

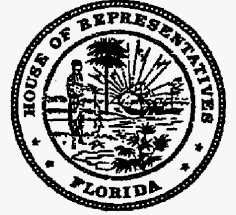
ORIGINAL

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STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL



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Charles J. Beck
Deputy Public Counsel

June 27, 2005

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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Re: Docket Nos. 050045-EI & 050188-EI

Dear Ms. Bayo:

Enclosed for filing, on behalf of the Office of Public Counsel, are the original and 25 copies of the Direct Testimony of Helmuth W. Schultz, III.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck
Deputy Public Counsel

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OPC COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increases by
Florida Power & Light Company.)
)
_____)

Docket No. 050045-EI

In re: 2005 comprehensive depreciation
study by Florida Power & Light
Company.)
)
_____)

Docket No. 050188-EI

Dated: June 27, 2005

DIRECT TESTIMONY

OF

HELMUTH W. SCHULTZ, III

On Behalf of the Citizens of the State of Florida

Harold McLean
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
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of the State of Florida

DOCUMENT NUMBER-DATE

06086 JUN 27 '05

FLORIDA PUBLIC SERVICE COMMISSION CLERK

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1 DIRECT TESTIMONY OF HELMUTH W. SCHULTZ, III
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 FLORIDA POWER & LIGHT COMPANY
5 DOCKET NOS. 050045-EI & 050188-EI

6 I. INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Helmuth W. Schultz, III, I am a Certified Public Accountant licensed in the
9 State of Michigan and a senior regulatory analyst in the firm Larkin & Associates, PLLC,
10 Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan
11 48154.

12
13 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

14 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting
15 Firm. The firm performs independent regulatory consulting primarily for public
16 service/utility commission staffs and consumer interest groups (public counsels, public
17 advocates, consumer counsels, attorneys general, etc.) Larkin & Associates, PLLC has
18 extensive experience in the utility regulatory field as expert witnesses in over 600
19 regulatory proceedings, including numerous electric, water and wastewater, gas and
20 telephone utility cases.

21
22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE
23 COMMISSION?

1 A. Yes, I have testified before the Florida Public Service Commission. I have also testified
2 a number of times before Public Service/Utility Commissions or Boards in other state
3 jurisdictions.

4

5 Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS
6 AND EXPERIENCE?

7 A. Yes. I have attached Appendix I, which is a summary of my regulatory experience and
8 qualifications.

9

10 Q. ON WHOSE BEHALF ARE YOU APPEARING?

11 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC)
12 to review the rate request of Florida Power & Light Company (FPL or Company).
13 Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

14

15 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
16 FLORIDA OFFICE OF PUBLIC COUNSEL IN THIS CASE?

17 A. Yes. Kim Dismukes, David Dismukes, J. Randall Woolridge, Michael Majoros, Patricia
18 Merchant and Hugh Larkin, Jr. and Donna M. DeRonne, of my firm, are also presenting
19 testimony.

20

21 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

22 A. I am discussing the compensation and benefit cost included in the Company's rate
23 request. First, I will discuss the various payroll components, then long-term incentive
24 compensation and finally, benefit expense. Attached to my testimony are Schedules 1-7

1 that reflect the adjustments that I am recommending and Schedule 8 which provides a
2 comparative analysis for informational purposes.

3
4
5 II. PAYROLL

6 Q. DID YOU REVIEW THE COMPANY'S PAYROLL AND BENEFIT SCHEDULE IN
7 THE FILING?

8 A. Yes, I did review Schedule C-35. In addition, I reviewed a number of workpapers
9 provided as supporting detail for Schedule C-35 and responses to a number of
10 interrogatories and production of document requests.

11
12 Q. WHAT AMOUNT OF PAYROLL EXPENSE IS INCLUDED IN THE COMPANY'S
13 REQUESTED O&M EXPENSE FOR 2006?

14 A. Based on the Company's response to Citizens Interrogatory 116, the amount of payroll
15 expense included in the projected 2006 O&M expenses cannot be translated into the level
16 of detail shown on MFR C-1. Schedule C-1, according to the Company, is a high level
17 summary of income and expenses, the net of which is included in the Company's revenue
18 deficiency calculation on MFR Schedule A-1. The total payroll in the MFR's, as shown
19 on Schedule C-35, is \$808,940,000. It consists of three components, base pay, overtime
20 and variable pay.

21
22 Q. HOW CAN THE COMPANY CLAIM IT DOES NOT KNOW HOW MUCH OF THE
23 PROJECTED O&M EXPENSE IN THEIR REQUEST IS PAYROLL RELATED?

24 A. In the response to Citizens Interrogatory 116 (Citizens 116) the Company asserts that the
25 gross payroll on MFR Schedule C-35 is collected from the business units and it cannot be

1 translated to the expense level on MFR Schedule C-1. This same representation is made
2 in the Company's response to Citizens Interrogatory No. 236, where the Company states
3 that "Payroll information for 2006 does not exist." The responses do not make sense and
4 conflict with the response to Citizens Interrogatory No. 50 and the response to Citizens
5 POD Nos. 51 and 52.

6
7 Q. HOW DOES THE RESPONSES CONFLICT WITH EACH OTHER?

8 A. The Company was requested in Citizens 116 to provide, by line, the amount of payroll
9 and benefit from Company's Schedule C-35 that are included on Company Schedule C-1.
10 The response to Citizens Interrogatory No. 116 stated that since payroll is not developed
11 in the forecasting process at the FERC account level the jurisdictional amount cannot be
12 calculated for forecast years 2005 and 2006. The response did not provide the total
13 company O&M expense amount for 2006 or the jurisdictional payroll expense amount for
14 2006. However, in response to Citizens Interrogatory No. 50 the Company attempted to
15 provide an expense amount for the 2006 total gross payroll. Also, in response to
16 Citizen's POD Nos. 51 and 52, the Company provided O&M expense amount by
17 business unit the total of which is reconcilable with the O&M expense on Schedule C-1.
18 This response shows the expense by group and one group, group A, is identified as
19 "Salary & Wages." Therefore, it appears that the Company should have been able to
20 provide a quantification or, at the very least, a reasonable estimate of the payroll expense
21 included in this rate request. It is not appropriate for ratepayers to have to pay rates on a
22 unquantifiable amount of payroll expense. This is especially true since payroll represents
23 approximately 40% of other O&M expense.

24
25 Q. ARE THERE CONCERNS WITH THE 2006 PAYROLL PROJECTIONS?

