

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY**

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

REBUTTAL TESTIMONY & EXHIBITS OF:

COM 5
~~APD~~ 4
APA 1
ECO 1
ENG 1
GCL 1
IDM 1
TEL
CLK T-Grep

KATHLEEN SLATTERY

DOCUMENT NUMBER - DATE

05148 JUL 31 2012

FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF KATHLEEN SLATTERY
DOCKET NO. 120015-EI
JULY 31, 2012

TABLE OF CONTENTS

1

2

3 **I. INTRODUCTION..... 3**

4 **II. SUMMARY 3**

5 **III. TOTAL COMPENSATION AND BENEFITS EXPENSE..... 5**

6 **IV. VALIDITY AND COMPARISONS OF DATA..... 6**

7 **V. NON-EXECUTIVE PERFORMANCE-BASED VARIABLE COMPENSATION**

8 **..... 8**

9 **VI. PAYROLL AND STAFFING LEVELS 16**

10 **VII. BENEFITS AND PAYROLL TAXES..... 20**

11 **VIII. CONCLUSION 24**

12

13

14

15

16

17

18

19

20

21

22

23

1 **I. INTRODUCTION**

2

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

4 A. My name is Kathleen Slattery. My business address is Florida Power & Light
5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

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

7 A. Yes.

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

9 A. Yes, I am sponsoring the following exhibit:

- 10 • KS-9, FPL Budget vs. Actual Gross Base Payroll and Overtime

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of this testimony is to rebut the testimony of Office of Public
13 Counsel (“OPC”) witness Schultz regarding the payroll expense, incentive
14 compensation, employee benefits, and payroll tax expense of Florida Power &
15 Light Company (“FPL” or “the Company”).

16

17 **II. SUMMARY**

18

19 **Q. Please summarize your rebuttal testimony.**

20 A. As demonstrated in my direct testimony, FPL’s projected compensation and
21 benefits expense is reasonable. The only witness to take issue with any aspect of
22 FPL’s compensation and benefits expense is OPC witness Schultz, who
23 recommends several adjustments. Those recommended adjustments should be

1 rejected. First, witness Schultz recommends limiting FPL's recovery of non-
2 executive performance-based variable compensation. Whether intentionally or
3 not, he has failed to evaluate total compensation and benefit costs and has offered
4 no evidence that the Company's total compensation and benefits costs are not
5 necessary or reasonable. Witness Schultz, instead, focuses on cost sharing.
6 Although he acknowledges that incentive plans benefit customers and finds no
7 real fault with the design and administration of FPL's plan, he recommends a 50%
8 disallowance of the cost based on the flawed premise that the costs of properly
9 designed plans should be shared equally by shareholders and customers. My
10 rebuttal testimony addresses: (1) the market-based evidence that supports the
11 reasonableness of the plan; (2) the current competitive position of the plan and
12 potential negative impact of witness Schultz's recommended disallowance; and
13 (3) the most recent Commission precedent, all evidence of the inappropriateness
14 of witness Schultz's position.

15
16 OPC witness Schultz has also made several recommendations to disallow portions
17 of payroll, benefits and employee tax expense, but again has not provided any
18 empirical evidence or market data to demonstrate that the costs are unreasonable.
19 My rebuttal testimony demonstrates the flaws in witness Schultz's analysis of
20 staffing and payroll and the associated benefits and payroll tax expense and
21 provides further evidence of the reasonableness of these costs. Finally, my
22 testimony addresses witness Schultz's mistaken assumptions and inappropriate

1 recommendation regarding the O&M expense factor for employee benefits
2 expense.

3
4 **III. TOTAL COMPENSATION AND BENEFITS EXPENSE**

5
6 **Q. Is FPL's projected total compensation and benefits expense for 2013**
7 **reasonable?**

8 A. Yes. As previously demonstrated in my direct testimony (Exhibit KS-2, KS-4),
9 FPL's projected total compensation and benefits expense is fair and reasonable.
10 The reasonableness of the cost is clearly evident when the growth in the cost is
11 compared to wage-based inflation indices, such as WorldatWork. The
12 comparison of FPL's compensation cost to those of other utilities provides
13 another useful measure of reasonableness, and, as demonstrated in my direct
14 testimony (Exhibit KS-3), total compensation is lower than most comparable
15 utilities on a per employee, per operating revenue, and per customer basis.
16 Finally, the reasonableness of FPL's benefits programs is demonstrated through
17 the use of an analytical survey that benchmarks the plans to those of peers, and
18 the relative value of the Company's benefits plans is consistently below average
19 when compared to its peers in the utility industry.

