BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

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

REBUTTAL TESTIMONY OF:

RICHARD MEISCHEID

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF RICHARD F. MEISCHEID

DOCKET NO. 080677-EI

AUGUST 6, 2009

Q. **Please state your name and business address.**

A. My name is Richard Meischeid. My business address is Towers Perrin at Centre Square East, 1500 Market Street, Philadelphia, PA 19102.

Q. **Did you previously submit direct testimony in this proceeding?**

A. No.

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

A. I am employed by Towers Perrin as Managing Principal.

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

A. I am responsible for managing the firm's compensation practice in the east region and leading Towers Perrin's Energy Services compensation practice.

Q. **Please describe your educational background and professional experience.**

A. I graduated from St. Francis College and received an MBA from the Wharton School of the University of Pennsylvania. I have been with Towers Perrin for over 30 years, and during that time have held a variety of positions with the firm.

Q. Please provide a brief overview of Towers Perrin.

A. Towers Perrin is one of the world's largest management and human resources consulting firms, helping organizations manage their investment in people to achieve measurable performance improvements. The firm has approximately 6,500 employees in more than 70 offices worldwide. Towers Perrin's compensation practice is one of the largest in the world with over 400 consultants. Towers Perrin has dedicated energy and utility industry practitioners specializing in compensation, human resources, and benefits.

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

A. No.

Q. Please summarize what Towers Perrin was retained to do.

A. Towers Perrin was asked to provide competitive practice information on the subject of annual and long-term incentives in the utility industry in response to issues raised by Office of Public Counsel (OPC) witness Brown's direct testimony. Towers Perrin was also asked to compare FPL's 2009 base salary budget increase to market practices of other utilities.

Q. What specific tasks did Towers Perrin perform?

A. We performed the following work: 1) assessed the prevalence of annual incentive programs in the utility industry, 2) assessed the prevalence of long-term incentive programs in the utility industry, and 3) analyzed FPL's 2009 salary merit budget increase compared to other large utilities.

Q. What was the purpose of your analysis of annual and long-term incentive prevalence?

A. The purpose of the analysis was to discern how widespread the use of annual incentives has become in the utility industry and therefore the degree to which these incentives have become a standard part of the typical compensation package offered to employees today.

Q. On what sources of compensation data did you rely?

A. Competitive compensation information was collected from the following sources:

1) Towers Perrin's 2008 Energy Services Executive Compensation Database
2) Towers Perrin's 2008 Energy Services Middle Management and Professional Compensation Database
3) EAPDIS's 2008 Energy Technical Craft Clerical Survey.

Q. Are these the most current survey sources available?

A. Yes. The Towers Perrin databases reflect compensation in effect as of March 1, 2008. The EAPDIS Energy Technical Craft Clerical Survey reflects compensation effective as of April 1, 2008.

Q. Are these the most comprehensive surveys of utility industry positions?

A. Yes. The Towers Perrin databases reflect the practices of approximately 65 utilities and include both staff (e.g., human resources, information technology, finance, etc.) and line (e.g., nuclear, generation, transmission and distribution, etc.) positions. The executive compensation database provides data covering 107 positions common among utilities and the middle management database includes data for 1,949 exempt positions. EAPDIS's database reflects the practices of 76 utilities covering 96 non-exempt positions.

Q. For the purpose of assessing the prevalence of incentives, how was the competitive market defined?

A. For this study, Towers Perrin analyzed market data relative to two market reference points:

1) FPL's peer group of utilities developed by the company for purposes of determining the appropriateness of its pay. Specifically, FPL's peer group consists of the following companies: Allegheny Energy, American Electric Power Company, Consolidated Edison, Constellation Energy Group, Dominion Resources, Duke Energy Corporation, Edison International, Entergy Corporation, Exelon Corporation, FirstEnergy Corporation, PG&E Corporation, Progress Energy, Public Service Enterprise Group, Sempra Energy, The Southern Company, and Xcel Energy. 2) Towers Perrin also reviewed the use of incentives within the broader utility industry by analyzing the practices of approximately 65 utilities in Towers Perrin's databases.

Q. What were your findings on annual incentive prevalence in the utility industry?

A. Since practices vary based on the type of positions analyzed, Towers Perrin provides market practices based on the following employee populations: executive, non-executive exempt and non-exempt positions.

We found that all 16 utilities (100 percent) in FPL's peer group and 100 percent of the utilities in the broader utility sample maintain formal annual incentive plans for their executive populations. All of the companies in FPL's peer group and 98 percent of utilities in the broader utility sample also maintain formal annual incentive plans for their non-executive exempt populations. Lastly, 78 percent of the utilities in FPL's peer group and 68 percent of the broader utility sample pay annual incentives to non-exempt employees.