1 A. Yes. The Company's Schedule C-35 indicates that in 2004 there was an average
2 employee count of 10,000. The Company has projected that there will be an average of
3 10,558 employees in 2006. Citizen's Interrogatory 111 (Citizens 111) requested the
4 Company to provide a listing of the employee positions to be added during 2005 and
5 2006. The requested average increase of 558 positions reflected in the filing exceeds the
6 308 positions identified in the response to Citizens' Interrogatory 111 by 250 positions.
7 Even if one were to add the 308 identified positions to the 10,092 employees on hand at
8 December 2004, which I don't recommend, you would still only have 10,400 employees
9 for 2006, which is 158 employees less than what is identified by the Company on
10 Schedule C-35 as being included in the filing for 2006.

11
12 Q. HOW DID THE COMPANY DEVELOP ITS RATE YEAR EMPLOYEE
13 COMPLEMENT?

14 A. According to the response to Citizens' POD No. 47 (Bates # FPL063873) the Company
15 started with the 2004 actual year end FTE count of 10,025.5 employees and forecasted
16 the 2005 and 2006 year end counts to be 10,476 and 10,639, respectively. Based on the
17 2005 and 2006 year end amounts the average for 2006 is the 10,558 employees
18 referenced earlier. The Company's request for additional employees is actually 613.5
19 positions, the 10,639 employee count at the 2006 year end minus the 10,025.5, the 2004
20 year end count. As stated earlier the Company only identified 308 positions to be added
21 during the two years 2005 and 2006. Assuming the 308 positions are justified and added
22 to the 2004 complement that would leave 305.5 positions that are not identified and/or
23 justified. It should also be noted that when the Company was requested in Citizens
24 Interrogatory No. 44 to provide budgeted employee levels for 2005 and 2006 the
25 response indicated that the year end budgeted count for 2005 and 2006 was 10,463 and

1 10,628, respectively. Therefore, the employee level calculation in the filing used higher
2 year end employee levels than what was reflected in the budget.

3
4 Q. DID YOU INQUIRE AS TO WHY THERE WAS A DIFFERENCE IN THE NUMBER
5 OF EMPLOYEES TO BE ADDED?

6 A. Yes. In Citizens' Interrogatory No. 256, the Company was asked to explain the
7 difference between the 308 new positions identified in Citizens 111 and the 558
8 additional employees reflected in the filing. The response attributed the difference to
9 authorized positions not yet filled and to including part-time and temporary positions as
10 full-time equivalents for 2005 and 2006. The response states that Schedule C-35
11 "overstates the actual staffing growth."

12
13 Q. DOES THE RESPONSE PROVIDE SUFFICIENT JUSTIFICATION FOR THE
14 EMPLOYEE LEVELS REFLECTED?

15 A. No. Basically the response says that in addition to hiring 308 new employees there are a
16 number of vacancies that were authorized, but not filled, that will be filled. Based on the
17 response to Citizens' Interrogatory No. 44 at December 31, 2004 that vacancy number is
18 estimated to be 236 positions. The Company has included compensation in the filing for
19 the vacancies as if vacancies do not exist. Vacancies existed in the past and will exist in
20 the future, the fact that a position is authorized does not mean the position will be filled.
21 Compensation for recurring vacancies should not be included in the cost of service.

22
23 With respect to the claim that part-time and temporary positions are being counted as
24 full-time equivalents, there are inconsistencies in the numbers. For example, the 2004
25 year end count of 10,025.5 used in the average calculation that yields the 10,558 average

1 is less than the 2004 year end headcount of 10,092 reported in the response to Citizens'
2 Interrogatory No. 44. Finally, contrary to the response's suggestions that the number is
3 based on a count and not FTE's, the workpapers provided in response to POD No. 47
4 verify that the 10,025.5 is based on FTE's and not head counts. There has not been an
5 explanation provided that justifies the employee complement in the filing.

6
7 Q. WOULD THE BUDGETED LEVEL OF EMPLOYEES BE A MORE APPROPRIATE
8 EMPLOYEE COUNT TO BE ALLOWED IN RATES?

9 A. No. The percent of actual employees to budgeted employees for the year end 2002, 2003
10 and 2004 was 94.4%, 99% and 97.7%, respectively. A simple average indicates that 97%
11 of the budgeted employee count at year end has been filled. Assuming that 97% of the
12 2005 and 2006 year end budgeted employee positions were filled, the Company would
13 have an average of 10,229 positions in 2006. Compared to the 10,558 average in the
14 filing the Company has included an excessive number of employees in its rate request.

15
16 Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO PAYROLL EXPENSE
17 BASED ON THE EMPLOYEE COMPLEMENT?

18 A. Yes. As shown on Schedule 1, a base pay reduction of at least \$8,563,751 is
19 recommended. That adjustment is based on a reduction of 228 positions from the
20 Company's 2006 average number of employees of 10,558. That adjustment assumes that
21 299 positions will be added to the 2004 average of 10,031 positions for a total employee
22 complement of 10,330 in 2006. The 299 positions represent 97% of the 308 positions the
23 Company identified in Citizens' Interrogatory No. 111.

24
25 Q. WHY SHOULD THE COMMISSION ACCEPT YOUR ADJUSTMENT?

1 A. The Company's 2006 payroll assumes the Company will hire not only the 308 positions
2 identified in the response to Interrogatory No. 111, but also a number in excess of the 230
3 vacancies the Company had at December of 2004. The Company's assumption is not
4 realistic. My adjustment for employees assumes 97% of the identified new positions will
5 be filled despite a lack of evidence that the positions will, in fact, be filled. My
6 adjustment is also conservative since it calculates the average pay based on the Company
7 employee number which the Company has stated is overstated.

8
9 Q. ARE YOU PROPOSING ANY ADDITIONAL ADJUSTMENT TO PAYROLL?

10 A. Yes. The amount of overtime in 2006 is excessive when compared to historical overtime.
11 In 2001 overtime pay was \$100,325,968, in 2002 overtime pay declined to \$91,085,264
12 and in 2003 overtime pay was \$102,031,660. There is no justification for the 2006
13 overtime pay level of \$109,674,090.

14
15 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO OVERTIME PAY?

16 A. As shown on Schedule 2, total overtime should be reduced \$1.5 million and O&M
17 expense should be reduced \$936,304 on a jurisdictional basis.

