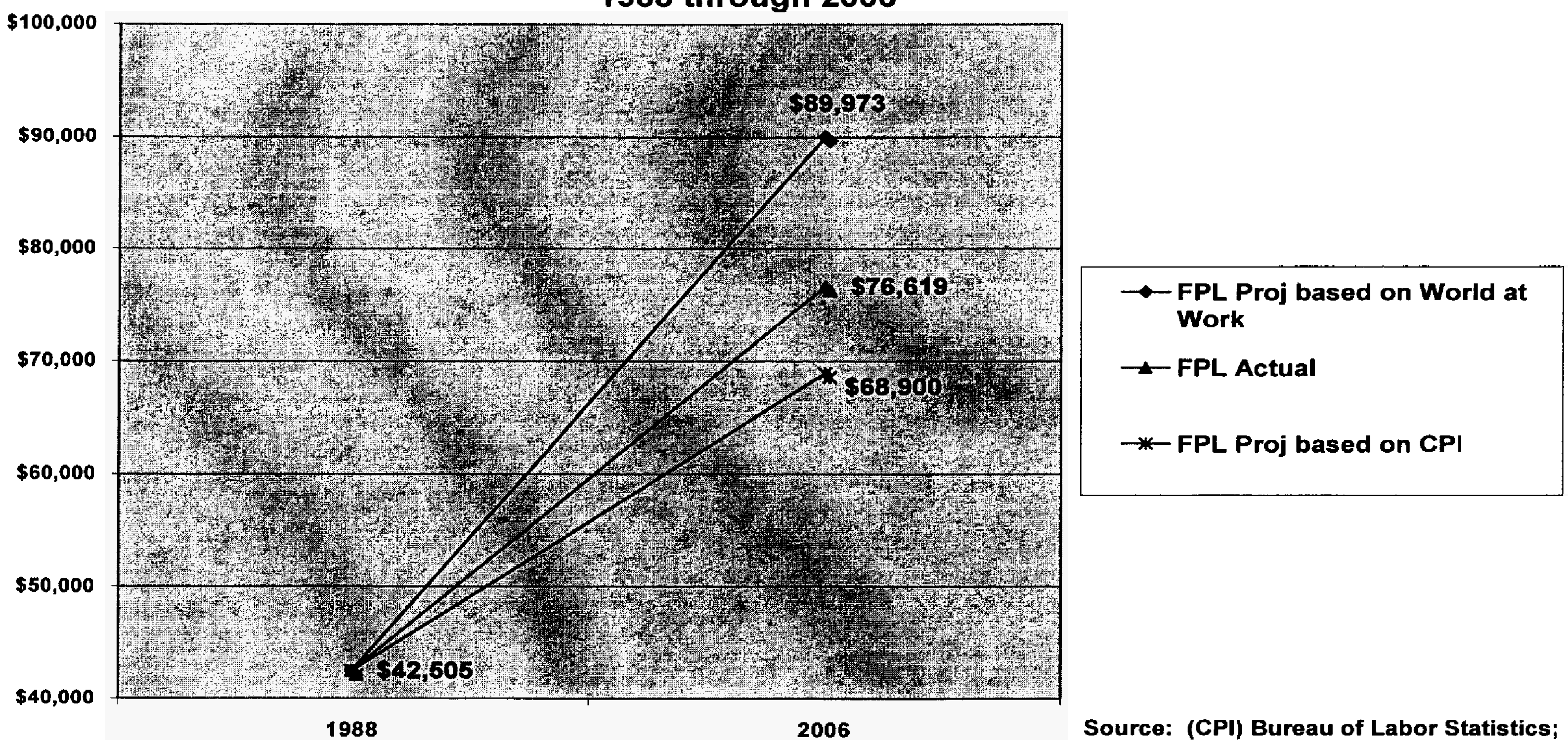


	Exempt	Non-exempt	Org Wide
Market@50th	$77,738	$38,524	$65,167
FPL Base	$77,641	$36,311	$64,391
Pos to Market	-0.1%	-5.7%	-1.2%

Survey conducted internally gathering 2004 data from 62 survey sources including Towers Perrin, Mercer, Watson Wyatt and Hewitt.