Q. How broadly do utility companies use annual incentives?

A. To assess how broadly annual incentives are used within these organizations, Towers Perrin analyzed eligibility on a position-by-position basis among all of the benchmark positions included in Towers Perrin's databases and EAPDIS's database. We found that the majority of positions surveyed for all three types of employees – executive, exempt and non-exempt – are eligible for annual incentives. For executive positions, we found that 100 percent of executives at FPL's peer group companies and 99 percent of executive positions from the broader utility company sample are eligible for annual incentives. For non-executive exempt positions, our findings were that 99 percent of exempt positions at FPL's peer group companies and 95 percent of exempt positions from the broader utility company sample are eligible for annual incentives. For non-exempt positions, we found that 76 percent of non-exempt positions at FPL's peer group companies and 63 percent of non-exempt positions from the broader utility company sample receive annual incentives.

Q. What were your findings on long-term incentive prevalence in the utility industry?

A. For this analysis, Towers Perrin focused on executive positions only, since most non-executive exempt and non-exempt positions are typically not eligible for this type of award. The analysis revealed that the use of long-term incentive plans for executives is a very common practice in the utility industry. Specifically, all 16 utilities (100 percent) in FPL's peer group and 98 percent of the utilities in the broader utility sample maintain formal long-term incentive plans for their executive populations.

Q. How broadly do utility companies use long-term incentives?

A. To assess how broadly annual incentives are used within these organizations, Towers Perrin analyzed eligibility on a position-by-position basis among all of the 107 benchmark positions included in Towers Perrin's executive compensation database. We found that the majority of executive positions surveyed are eligible for long-term incentives. Specifically, we found that 97 percent of executive positions at FPL's peer group companies and 96 percent of executive positions from the broader utility company sample are eligible for long-term incentives.

Q. Does FPL need to offer incentive opportunities in order to provide a competitive compensation package?

A. Yes. To attract and retain talented employees in today's highly competitive market, companies, including FPL, must offer a competitive total rewards program, including compensation, a retirement program, health and welfare benefits, and learning and development opportunities. As the prevalence data provided above shows, annual incentives are used widely in the utility industry and are a standard component of the compensation package provided to employees. Long-term incentives are also widely used among utilities in compensating executive positions and are a critical component of pay for these positions. Thus, incentive compensation is not "additional" or "optional" compensation that FPL provides to employees, but a required element in the compensation program and a necessary cost of doing business.

Multiple groups (e.g., customers, employees, community groups, shareholders, etc.) have a vested interest in utilities' operations and performance. Incentives play a critical role in focusing employees on key organizational, business unit and individual goals. The use of both financial and non-financial goals is common practice among utilities. Non-financial measures are designed to focus employees on achieving superior operational, safety, and customer service results, while financial measures help focus employees on achieving those results in an efficient and cost effective manner. Additionally, financially strong companies have greater access to credit markets and a lower cost of capital, which benefits rate payers through a lower cost structure and ultimately lower rates. FPL's approach of using both financial and non-financial measures is consistent with sound compensation practice and helps provide balance so that excellence in one area is not achieved at the expense of other areas.

Q. What was the purpose of your analysis comparing FPL's 2009 salary merit increase to market practices?

A. The purpose was to determine whether FPL's 2009 merit increase of 2% was consistent with competitive practices of other companies.

Q. On what sources of compensation data did you rely?

A. Towers Perrin analyzed data from WorldatWork's 2009/2010 Salary Budget Survey which is based on submissions from 2,644 U.S. companies from the broader general industry. A separate utility sample was not available at the time of my testimony.

Q. How did FPL's 2009 salary merit increases compare to market practices?

A. Similar to FPL, many companies significantly reduced the level of salary increases in 2009 from practices in prior years. Towers Perrin found that FPL's 2009 salary merit increase was consistent with market practices. FPL's 2% salary budget increase compares to average salary budget increases that ranged from 2.0% to 2.3% among the broader general industry companies.

Q. Based on the results of your analysis, what is your recommendation with respect to the Company's request in this rate proceeding?

A. Based on the information provided by Company witnesses, the overall cost of FPL's total rewards program is reasonable. This being the case, allowing the Company to determine the allocation between the different components of the total rewards program is critical to the Company's ability to manage the business to the benefit of its customers, shareholders and employees. The Company's track record over the past several years in managing the total cost in a prudent, thoughtful manner demonstrates both the importance and success of this approach.

If recovery for all or a portion of the costs of its annual and long-term incentive plans were denied, the Company would be faced with basing decisions on allocations of its total rewards programs not on sound business judgments but on an allocation that maximizes their ability to recover their costs. In the extreme, this would lead to eliminating all annual and long-term incentives in favor of a base salary only program. Not only would this result in a higher level of fixed cost, but paying compensation solely in salary would remove incentives for employees to provide superior service to customers and the other constituencies that FPL serves. Incentives ensure that individuals have an element of "at risk" compensation that allows FPL to align pay with performance. Further, long-term incentives serve to ensure that the Company is well-stewarded and remains a reliable service provider in the long-term.

Q. Does this conclude your rebuttal testimony?

A. Yes.