18
19 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

20 A. The actual overtime for 2001-2003 was inflated using the highest annual percentage pay
21 increases from the response to Citizens' Interrogatory No. 47. The adjusted overtime was
22 averaged and the difference between the average and the Company's 2006 overtime was
23 the \$1.5 million. As shown on Schedule 2, the \$1.5 million was apportioned to O&M
24 and then jurisdictionalized.

25

1 Q. ARE THERE ANY CONCERNS WITH THE AMOUNT OF VARIABLE PAY?

2 A. Yes. First, the level of variable pay is high, and second what the Company has included
3 as variable pay is not readily identifiable and quantifiable.

4

5 Q. WHAT DO YOU MEAN THE AMOUNT INCLUDED IS NOT READILY
6 IDENTIFIABLE AND QUANTIFIABLE?

7 A. Citizens' Interrogatory No. 49 requested a breakdown of historical and projected payroll
8 by salary and wages, overtime, premium pay, incentive compensation, long-term
9 incentive, etc. that was to reconcile with the Company's Schedule C-35 in the filing. The
10 response did provide base pay, overtime pay and a total that tied into the Schedule C-35
11 amount. The other compensation detail requested was lumped into a "Variable Pay"
12 classification. I will note that the response also stated that long-term incentive is
13 "generally not reflected" in the payroll in MFR C-35.

14

15 Q. DID YOU TRY TO GET MORE INFORMATION ON WHAT WAS INCLUDED IN
16 THE VARIABLE PAY?

17 A. Yes, I did and part of the reason for getting the added information was because two
18 responses to interrogatories specific to incentive compensation amounts, which is a
19 significant portion of the variable amount, were not consistent. In Citizens' Interrogatory
20 No. 255 (Citizens 255) the Company was requested to provide the breakdown of variable
21 pay originally requested in Citizens' Interrogatory No. 49. In addition the Company was
22 requested to provide an explanation and reconciliation if the incentive compensation
23 amount, in the breakdown requested, was different from that provided in Citizens'
24 Interrogatories Nos. 43 and 76 (Citizens 43 and Citizens 76).

25

1 Q. DID YOU GET A RESPONSE THAT PROVIDED WHAT YOU REQUESTED?

2 A. No. Instead the response provided a different amount for base pay, overtime and variable
3 pay for each of the years in the original request. As shown on Schedule 8, the differences
4 between the amounts in Citizens 49 and Citizens 28 are significant. While the response
5 to Citizens' No. 255 did reconcile the incentive pay in Citizens 255 to revised Citizen 43
6 amounts it did not provide a reconciliation with Citizens 76. Since all the components
7 were different the identity and amounts for variable pay included in the filing remain
8 unknown.

9
10 Q. WHAT DID YOU ASCERTAIN ABOUT THE VARIABLE PAY?

11 A. In 2006, variable pay represents 10.19% of the \$808.9 million of the projected payroll.
12 Based on Citizens 49 and Citizens 255, I believe that included in variable pay, but not
13 limited to, is other earnings, annual incentive pay and signing or retention bonuses. As
14 shown on Schedule 8, there is one consistency, that consistency is, historically the annual
15 incentive compensation amount remained level for the last four years at approximately
16 \$36 million. However, the Company ignored that trend and increased the annual
17 incentive compensation in 2006 by 20% to \$43,297,600. This increase is not justified.

18
19 Q. WHAT IS INCLUDED IN OTHER EARNINGS?

20 A. Other earnings include lump sum merit payments, geographic differentials, severance
21 pay, final vacation pay, bonuses, relocation payments, tax gross ups, opt out benefit pay
22 and miscellaneous earnings. Historically, from 2001-2004, the other earnings ranged
23 from \$18 million to \$23.9 million. There is no information identifying what level is
24 included in 2006, so this cost remains an unquantified concern.

25

1 Q. WHAT IS THE RANGE IN COSTS FOR SIGNING OR RETENTION BONUSES?

2 A. For the years 2001-2004 the cost ranged from \$1.5 million to \$5.2 million. In 2004 the
3 bonus was \$2.9 million. The payment of this bonus is excessive when you consider the
4 compensation levels in general and the amount in 2006 is not known.

5
6 Q. WHAT ADJUSTMENT TO VARIABLE PAY ARE YOU RECOMMENDING?

7 A. I am recommending two adjustments to the annual incentive compensation. First, at a
8 minimum the 2006 total annual incentive amount of \$43,297,600 should be reduced by
9 \$7,189,830 to the four year average of \$35,952,383. As shown on Schedule 3, Page 1 of
10 2, O&M expense should be reduced \$4,619,385, on a jurisdictional basis. Adjusting the
11 2006 incentive compensation to the four year average is appropriate and takes into
12 consideration the fact that over the last four years the cost of this plan has remained flat.

13
14 Q. WHAT IS YOUR SECOND ADJUSTMENT TO ANNUAL INCENTIVE
15 COMPENSATION?

16 A. I am recommending a 50/50 sharing of the incentive compensation for the remaining
17 \$35,952, 383. As shown on Schedule 3, Page 2 of 2, the sharing results in a reduction to
18 O&M expense of \$11,549,500 on a jurisdictional basis.

19
20 Q. WHY ARE YOU RECOMMENDING AN EQUAL SHARING OF INCENTIVE
21 COMPENSATION COSTS?

22 A. Incentive compensation is theoretically intended to reward for performance. The key
23 performance indicator is generally net income. In order to claim success the performance
24 must be measured by accomplishing a set of goals. The goals must be set as a level that
25 requires performance above previous accomplishments. All of FPL goals do not meet

1 that challenge. For example, 2005 Annual Incentive Plan allows a 100% payout of the
2 target award if net income is \$662 million. The Company achieved that level of income
3 in 2001, 2002, 2003 and 2004 according to the response to Citizens' POD No. 82. Based
4 on history, there is no incentive to increase net income. Similarly, some performance
5 goals previously achieved have not been raised to require extra performance.

6
7 Another reason for sharing is that the benefit from the outstanding performance that
8 contributed to the Company's success is, in theory, to be shared by ratepayers and
9 shareholders. Ratepayers theoretically receive the benefit through lower rates because
10 the cost of service is less. Shareholders benefit by earning a return on their investment.
11 And if the performance is outstanding enough that shareholders ROE is in excess of the
12 allowed ROE, shareholders receive an additional benefit. In recent years FPL
13 shareholders have received this additional benefit. An equal sharing of the risk and
14 benefits associated with this theoretically discretionary cost is appropriate.