FLORIDA POWER & LIGHT COMPANY

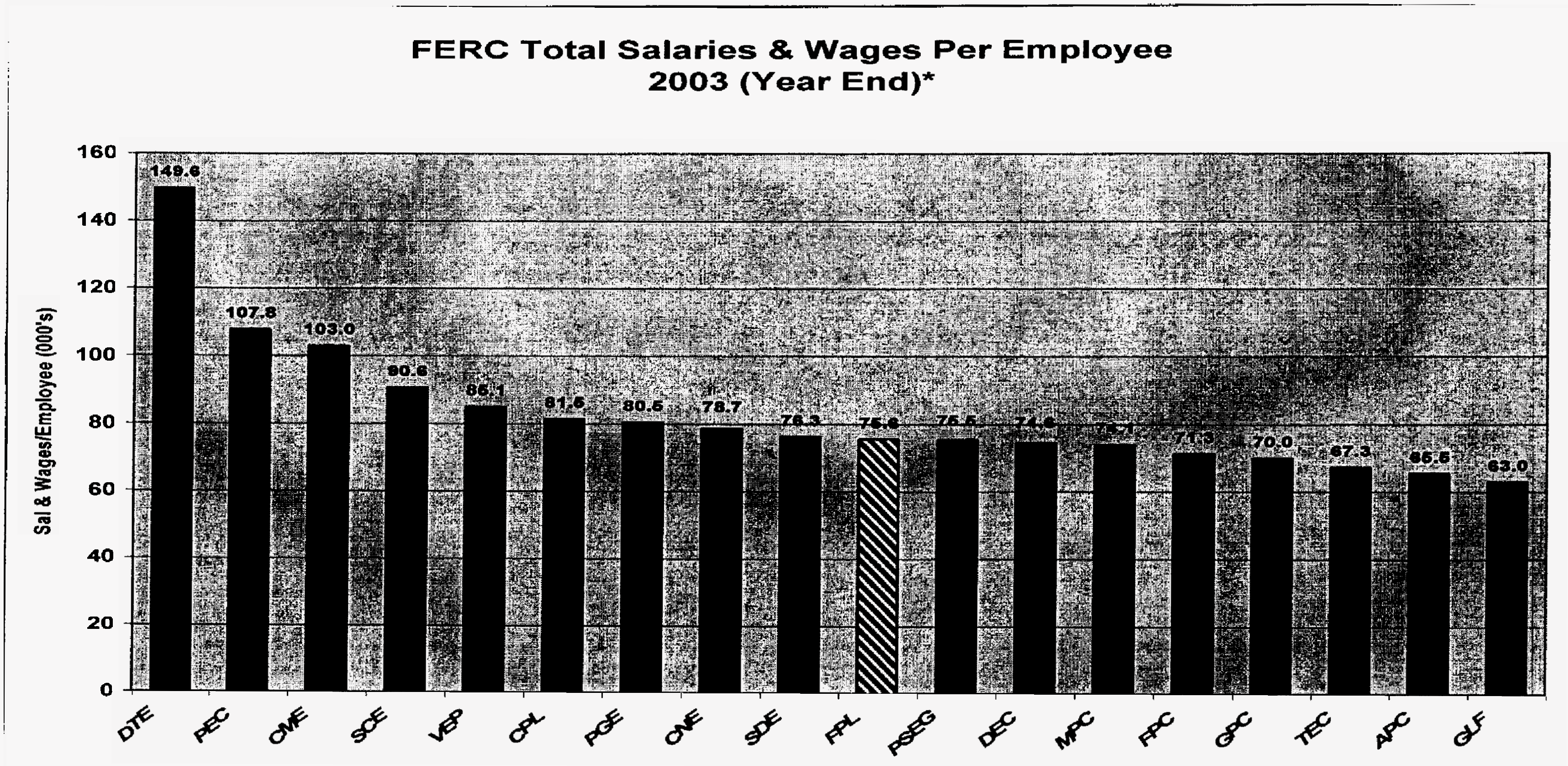
Projected Growth of Total Cash Compensation per Employee based on Escalation of 1988 Actuals 1988 through 2006



Source: (CPI) Bureau of Labor Statistics; World at Work (formerly ACA)

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-3, Page 1 of 1
Projected Growth of Total Cash Comp