1 **Q. OPC witness Schultz has taken issue with specific components of FPL's total**
2 **compensation. In your view, is it appropriate to consider the individual**
3 **components on a standalone basis?**

4 A. No, the appropriateness of the various components of total compensation cannot
5 and should not be assessed on a stand-alone basis. As stated in my direct
6 testimony, FPL employs a total rewards approach. One of the stated objectives of
7 this approach is to control fixed costs by placing emphasis on variable pay rather
8 than fixed pay and traditional benefits. The strategic emphasis on variable pay
9 rather than fixed salary and benefits lowers the Company's exposure to steadily
10 increasing salary and fringe benefit costs and adds flexibility in recognizing
11 performance. This approach has worked well. Numerous FPL witnesses have
12 detailed the types of superior performance and cost management that FPL has
13 been able to achieve with its total rewards program and pay for performance
14 culture.

15

16 **IV. VALIDITY AND COMPARISONS OF DATA**

17

18 **Q. In his testimony, OPC witness Schultz takes issue with certain perceived**
19 **variances in the Company's payroll-related discovery responses or other**
20 **alleged discrepancies in information supplied by the Company. Are OPC**
21 **witness Schultz's concerns valid?**

22 A. No. Most of witness Schultz's concerns arise from his trying to compare apples
23 to oranges, such as discovery responses based on gross dollars versus discovery

1 responses based on net O&M dollars. The following examples from witness
2 Schultz's testimony demonstrate that the confusion is on his part:

3 ● Page 16, lines 1 through 6, regarding executive incentive adjustment: The
4 supposed "significant" differences are a result of witness Schultz trying to
5 compare amounts that are not comparable, specifically the MFR C-2 net
6 operating income adjustments for executive incentives (net O&M after
7 jurisdictional adjustment) to amounts on MFR C-35 work papers which
8 reflect total gross amounts before subtraction of capital and below-the-line
9 amounts, affiliate allocations and other amounts. This was explained by
10 FPL to OPC in written responses to OPC questions on June 26, 2012. The
11 Company's calculation of the 2013 executive incentive adjustment of
12 \$28,240,042 (jurisdictional) is accurate.

13 ● Page 16, lines 8 through 17, regarding performance-based cash annual
14 incentive program amounts for non-executives: witness Schultz states
15 there is apparent uncertainty with regard to the amount that is included in
16 the filing; however, the various discovery responses which he attempts to
17 compare are not comparable. This was explained by FPL to OPC on June
18 22, 2012 in written responses to OPC's questions, which included a
19 concise statement that FPL's non-executive performance-based cash
20 annual incentive net O&M and Capital expense, after removal of
21 allocations to affiliates and clause amounts, is \$53.7 million for 2013.

- 1 • Page 17, lines 7 through 12, regarding “errors”: The items in question
2 were identified by FPL, not a third party, and are limited to corrections to
3 the MFR C-2 incentive compensation adjustment.

4 In summary, FPL’s filings and discovery responses are accurate and reliable.

5

6 **V. NON-EXECUTIVE PERFORMANCE-BASED VARIABLE COMPENSATION**

7

8 **Q. What is the recommendation of OPC witness Schultz regarding non-**
9 **executive performance-based variable compensation?**

10 A. Witness Schultz refers to performance-based variable compensation as incentive
11 compensation and is recommending a disallowance of 50% of such compensation
12 to non-executives.