15
16 III. OTHER COMPENSATION

17 Q. ARE YOU MAKING ANY RECOMMENDATION FOR THE TREATMENT OF
18 LONG-TERM INCENTIVE COMPENSATION?

19 A. Yes. As shown on Schedule 4, my primary recommendation is that the entire
20 \$29,717,000 projected cost in 2006 be removed. On a jurisdictional basis that would be a
21 reduction to O&M expense of \$29,391,450. As an alternative and at a minimum, the cost
22 of service should be reduced \$21,414,703 on a jurisdictional basis.

23
24 Q. WHY ARE YOU RECOMMENDING THE LONG-TERM INCENTIVE
25 COMPENSATION BE DISALLOWED ENTIRELY?

1 A. In response to Citizens POD No. 82 the Company provided copies of the respective
2 plans. The purpose of the long-term plan is as follows:

3 SECTION 1. Purpose. The purpose of this Amended and Restated Long
4 Term Incentive Plant (the "Plan") of FPL Group, Inc. (together with any
5 successor thereto, the "Company") is (a) to promote the identity of
6 interests between shareholders and employees of the Company by
7 encouraging and creating significant ownership of common stock of the
8 Company by officers and other salaried employees of the Company and its
9 subsidiaries; (b) to enable the Company to attract and retain qualified
10 officers and employees who contribute to the Company's success by their
11 ability, ingenuity and industry; and (c) to provide meaningful long-term
12 incentive opportunities for officers and other employees who are
13 responsible for the success of the Company and who are in a position to
14 make significant contributions toward its objectives. (Emphasis added.)
15

16 The following is part of the overview of the Non-Qualified Stock Option Program:

17 The stock option program is the latest addition to our performance-based pay
18 program, and it provides a long-term component to our total compensation
19 package. While short-term (annual) rewards provide immediate payback to
20 employee contributions, this program allows individuals with key talents to
21 receive a personal reward that is tied to FPL's stock price and shareholder
22 interests.
23

24 It is FPL's philosophy that an enhanced sense of employee ownership, and
25 a shared focus on growing the Company and increasing shareholder value,

1 are important elements of our long-term success. We would like you to
2 have an opportunity to share in the continued growth of FPL through this
3 stock option grant under the FPL Group, Inc. Long-Term Incentive Plan
4 (the "Plan"). The following represents a brief description of your stock
5 option grant followed by information about your grant written in a
6 question and answer format.* (Emphasis added.)

7
8 It must be noted that there is no mention of customer service quality or reliability in the
9 long-term incentive plan purpose statement. In fact, ratepayers are not even mentioned in
10 the purpose or the plan. The overview of the non-qualified stock option program is
11 focused on increasing shareholder value. No mention of quality of customer service or
12 reliability is made. It is clear that the purpose of the plans is to enhance shareholder
13 value and because shareholders are the intended direct beneficiary the shareholder should
14 be responsible for the cost associated with receiving that benefit. The entire cost of the
15 long-term incentive plan should be borne by shareholders. The adjustment recommended
16 is appropriate.

17
18 Q. IF THE SHAREHOLDERS VALUE IMPROVES, ISN'T THERE SOME BENEFIT TO
19 RATEPAYERS?

20 A. That may be true to some extent, but the value of shares can increase without benefiting
21 ratepayers. For example, maintenance could be deferred to increase profits. I am not
22 saying that is what has occurred or will occur, but it is a possibility. The main factor is
23 that the focus, as stated, is shareholders and a select group of employees with no mention
24 of improving customer service. For cost that are to be included in rates, the costs are to
25 be for the benefit of ratepayers and there is no evidence that the long-term incentive plans

1 provide a benefit to ratepayers or are even intended to benefit ratepayers. In fact, the
2 cost in question may not even require a real cash outlay and the end result of the benefit
3 may be a cost to be borne twice by ratepayers.

4
5 Q. PLEASE EXPLAIN WHY THE COMPANY MAY NOT HAVE A REAL CASH
6 OUTLAY AND HOW RATEPAYERS MAY BE PAYING TWICE.

7 A. The issuance of stock as an added benefit can come from designated shares that are
8 authorized but unissued. The only cash outlay by the Company for this extra benefit to a
9 select employee group is administrative in nature. Once issued common equity is
10 increased which impacts the capital structure and requires a return from ratepayers for a
11 return on the increased common equity. Ratepayers have supplied capital to the
12 Company as part of the rates charged to them even though the Company has not
13 expended the funds. Then ratepayers are required to pay a return on essentially the same
14 funds they provided to the Company. This is not appropriate.

15
16 Q. COULD YOU EXPLAIN WHY YOU OFFERED AN ALTERNATIVE
17 ADJUSTMENT?

18 A. Yes. The Commission may be convinced during the hearing that there is some benefit
19 and some of the cost is justified and if that is the case, the Commission must decide on
20 what level of cost is reasonable. The alternative recommendation first adjusts for the
21 excessiveness of the amount requested. From 2002-2004 the costs, similar to the annual
22 incentive plan, were relatively flat. The cost of the long-term incentives ranged from
23 \$14.5 million to \$17.4 million while averaging \$16,130,200. The Company's request in
24 2006 is for \$29,717,000, an increase of 84.2%. The only way such an increase could be
25 justified by the company, based on the purpose of the plans, is the approval of the rate

1 increase requested, which will fulfill the purpose of the plans by increasing shareholder
2 value. The excess costs should not be allowed. Also, after adjusting for the excessive
3 request then at least fifty percent of the remaining \$16,130,200 or \$7,976,747 on a
4 jurisdictional basis, should be disallowed as being shareholder related. There should be
5 no doubt that the long-term incentive plan is for the enhancement of shareholder value
6 and therefore at a minimum an adjustment of \$21,414,703, on a jurisdictional basis, is
7 justified.

8
9 IV. FRINGE BENEFITS

10 Q. WHAT HAS THE COMPANY IDENTIFIED AS FRINGE BENEFITS?

11 A. The Company identified a number of benefits on Company Schedule C-35. The benefits
12 listed include, but are not limited to, medical insurance, pension plan, employee savings
13 plan, payroll taxes, workers compensation insurance, post retirement medical benefits
14 and employee welfare costs.

15
16 Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE BENEFITS
17 IDENTIFIED?

18 A. Yes. Some adjustments are recommended based on the direct relationship to payroll and
19 my recommended payroll adjustments, and other adjustments are recommended based on
20 either the Company's calculation and or the excessiveness of the amount in question.