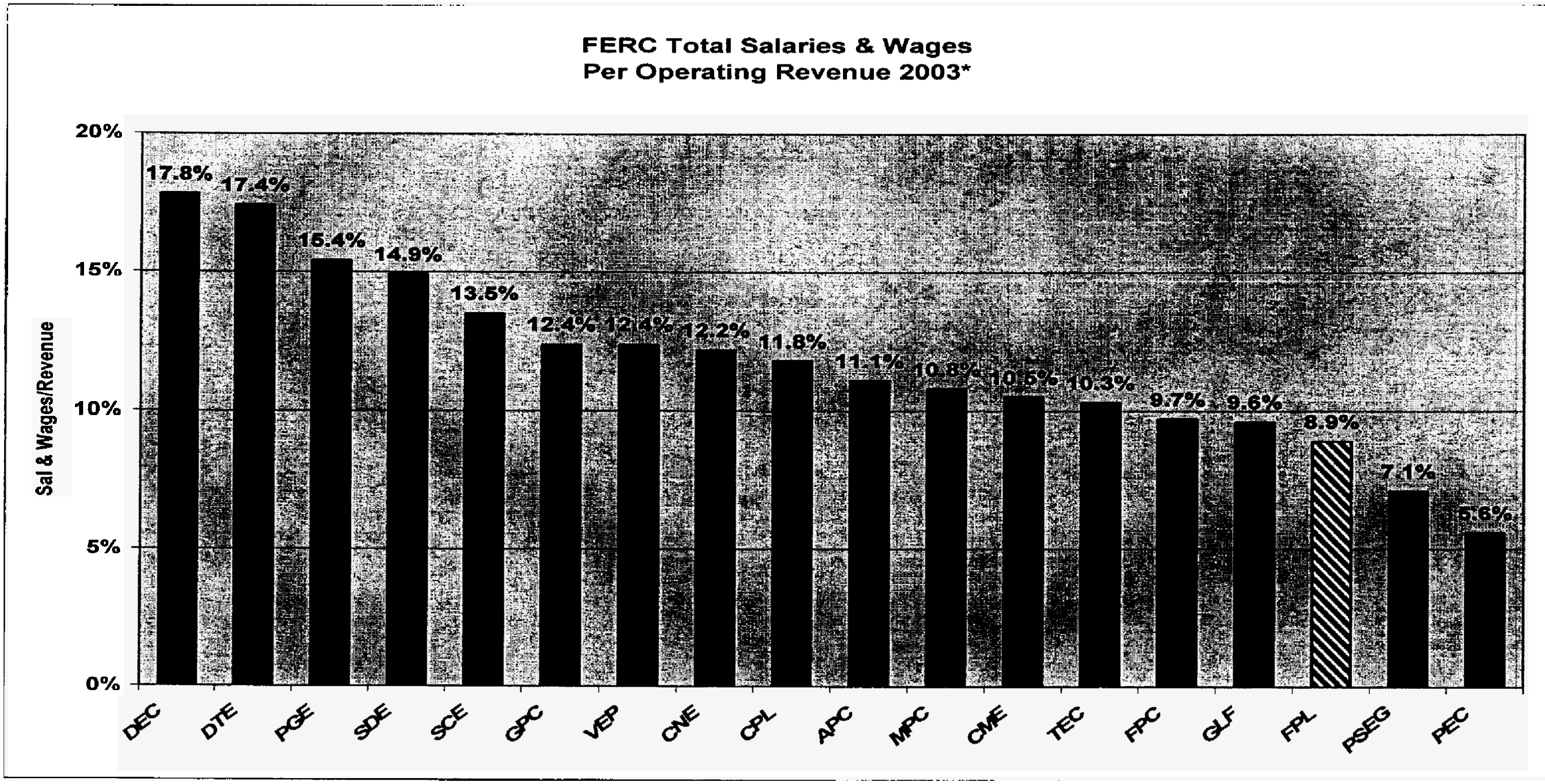
FLORIDA POWER & LIGHT COMPANY



APC	*Alabama Power*	GLF	*Gulf Power*
CPL	*Carolina Power & Light*	MPC	*Mississippi Power*
CME	*Commonwealth Edison*	PGE	*Pacific Gas & Electric*
CNE	*Consolidated Edison*	PEC	*PECO Energy*
DTE	*Detroit Edison*	PSEG	*Public Service Electric & Gas*
*DEC	*Duke Energy Corp (2001)*	SDE	*San Diego Gas & Electric*
*FPC	*Florida Power Corp (2002)*	SCE	*So. California Edison*
FPL	*Florida Power & Light*	TEC	*Tampa Electric*
GPC	*Georgia Power*	VEP	*Virginia Electric & Power*

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-4, Page 1 of 3
FERC Total Salaries & Wages 2003