13 **Q. Is witness Schultz’s recommendation based on empirical data or other**
14 **analysis which suggests that the Company’s non-executive performance-**
15 **based variable compensation is not reasonable or effective?**

16 A. No. Significantly, witness Schultz has not criticized either FPL employee pay
17 levels or FPL’s performance-based variable compensation plan design. Neither
18 witness Schultz nor any other witness has made any allegations or presented any
19 evidence that the total compensation paid to FPL employees, including
20 performance-based variable compensation, is not reasonable, necessary or
21 effective. Nor have they presented any analysis of FPL’s compensation levels
22 compared to market pay levels to refute the evidence presented in my direct
23 testimony that FPL employees’ base salaries and performance-based variable

1 compensation are at or near the market median (Exhibits No. KS-2 and KS-4).
2 Witness Schultz's recommendation is therefore not based on empirical evidence.

3 **Q. Then on what basis does witness Schultz recommend a 50% disallowance?**

4 A. Witness Schultz's recommendation is based on the flawed premise that a properly
5 designed performance-based variable compensation plan benefits shareholders
6 and customers equally and therefore should be shared equally. In his testimony,
7 witness Schultz admits that he is not aware of any utility that does not have some
8 form of incentive compensation (page 22, lines 16 and 17), indicates that FPL's
9 plan is properly developed and administered (page 24, lines 4 through 6) and
10 well-conceived (page 23, lines 17 through 21), and states that his recommendation
11 is not to eliminate FPL's plan, but to limit the amount to be included in rates
12 (page 23, lines 16 and 17). He also concedes on pages 19 and 20 of his testimony
13 that properly designed incentive compensation plans provide "enhanced
14 performance" that benefits customers. Witness Schultz asserts, nonetheless, that
15 the enhanced performance benefits customers and shareholders equally and so the
16 costs should be split 50/50. He does not provide any empirical data to support his
17 statements that benefits are shared equally.

18 **Q. Do you agree with witness Schultz's recommendation?**

19 A. No. Witness Schultz's recommendation to disallow 50% of non-executive
20 performance-based variable compensation that he implicitly concedes is
21 legitimate and reasonable would be confiscatory and is inconsistent with sound
22 regulatory policy and basic principles of ratemaking, as discussed in detail by
23 FPL witness Deason in rebuttal testimony. FPL should be permitted to include in

1 the 2013 Test Year 100% of non-executive performance-based variable
2 compensation because it is a reasonable and necessary cost incurred by FPL in
3 providing service to customers. It is like any other type of expense in that regard.
4 Neither witness Schultz nor any witness in this case has presented testimony or
5 evidence that the expense in question is unreasonable or unnecessary, and only if
6 the Commission finds that the expense is unreasonable or unnecessary should any
7 portion be disallowed in calculating the company's revenue requirement.

8

9 Furthermore, witness Schultz's recommendation is not supported by empirical
10 data or analysis of the reasonableness of the net amount of compensation that
11 would remain in cost of service after incentive compensation is partly or fully
12 eliminated. He has not provided any evidence to demonstrate that the level of
13 compensation remaining after his adjustment would be competitive in the market
14 or that it would not harm FPL's ability to attract and retain qualified employees.
15 His position is simply a maneuver to lower FPL's cost of service for rate-setting
16 purposes.

17

18 Finally, at bottom witness Schultz is recommending the Company be penalized
19 because shareholders also may benefit from the enhanced performance driven by
20 performance-based variable pay plans. Simply stated, to disallow any portion of
21 these costs because shareholders may also benefit effectively deprives the
22 Company of cost recovery for providing electric service and would send precisely

1 the wrong signal to utilities regulated by the Commission and the labor markets in
2 which they compete.

3 **Q. If FPL's non-executive performance-based variable compensation expense is**
4 **disallowed, in whole or in part, what impact would a corresponding**
5 **elimination or reduction of the program have on FPL salaried employee's**
6 **compensation compared to market median?**

7 A. In the aggregate, FPL salaried employees would be compensated more than 11%
8 below market median if performance-based variable compensation were
9 eliminated. As shown in Exhibit KS-4 to my direct testimony, median levels of
10 performance-based variable pay have recently been at 11% of base salaries. Also,
11 as shown in Exhibit KS-2 to my direct testimony, exempt employees' base
12 salaries are, in the aggregate, 1.6% below the market median. Without its current
13 levels of performance-based variable compensation, FPL would not be able to
14 attract and retain the caliber of employees that sustain a high-performing
15 organization.