21
22 Medical Insurance

23 Q. ARE YOU RECOMMENDING AN ADJUSTMENT BE MADE TO THE COST FOR
24 MEDICAL INSURANCE?

1 A. Yes. As shown on Schedule 5, the medical insurance expense should be reduced
2 \$2,409,020 on a jurisdictional basis. The adjustment takes into consideration changes in
3 employee numbers, changes in assumptions and inconsistency in the Company filing.

4
5 Q. PLEASE EXPLAIN THE INCONSISTENCY AND CHANGES?

6 A. The Company, in response to Citizens POD No. 7, had a correspondence (Bates No.
7 FPL051976 and FPL051977) that indicates the Company projected benefit costs are
8 based on a different headcount than the headcount incorporated in the business unit
9 forecast. Presumably, the benefits cost is based on a headcount of 10,424 according to
10 the correspondence. The inconsistency is that the response to Citizens Interrogatory No.
11 51 states that medical costs for 2006 were based on an approximate 3% increase in
12 covered employees in 2005 and a 1% increase in 2006. However, the response to
13 Citizens Interrogatory No. 36 indicates the 401(k) benefit reflected a 1% change in
14 participants in 2005 and again in 2006. The changes that I am reflecting include actual
15 FPL 2004 per employee costs from a March 2005 Hewitt Health Value Initiative study
16 (Citizens POD No. 143) and the projected per employee cost for 2005. The change in
17 employee numbers in the benefit compensation is consistent with my recommended
18 payroll complement of 10,330. Unlike the Company's different counts of either 10,424,
19 10,628 (business unit count per POD No. 7) or the 10,558 on Company Schedule C-35.
20 The change in assumption referred to is my use of the March 2005 Hewitt Health Value
21 Initiative reflecting a 10% increase for 2005 instead of the 13% the Company claims that
22 they reflected in their projection.

23
24 Q. WAS THERE ANYTHING ELSE YOU CONSIDERED IN DETERMINING THE
25 REASONABLENESS OF THE COMPANY'S PROJECTION?

1 A. Yes. In response to Citizens POD NO. 56 a document identified as Human
2 Resources/Corporate Services 2005 Budget Review with the words "Final Approved" on
3 it, indicated the 2005 budget for medical was based on an 11.4% increase and not the
4 13% increase used by the Company, and the employee participant increase in the budget
5 was 1% instead of the 3%, reportedly used by the Company in the filing.

6

7 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

8 A. The Company's response to Citizens POD No. 143 included the March 2005 Hewitt
9 study referred to earlier. The study included the 2004 employers cost and employees
10 covered as shown on lines 1 and 2 of Schedule 5. From that information the average cost
11 per employee was calculated to be \$5,786. The study projected the 2005 cost to be
12 \$6,386 or about a 10% increase over 2004. The Company in its response to Citizens
13 Interrogatory No. 51 utilized a 15% increase for 2006. The same 15% was applied to the
14 2005 projected cost of \$6,386 resulting in an average employer cost per employee of
15 \$7,344 for the year 2006. That \$7,344 average was multiplied by the recommended 2006
16 complement of 10,330 resulting in a cost of \$75,862,847. That calculated cost is
17 \$3,749,513 less than the Company's projection of \$79,612,000. After applying the
18 respective O&M factor and jurisdictional factor a \$2,409,020 reduction to expense
19 results. The adjustment should be adopted because it is based on more current
20 information and reflects a more accurate employee count.

21

22 Pensions

23 Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE PENSION EXPENSE
24 CREDIT REFLECTED BY THE COMPANY?"

1 A. Yes. Based on the February 2005 actuarial determination the Company's pension credit
2 for 2006 should be increased (reducing O&M expense) by \$4,759,000 on a jurisdictional
3 basis.

4

5 Q. WHAT DID YOU ANALYZE TO MAKE YOUR DETERMINATION?

6 A. The Company's response to Citizens POD No. 108 provided the detail utilized by the
7 Company for making the projections for 2006. A February 2005 Actuarial Report
8 reflected the same pension credit for 2004 and 2005 as shown in Citizens POD No. 108.
9 The common factor noted in the recent studies is that the projection for the 2006 pension
10 credit is the worst case scenario being forecasted for the years 2006-2010. It was also
11 noted that for 2005 the original pension credit was less than the revised pension credit.
12 The pension credit projection for 2006 will not be the same as the actuarial determination
13 of the pension credit for 2006. The February 2005 actuarial determination provides an
14 amount for 2005 that is known and measurable. The forecast for the years 2006-2010
15 averages out to about the same as 2005. Based on the forecast and the 2005
16 determination it is recommended that the 2006 pension credit be based on the 2005
17 credit, the last actuarially determined amount. The adjustment of \$4,759,000 as shown
18 on Schedule 6, is simply the difference between the 2005 and 2006 credits reflected on
19 Company Schedule C-35 multiplied by the O&M expense factor and the jurisdictional
20 allocation factor.

21

22 Payroll Tax Expense

23 Q. ARE YOU MAKING AN ADJUSTMENT TO PAYROLL TAX EXPENSE BASED ON
24 THE RECOMMENDED PAYROLL ADJUSTMENT?

1 A. Yes. As shown on Schedule 7 taxes other should be reduced \$1,803,271 on a
2 jurisdictional basis. The adjustment utilizes the same 6.98% effective pay rate used by
3 the Company multiplied by the sum of the various payroll adjustments recommended.
4 That result is then multiplied by the Company's jurisdictional factor for payroll taxes as
5 shown on Company Schedule C-4.

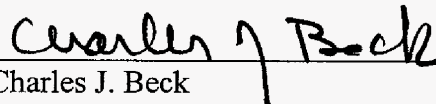
6

7 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

8 A. Yes, it does.

**DOCKET NOS. 050045-EI and 050188-EI
CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties on this 27th day of June, 2005.


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Docket Nos. 050045-EI &
050188-EI

APPENDIX

QUALIFICATIONS OF HELMUTH W. SCHULTZ III, CPA

APPENDIX

QUALIFICATIONS OF HELMUTH W. SCHULTZ III, CPA

Mr. Schultz received a Bachelor of Science in Accounting from Ferris State College in 1975. He maintains extensive continuing professional education in accounting, auditing, and taxation. Mr. Schultz is a member of the Michigan Association of Certified Public Accountants

Mr. Schultz was employed with the firm of Larkin, Chapski & Co., C.P.A.s, as a Junior Accountant, in 1975. He was promoted to Senior Accountant in 1976. As such, he assisted in the supervision and performance of audits and accounting duties of various types of businesses. He has assisted in the implementation and revision of accounting systems for various businesses, including manufacturing, service and sales companies, credit unions and railroads.