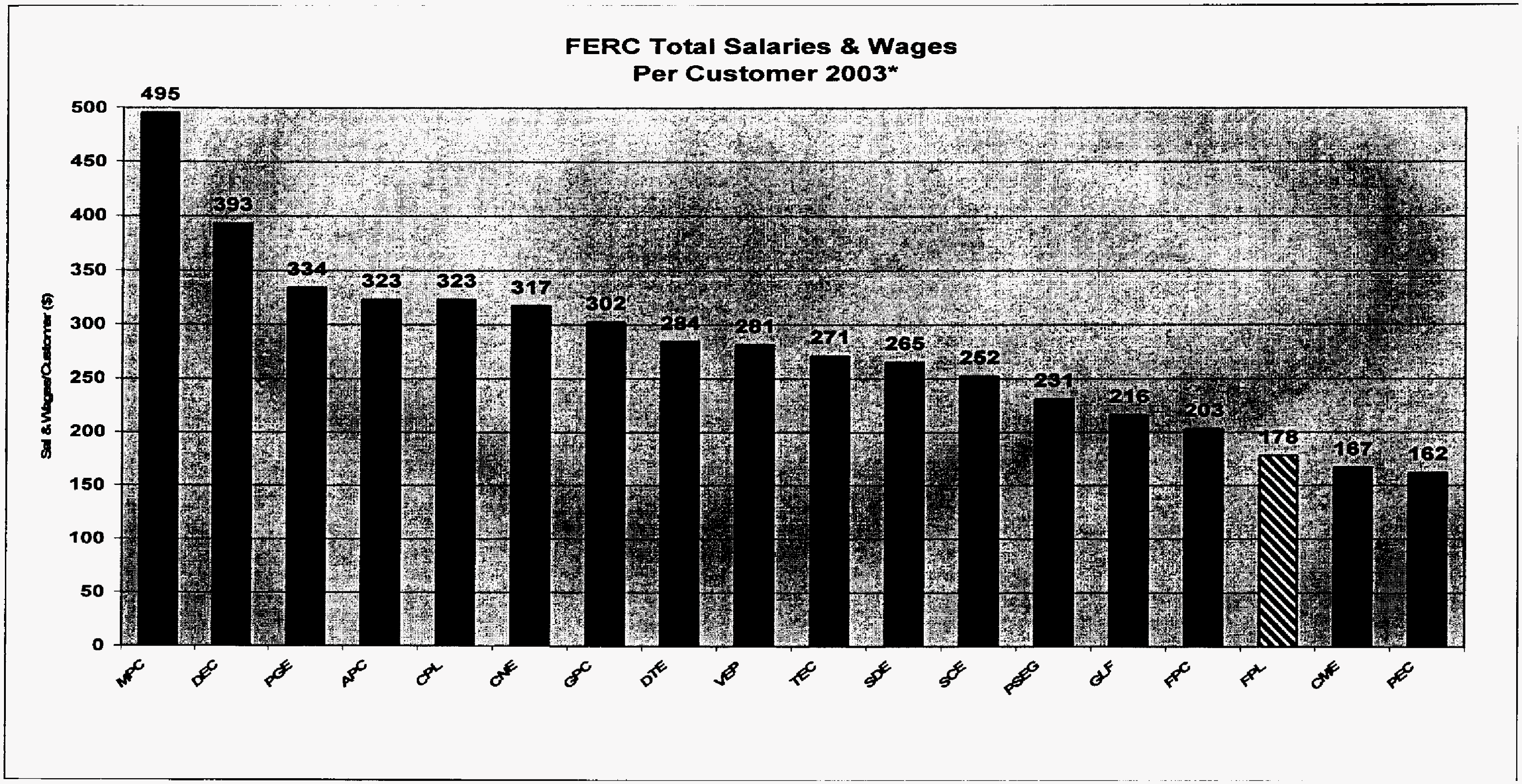
FLORIDA POWER & LIGHT COMPANY



APC	*Alabama Power*	GLF	*Gulf Power*
CPL	*Carolina Power & Light*	MPC	*Mississippi Power*
CME	*Commonwealth Edison*	PGE	*Pacific Gas & Electric*
CNE	*Consolidated Edison*	PEC	*PECO Energy*
DTE	*Detroit Edison*	PSEG	*Public Service Electric & Gas*
*DEC	*Duke Energy Corp (2001)*	SDE	*San Diego Gas & Electric*
*FPC	*Florida Power Corp (2002)*	SCE	*So. California Edison*
FPL	*Florida Power & Light*	TEC	*Tampa Electric*
GPC	*Georgia Power*	VEP	*Virginia Electric & Power*

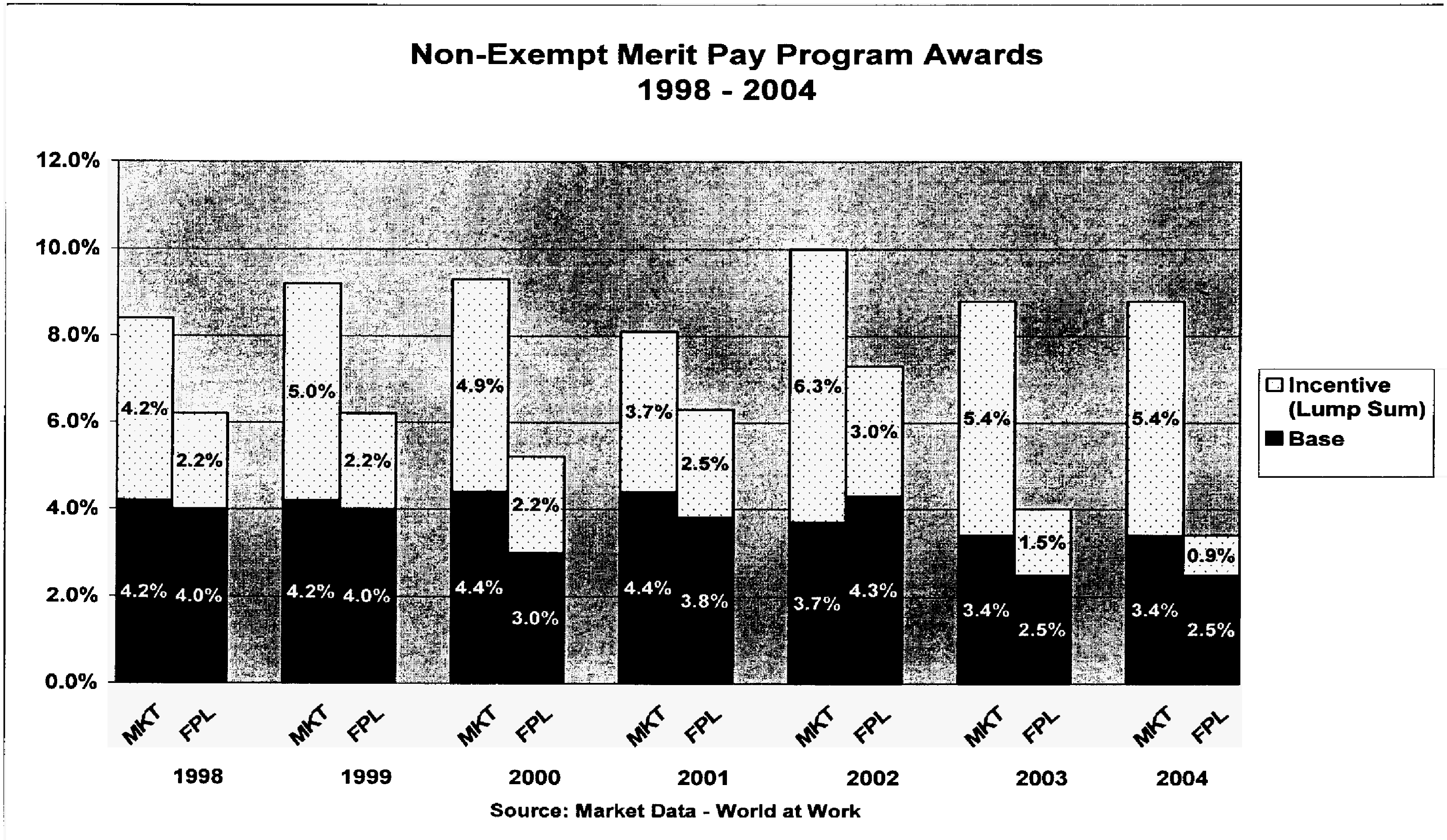
Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-4, Page 2 of 3
FERC Total Salaries & Wages 2003