In 1978, Mr. Schultz became the audit manager for Larkin, Chapski & Co. His duties included supervision of all audit work done by the firm. Mr. Schultz also represents clients before various state and IRS auditors. He has advised clients on the sale of their businesses and has analyzed the profitability of product lines and made recommendations based upon his analysis. Mr. Schultz has supervised the audit procedures performed in connection with a wide variety of inventories, including railroads, a publications distributor and warehouse for Ford and GM, and various retail establishments.

Mr. Schultz has performed work in the field of utility regulation on behalf of public service commission staffs, state attorney generals and consumer groups concerning regulatory matters before regulatory agencies in Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Kentucky, Kansas, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Utah, Vermont and Virginia. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on numerous occasions.

Partial list of utility cases participated in:

U-5331	Consumers Power Co. (Michigan Public Service Commission)
Docket No. 770491-TP	Winter Park Telephone Co. (Florida Public Service Commission)
Case Nos. U-5125 and U-5125(R)	Michigan Bell Telephone Co. (Michigan Public Service Commission)

Case No. 77-554-EL-AIR	Ohio Edison Company (Public Utility Commission of Ohio)
Case No. 79-231-EL-FAC	Cleveland Electric Illuminating (Public Utility Commission of Ohio)
Case No. U-6794	Michigan Consolidated Gas Refunds (Michigan Public Service Commission)
Docket No. 820294-TP	Southern Bell Telephone and Telegraph Co. (Florida Public Service Commission)
Case No. 8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utility Commission of Ohio)
Case No. 82-168-EL-EFC	Cleveland Electric Illuminating Company, (Public Utility Commission of Ohio)
Case No. U-6794	Michigan Consolidated Gas Company Phase II, (Michigan Public Service Commission)
Docket No. 830012-EU	Tampa Electric Company, (Florida Public Service Commission)
Case No. ER-83-206	Arkansas Power & Light Company, (Missouri Public Service Commission)
Case No. U-4758	The Detroit Edison Company - (Refunds), (Michigan Public Service Commission)
Case No. 8836	Kentucky American Water Company, (Kentucky Public Service Commission)
Case No. 8839	Western Kentucky Gas Company, (Kentucky Public Service Commission)
Case No. U-7650	Consumers Power Company - Partial and Immediate (Michigan Public Service Commission)
Case No. U-7650	Consumers Power Company - Final (Michigan Public Service Commission)

U-4620	Mississippi Power & Light Company (Mississippi Public Service Commission)
Docket No. R-850021	Duquesne Light Company (Pennsylvania Public Utility Commission)
Docket No. R-860378	Duquesne Light Company (Pennsylvania Public Utility Commission)
Docket No. 87-01-03	Connecticut Natural Gas (Connecticut Department of Public Utility Control)
Docket No. 87-01-02	Southern New England Telephone (Connecticut Department of Public Utility Control)
Docket No. 3673-U	Georgia Power Company (Georgia Public Service Commission)
Docket No. U-8747	Anchorage Water and Wastewater Utility (Alaska Public Utilities Commission)
Docket No. 8363	El Paso Electric Company (The Public Utility Commission of Texas)
Docket No. 881167-EI	Gulf Power Company (Florida Public Service Commission)
Docket No. R-891364	Philadelphia Electric Company (Pennsylvania Office of the Consumer Advocate)
Docket No. 89-08-11	The United Illuminating Company (The Office of Consumer Counsel and the Attorney General of the State of Connecticut)
Docket No. 9165	El Paso Electric Company (The Public Utility Commission of Texas)
Case No. U-9372	Consumers Power Company (Before the Michigan Public Service Commission)

Docket No. 891345-EI ER89110912J	Gulf Power Company (Florida Public Service Commission) Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Case No. 90-041	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. R-901595	Equitable Gas Company Pennsylvania Consumer Counsel
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company Delaware Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Case No. PUE900034	Commonwealth Gas Services, Inc. Virginia Public Service Commission
Docket No. 90-1037* (DEAA Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Docket No. 5491**	Central Vermont Public Service Corporation Vermont Department of Public Service
Docket No. U-1551-89-102	Southwest Gas Corporation - Fuel Before the Arizona Corporation Commission
	Southwest Gas Corporation - Audit of Gas Procurement Practices and Purchased Gas Costs
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission

Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 5532	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 910890-EI	Florida Power Corporation Florida Public Service Commission
Docket No. 920324-EI	Tampa Electric Company Florida Public Service Commission
Docket No. 92-06-05	United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. C-913540	Philadelphia Electric Co. Before the Pennsylvania Public Utility Commission
Docket No. 92-47	The Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation (Supplemental) State of Connecticut, Department of Public Utility Control
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01**	Mountain Fuel Supply Company Before the Public Service Commission of Utah
Docket No. 94-105-EL-EFC	Dayton Power & Light Company Before the Public Utilities Commission of Ohio

Case No. 399-94-297**	Montana-Dakota Utilities Before the North Dakota Public Service Commission
Docket No. G008/C-91-942	Minnegasco Minnesota Department of Public Service
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Docket No. 12700	El Paso Electric Company Public Utility Commission of Texas
Case No. 94-E-0334	Consolidated Edison Company Before the New York Department of Public Service
Docket No. 2216	Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 2216	Narragansett Bay Commission - Surrebuttal On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Case No. PU-314-94-688	U.S. West Application for Transfer of Local Exchanges Before the North Dakota Public Service Commission
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 96-01-26**	Bridgeport Hydraulic Company State of Connecticut, Department of Public Utility Control

Docket Nos. 5841/ 5859	Citizens Utilities Company Before Vermont Public Service Board
Docket No. 5983	Green Mountain Power Corporation Before Vermont Public Service Board
Case No. PUE960296**	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. 99-01-05	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 99-04-18	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 980007-0013-003	Intercoastal Utilities, Inc. St. John County - Florida
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 6332 **	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No.	Southwest Gas Corporation

G-01551A-00-0309	Before the Arizona Corporation Commission
Docket No. 6460**	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-01*	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 01-05-19 Phase I	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 010949-EI	Gulf Power Company Before the Florida Office of the Public Counsel
Docket No. 2001-0007-0023	Intercoastal Utilities, Inc. St. Johns County - Florida
Docket No. 6596	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket Nos. R. 01-09-001 I. 01-09-002	Verizon California Incorporated Before the California Public Utilities Commission
Docket No. 99-02-05	Connecticut Light & Power Company ¹ State of Connecticut Department of Public Utility Control
Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 5841/5859	Citizens Utilities Company Before the Vermont Public Service Board
Docket No. 6120/6460	Central Vermont Public Service Corporation Before the Vermont Public Service Board

Docket No. 03-07-02 Connecticut Light & Power Company
State of Connecticut
Department of Public Utility Control

Docket No. 6914 Shoreham Telephone Company
Before the Vermont Public Service Board

Docket No. 04-06-01** Yankee Gas Company
State of Connecticut
Department of Public Utility Control

Docket Nos. 6946/6988 Central Vermont Public Service Corporation
Before the Vermont Public Service Board

Docket No. 04-035-42** PacifiCorp dba Utah Power & Light Company
Before the Public Service Commission of Utah

* Certain issues stipulated, portion of testimony withdrawn.
** Case settled.

INDEX OF EXHIBITS

DIRECT TESTIMONY—HELMUTH W. SCHULTZ, III

DOCKET NOS. 050045-EI & 050188-EI

EXHIBIT NAME	EXH. NO.	
BASE PAY ADJUSTMENT	HWS_1	_____
OVERTIME PAYROLL ADJUSTMENT	HWS_2	_____
EXCESS INCENTIVE COMPENSATION PAYROLL ADJUSTMENT	HWS_3	_____
LONG-TERM INCENTIVE COMPENSATION ADJUSTMENT	HWS_4	_____
HEALTH CARE ADJUSTMENT	HWS_5	_____
PENSION CREDIT ADJUSTMENT	HWS_6	_____
PAYROLL TAX ADJUSTMENT	HWS_7	_____
COMPENSATION SUMMARY	HWS_8	_____

Base Payroll Adjustment

Line No.	Description		Source
1	Regular Base Pay	\$616,828,249	a
2	Employee Complement	<u>10,558</u>	e
3	Average Base Compensation	\$58,423	L.1/L.2
4	Employee Reduction	<u>(228)</u>	L. 16
5	Gross Base Pay Reduction	(\$13,329,029)	L.3xL.4
6	O&M Payroll Percentage	<u>64.96%</u>	b
7	O&M Base Payroll Adjustment	(\$8,658,606)	L.5xL.6
8	Jurisdictional Factor	<u>0.989045</u>	f
9	O&M Jurisdictional Base Payroll Adjustment	<u><u>(\$8,563,751)</u></u>	L.7xL.8
10	Average 2004 Complement	10,031	c
11	Identified Added Positions	308	d
12	Percent of Actual to Budget	<u>97.03%</u>	c
13	Estimated Added Positions	299	L.11xL.12
14	Estimated 2006 Average Complement	<u>10,330</u>	
15	Company 2006 Average Complement	<u>10,558</u>	e
16	Employee Reduction	<u><u>(228)</u></u>	L.14-L.15

Source: (a) Company response to Citizens Interrogatory 49.
 (b) Company response to Citizens Interrogatory 257.
 (c) Company response to Citizens Interrogatory 44.
 (d) Company response to Citizens Interrogatory 111.
 (e) Company Schedule C-35.
 (f) Company Schedule C-1.

Overtime Payroll Adjustment

Line No.	Year	Per Company	Inflation Factor	Adjusted Overtime	Source
1	2001	100,325,968	1.147	\$115,052,660	a,b
2	2002	91,085,264	1.100	\$100,149,116	a,b
3	2003	102,031,660	1.073	<u>\$109,448,568</u>	a,b
4	Average			\$108,216,782	
5	2004	168,816,987			
6	2005	105,610,424			
7	2006	109,674,090		<u>109,674,090</u>	
8	Gross Overtime Pay Reduction			(\$1,457,308)	
9	O&M Payroll Percentage			<u>64.96%</u>	c
10	O&M Overtime Payroll Adjustment			(\$946,675)	
11	Jurisdictional Factor			<u>0.989045</u>	d
12	O&M Jurisdictional Overtime Adjustment			<u><u>(\$936,304)</u></u>	

Source: (a) For overtime amount see Company response to Citizens Interrogatory 49.
 (b) Inflation based on Company response to Citizens Interrogatory 47.
 (c) Company response to Citizens Interrogatory 257.
 (d) Company Schedule C-1.

Excess Incentive Compensation Payroll Adjustment

<u>Line No.</u>	<u>Description</u>	<u>Year</u>	<u>Per Company</u>	<u>Source</u>
1	Annual Incentive Pay	2001	35,607,421	a
2	Annual Incentive Pay	2002	36,053,910	a
3	Annual Incentive Pay	2003	36,107,770	a
4	Annual Incentive Pay	2004	36,040,432	a
5	Annual Incentive Pay	4 Yr. Average	35,952,383	
6	Annual Incentive Pay	2006	<u>43,297,600</u>	b
7	Gross Incentive Pay Reduction		(\$7,189,830)	L.5-L.6
8	O&M Payroll Percentage		<u>64.96%</u>	c
9	O&M Incentive Payroll Adjustment		(\$4,670,551)	L.7 x L.8
10	Jurisdictional Factor		<u>0.989045</u>	d
11	O&M Jurisdictional Incentive Adjustment		<u>(\$4,619,385)</u>	L.9 x L.10

Source: (a) Company response to Citizens Interrogatory 255.
(b) Company response to Citizens Interrogatory 43.
(c) Company response to Citizens Interrogatory 257.
(d) Company Schedule C-1.

Incentive Compensation Sharing Adjustment

<u>Line No.</u>	<u>Description</u>	<u>Per Company</u>	<u>Source</u>
1	Annual Incentive Pay	35,952,383	a
2	Annual Incentive Pay Sharing	<u>50.00%</u>	Testimony
3	Gross Incentive Pay Reduction	(17,976,192)	L.1 x L.2
4	O&M Payroll Percentage	<u>64.96%</u>	b
5	O&M Incentive Payroll Adjustment	(11,677,427)	L.3 x L.4
6	Jurisdictional Factor	<u>0.989045</u>	c
7	O&M Jurisdictional Incentive Adjustment	<u>(11,549,500)</u>	L.5 x L.6

Source: (a) Helmuth Schultz Exhibit No. ____; Schedule 3, Page 1 of 2.
(b) Company response to Citizens Interrogatory 257.
(c) Company Schedule C-1.