FLORIDA POWER & LIGHT COMPANY



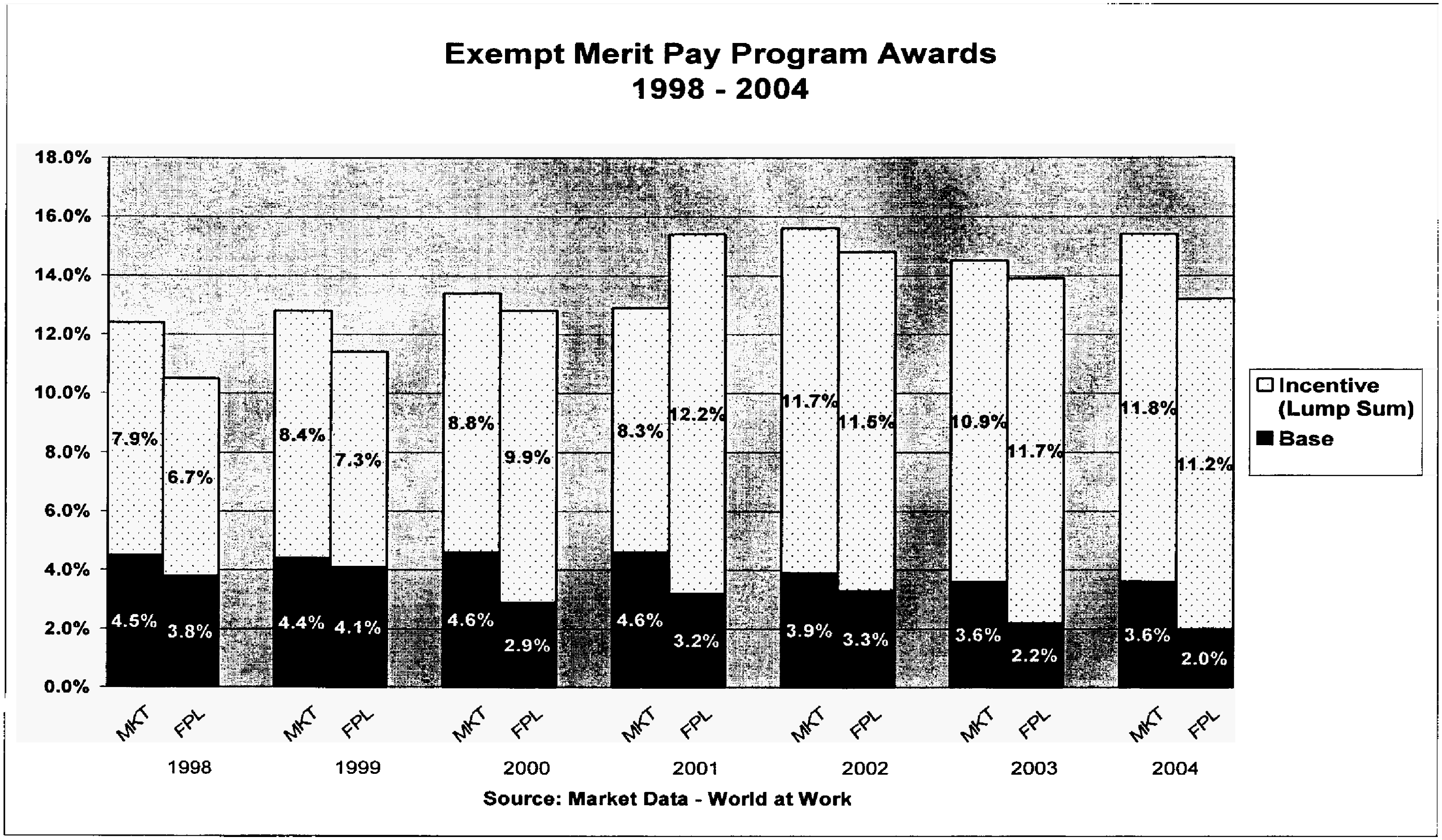
APC	*Alabama Power*	GLF	*Gulf Power*
CPL	*Carolina Power & Light*	MPC	*Mississippi Power*
CME	*Commonwealth Edison*	PGE	*Pacific Gas & Electric*
CNE	*Consolidated Edison*	PEC	*PECO Energy*
DTE	*Detroit Edison*	PSEG	*Public Service Electric & Gas*
*DEC	*Duke Energy Corp (2001)*	SDE	*San Diego Gas & Electric*
*FPC	*Florida Power Corp (2002)*	SCE	*So. California Edison*
FPL	*Florida Power & Light*	TEC	*Tampa Electric*
GPC	*Georgia Power*	VEP	*Virginia Electric & Power*

FLORIDA POWER & LIGHT COMPANY



Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-5, Page 1 of 2
Cash Compensation Percent Increase

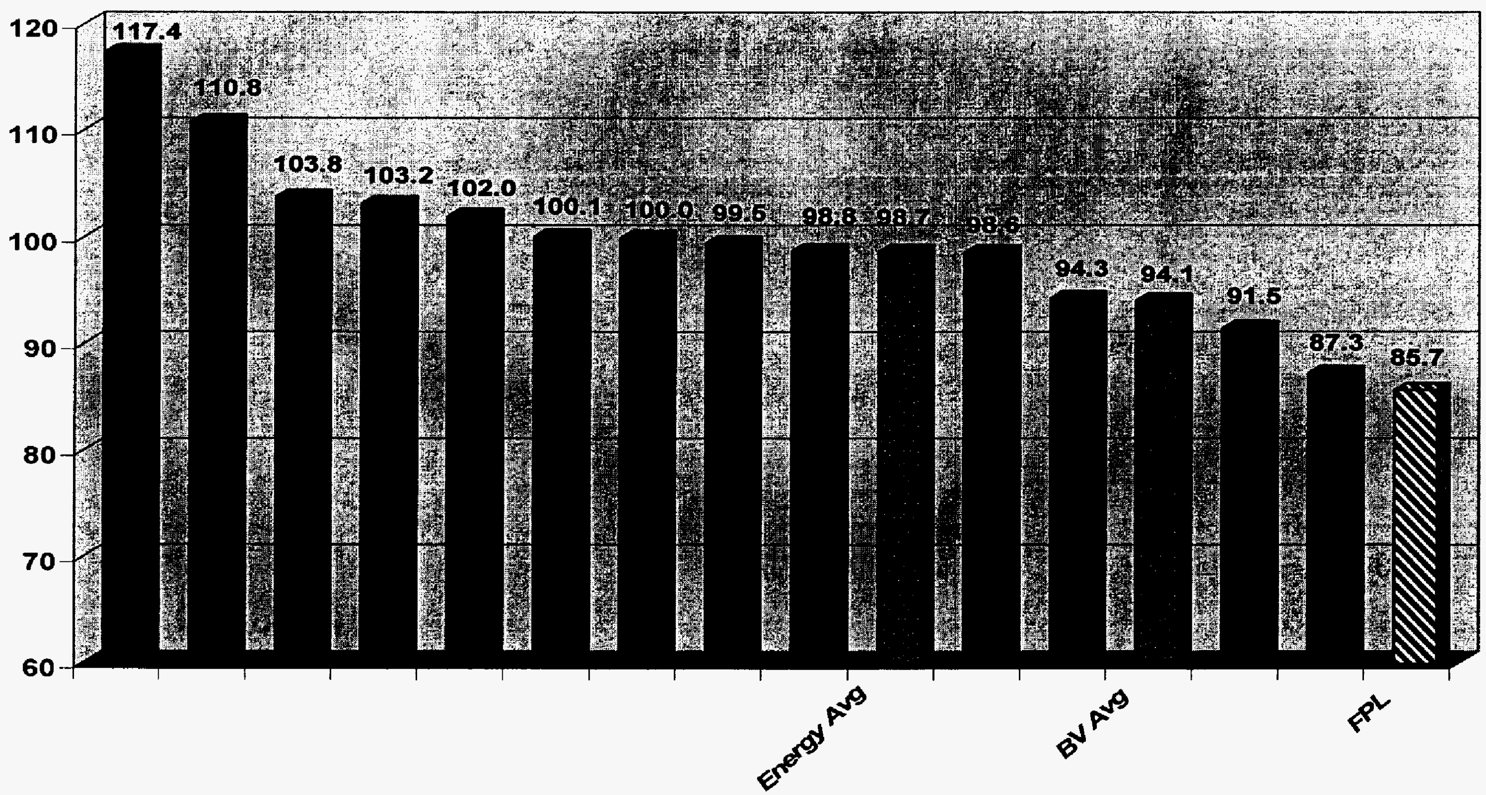
FLORIDA POWER & LIGHT COMPANY



Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-5, Page 2 of 2
Cash Compensation Percent Increase

FLORIDA POWER & LIGHT COMPANY

Relative Value Comparison - 2004
Total Benefit Program



- Note: Includes Medical, Dental, Pension, 401(k), Disability, Death Benefits, Vacation & Holiday.
- Comparison includes Company and Employee Contributions to determine "value" within the BENVAL Methodology.
- Companies Included: PPL, PG&E, FE, Exelon, ConEd, AEP, Constellation, TXU, Entergy, Dominion, Progress, PSE&G, Teco, FPL
- Source: Towers Perrin BENVAL Study, 2005