Long-Term Incentive Compensation Adjustment

Line No.	Year	Description	Incentive Compensation	
			Citizens Int. No. 255	Citizens Int. No. 43
<u>LTI-Incentive Pay</u>				
1	2002	Stock Options	939,800	1,239,400
2		Other Long Term	<u>15,803,200</u>	<u>15,275,200</u>
			16,743,000	16,514,600
3	2003	Stock Options	1,153,800	1,514,800
4		Other Long Term	<u>13,614,900</u>	<u>13,008,700</u>
			14,768,700	14,523,500
5	2004	Stock Options	5,070,200	6,461,500
6		Other Long Term	<u>11,725,900</u>	<u>10,891,000</u>
			16,796,100	17,352,500
7		3 Year Average		16,102,600
				16,130,200
8	2006	Stock Options Per Company		3,901,300
9		Other Long Term Per Company		<u>25,815,700</u>
				29,717,000
10		Excessive LTI Adjustment		(13,586,800)
11		Jurisdictional Factor		<u>0.989045</u>
12		O&M Jurisdictional Incentive Adjustment		<u>(13,437,957)</u>
13		50% Disallowance of Normal LTI Cost Level		(8,065,100)
14		Jurisdictional Factor		<u>0.989045</u>
15		O&M Jurisdictional Incentive Adjustment		<u>(7,976,747)</u>
16		Minimum Recommended LTI Adjustment		<u>(21,414,703)</u>
17		Primary LTI Recommended Adjustment		(29,717,000)
18		Jurisdictional Factor		<u>0.989045</u>
19		Primary O&M Jurisdictional Incentive Adjustment		<u>(29,391,450)</u>

Source: Lines 11,14 and 18 are from Company Schedule C-1.

Health Care Adjustment

Line No.	Description		Source
1	2004 Health Care Expense	\$63,362,486	e
2	Employee Complement	<u>10,951</u>	e
3	Average Health Care Cost Per Employee	\$5,786	L.1/L.2
4	2005 Inflation Increase	<u>1.10</u>	L.5/L.3
5	Estimated 2005 Cost Per Employee	\$6,386	e
6	2006 Inflation Increase	<u>1.15</u>	b
7	Estimated 2006 Cost Per Employee	\$7,344	L.5xL.6
8	2006 Average Employee Complement	<u>10,330</u>	Testimony
9	Total Health Care Cost for 2006	\$75,862,487	L.7xL.8
10	Total Health Care Cost for 2006 Per Company	<u>79,612,000</u>	a
11	Health Care Cost Adjustment	(\$3,749,513)	L.9-L.10
12	O&M Payroll Percentage	<u>64.96%</u>	c
13	Health Care Expense Adjustment	(\$2,435,703)	L.11xL.12
14	Jurisdictional Factor	<u>0.989045</u>	d
15	O&M Jurisdictional Medical Insurance Adjustment	<u><u>(\$2,409,020)</u></u>	L.13xL.14

Source: (a) Company Schedule C-35.
 (b) Company response to Citizens Interrogatory 51.
 (c) Company response to Citizens Interrogatory 257.
 (d) Company Schedule C-1.
 (e) Company response to Citizens POD 143.

Pension Credit Adjustment

<u>Line No.</u>	<u>Description</u>		<u>Source</u>
1	2005 Pension Credit Expense	(\$76,070,000)	a
2	2006 Pension Credit Expense	<u>(68,663,000)</u>	a
3	Pension Credit Adjustment	(\$7,407,000)	L.1-L.2
4	O&M Payroll Percentage	<u>64.96%</u>	b
5	Expense Adjustment for Pension Credit	(\$4,811,625)	L.3xL.4
6	Jurisdictional Factor	<u>0.989045</u>	c
7	O&M Jurisdictional Pension Credit Adjustment	<u><u>(\$4,758,914)</u></u>	L.5xL.6

Source: (a) Company Schedule C-35.
(b) Company response to Citizens Interrogatory 257.
(c) Company Schedule C-1.

Florida Power & Light Company
Projected Test Year Ended December 31, 2006

Docket Nos. 050045-EI & 050188-EI
Exhibit HWS_7
Page 1 of 1

Payroll Tax Adjustment

<u>Line No.</u>	<u>Description</u>	<u>Adjustment</u>	<u>Source</u>
1	O&M Base Payroll Adjustment	(\$8,658,606)	a
2	O&M Overtime Payroll Adjustment	(946,675)	b
3	O&M Excess Incentive Adjustment	(4,670,551)	c
4	O&M Incentive Sharing Adjustment	<u>(11,677,427)</u>	c
5	Total Compensation Adjustment	(25,953,258)	
6	Company Payroll Tax Rate	<u>6.98%</u>	d
7	Payroll Tax Adjustment	(1,811,537)	L.5 x L.6
8	Jurisdictional Factor	<u>0.995437</u>	e
9	Jurisdictional Payroll Tax Adjustment	<u><u>(\$1,803,271)</u></u>	L.7 x L.8

Source: (a) Helmuth Schultz Exhibit No.____, Schedule 1.
(b) Helmuth Schultz Exhibit No.____, Schedule 2.
(c) Helmuth Schultz Exhibit No.____, Schedule 3.
(d) Company Schedule C-35.
(e) Company Schedule C-4.

Compensation Summary

Incentive Compensation

Line No.	Description	Citizens Int. No. 49	Citizens Int. No. 255	Int. No. 49	Int. No. 255
<u>Base Pay</u>					
1	2001	549,536,125	534,426,583		
2	2002	555,731,192	555,719,224		
3	2003	558,777,983	563,280,190		
4	2004	589,574,048	598,003,811		
5	2005	593,973,411			
6	2006	616,828,249			
<u>Overtime</u>					
7	2001	100,325,968	84,049,443		
8	2002	91,085,264	72,851,954		
9	2003	102,031,660	91,549,037		
10	2004	168,816,987	157,367,988		
11	2005	105,610,424			
12	2006	109,674,090			
<u>Variable Pay</u>					
13	2001	55,760,199	74,256,043		35,607,421
14	2002	102,942,129	83,643,705	36,053,900	36,053,910
15	2003	72,000,280	85,322,822	36,108,100	36,107,770
16	2004	64,572,479	85,124,734	36,040,400	36,040,432
17	2005	79,383,165		41,753,400	
18	2006	82,437,661		43,297,600	
<u>Total</u>					
19	2001	705,622,292	692,732,069		
20	2002	749,758,585	712,214,883		
21	2003	732,809,923	740,152,049		
22	2004	822,963,514	840,496,533		
23	2005	778,967,000			
24	2006	808,940,000			