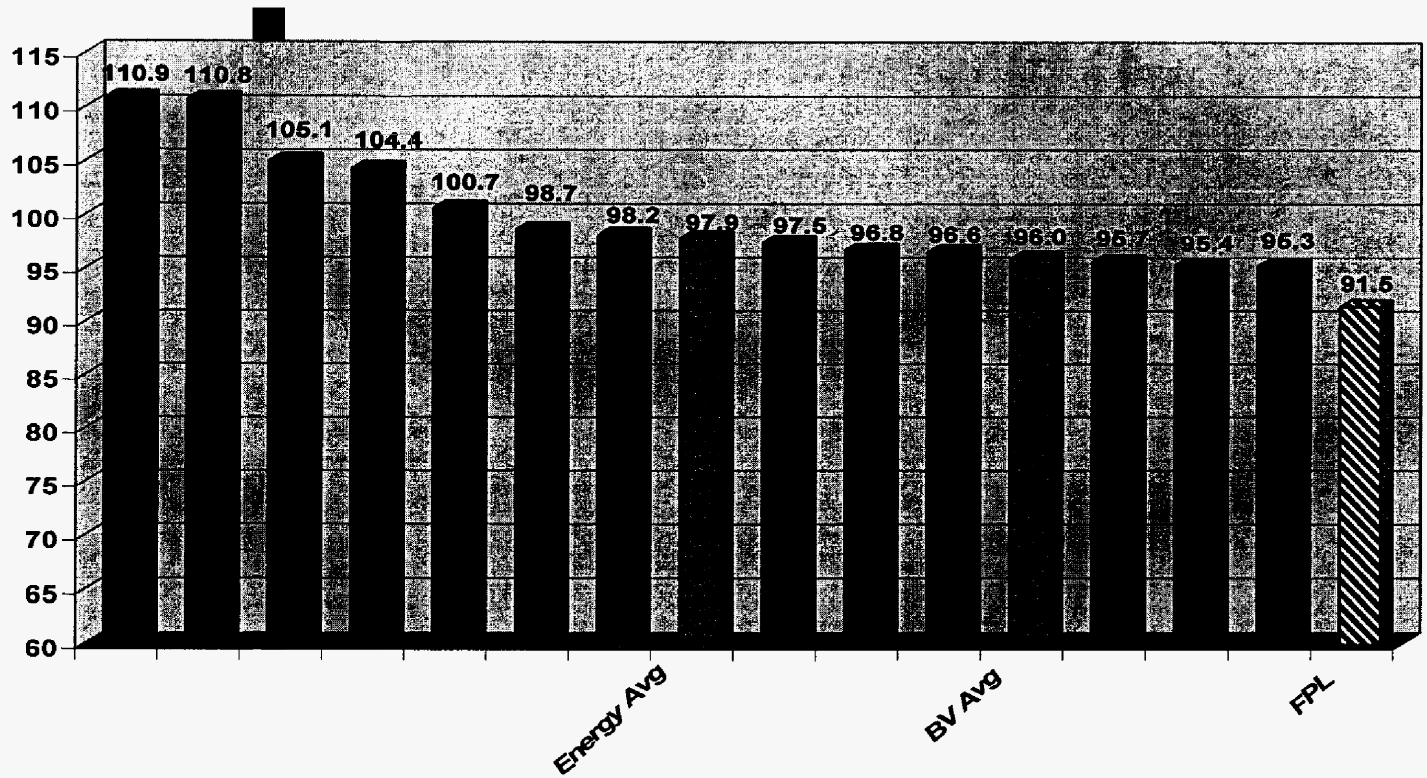
Relative value index = value of specific company's benefit plan divided by plan average of all companies in sample

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-6, Page 1 of 1
Relative Value Comparison – 2004 Total Benefits

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-7, Page 1 of 1
Relative Value Comparison –
2004 Active Employee Medical Plan

FLORIDA POWER & LIGHT COMPANY

Relative Value Comparison - 2004
Active Medical

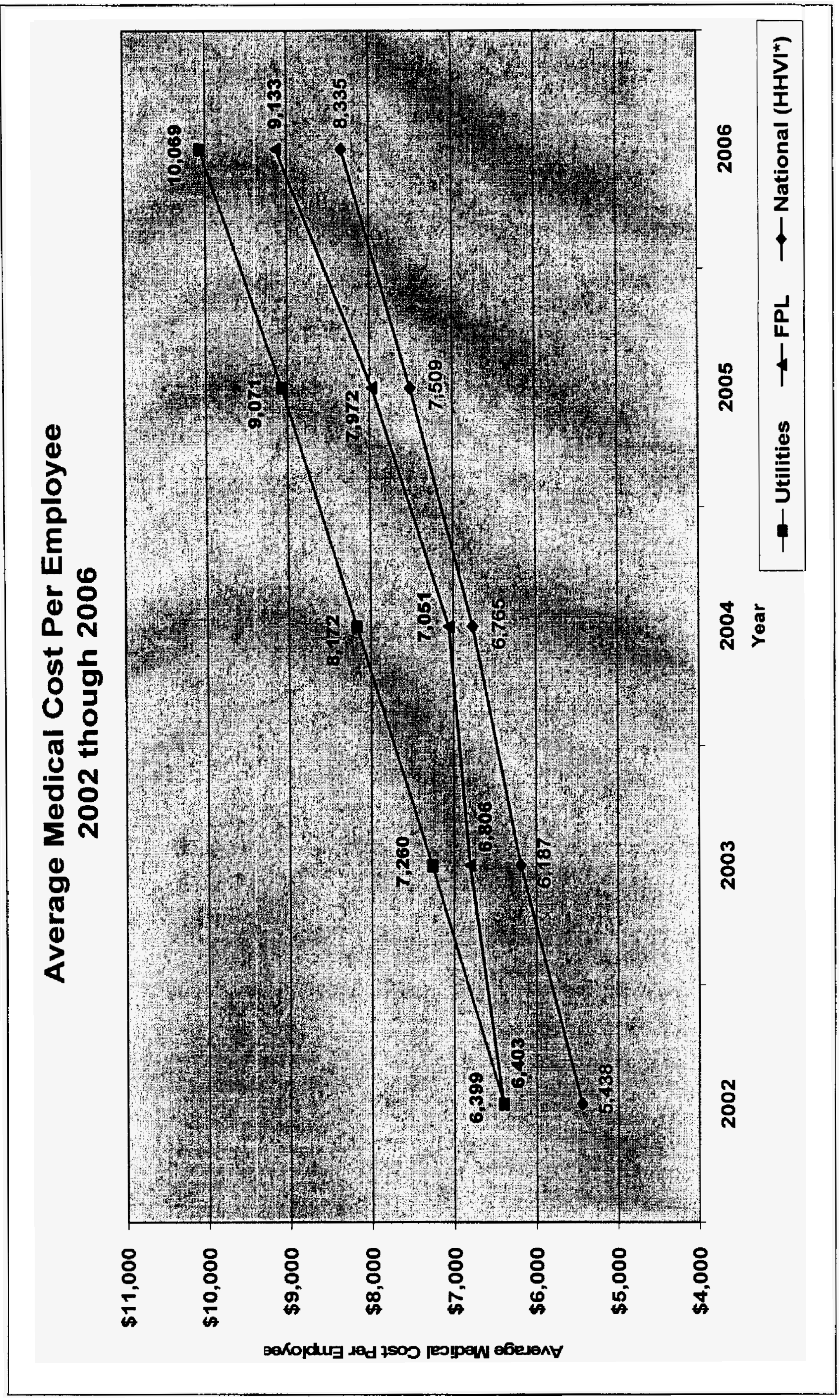


- Comparison includes Company and Employee Contributions to determine "value" within the BENVAL Methodology.
- Companies Included: PPL, PG&E, FE, Exelon, ConEd, AEP, Constellation, TXU, Entergy, Dominion, Progress, PSE&G, Teco, FPL
- Source: Towers Perrin BENVAL Study, 2005

Relative value index = value of specific company's benefit plan divided by plan average of all companies in sample

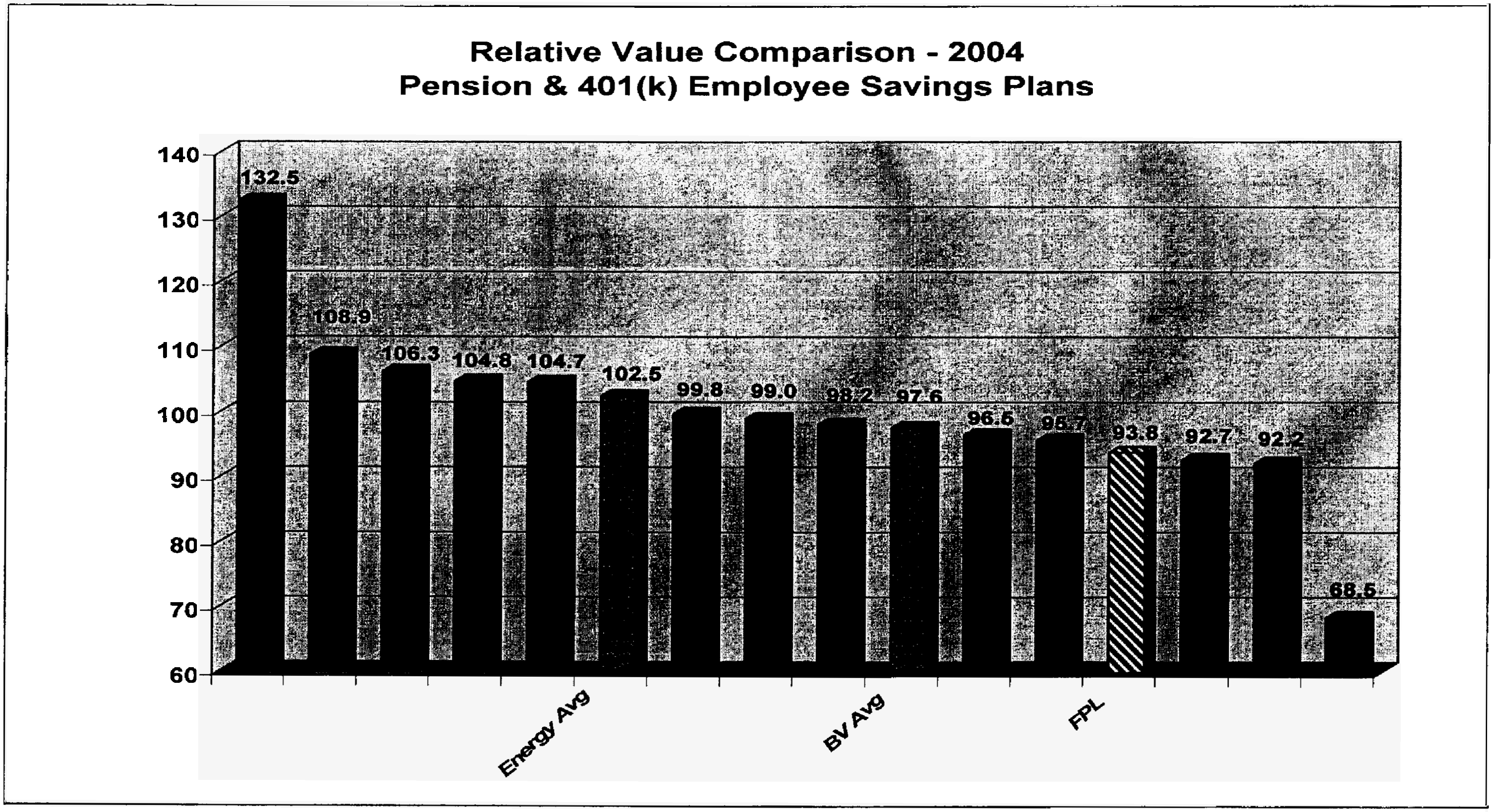
Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-8, Page 1 of 1
Average Medical Cost Per
Employee 2002-2006

FLORIDA POWER & LIGHT COMPANY



Source: Hewitt
* HHVI – Hewitt Health Value Initiative (National Clients)

FLORIDA POWER & LIGHT COMPANY



determine "value" within the BENVAL Methodology.

- Companies Included: PPL, PG&E, FE, Exelon, ConEd, AEP, Constellation, TXU, Entergy, Dominion, Progress, PSE&G, Teco, FPL

Relative value index = value of specific company's benefit plan divided by plan average of all companies in sample

Docket No. 050045_EI
R.H. Escoto Exhibit No. ___
Document No. RHE-9, Page 1 of 1
Projected Total Payroll & Benefits Cost