16 **Q. OPC witness Schultz makes several references to the Progress Energy**
17 **Florida rate case (Docket No. 090079-EI), wherein the Commission**
18 **disallowed all incentive compensation costs due to the plans' design. Are**
19 **there other cases not cited by witness Schultz?**

20 A. Yes. In rebuttal testimony, FPL witness Deason cites a number of relevant cases
21 in which the same type of performance-based variable compensation was allowed.
22 One such case is the recent Gulf Power rate case (Docket No. 110138-EI). In its
23 April 2012 order in that case (Order No. PSC-12-0179-FOF-EI), this Commission

1 rejected OPC's recommended adjustment to exclude all incentive compensation,
2 calling it "unreasonable" and citing the negative impact such a disallowance
3 would have on Gulf employee's compensation compared to market median (page
4 97). The Commission allowed 100% of Gulf's non-executive annual cash
5 incentive program to be included in O&M expense (page 94). This is a more
6 recent and highly relevant precedent.

7 **Q. As support for his recommendation for 50% disallowance, OPC witness**
8 **Schultz states that in his opinion "the non-executive compensation**
9 **adjustment in Docket No. 080677-EI inadvertently omitted the cash-based**
10 **portion of the non-executive incentive compensation." Do you agree with this**
11 **assertion?**

12 A. No. Witness Schultz claims on page 18 of his testimony that "the OPC witness'
13 recommended adjustment was similar to the executive incentive compensation
14 cost adjustment recommendation that consisted of both cash-based incentives as
15 well as stock-based incentives." However, that assertion is inaccurate. In
16 addressing "Non-Executive Incentive Compensation" in her testimony in Docket
17 No. 080677-EI, OPC witness Sheree L. Brown recommended an adjustment of
18 \$5.7 million for 2010 to "the stock-based compensation for non-executives" (page
19 57, lines 11 through 16). She proposed no adjustment to non-executive cash-
20 based compensation. Witness Schultz's testimony on this point is nothing short
21 of an attempt to rewrite the testimony of OPC's witness in the last case.

22

1 Finally, OPC witness Schultz admits on page 17 of his testimony that the non-
2 executive incentive compensation adjustment made by the Company in its current
3 filing, as amended, “appears to be consistent in the mechanics of the
4 Commission’s determination.”

5 **Q. Witness Schultz indicates at page 22 that he has not found a utility that**
6 **actually shifted costs from traditional fixed-cost programs to more flexible**
7 **performance-based programs and that incentive pay was just added**
8 **compensation. Is this true of FPL?**

9 A. No. As mentioned in my direct testimony, FPL’s approach to the design and
10 administration of compensation and benefits is to consider them parts of one total
11 rewards package, and I specifically addressed the redesign of the employment
12 package in 1997. Prior to the redesign, the Company did not have a broad-based
13 non-executive incentive plan; any awards were granted on a very limited basis to
14 top management. The redesign of the employment package implemented the
15 current non-executive performance-based variable pay plan, but not as an “extra”
16 program element. The variable pay component was funded by reducing benefit
17 plan costs, specifically the conversion of the traditional pension plan to a much
18 leaner cash balance plan and the elimination of retirement medical and life
19 insurance benefits for all employees hired after 1997. To be clear, FPL did not
20 reduce base salaries at the time that it implemented the non-executive
21 performance-based variable pay plan, but it did reduce the value of the pension
22 plan and cut other post-retirement benefits. Witness Schultz appears to be
23 looking only for evidence of a shifting of dollars from base salaries to variable

1 pay programs, and is ignoring the impact of fixed-cost benefit plans in the total
2 rewards equation.

3 **Q. Would FPL need to consider restructuring its total compensation package if**
4 **any non-executive performance-based variable compensation was excluded?**

5 A. Yes. Contrary to witness Schultz's contention, if denied recovery of its
6 reasonable, prudently-incurred variable compensation expense, FPL would need
7 to consider reallocating non-executive total compensation and benefits to assure
8 cost recovery for a reasonable, competitive level of total rewards. This could
9 potentially lead us to a reduction in performance-based variable compensation
10 programs and an increase in base salaries and/or other traditional fixed-cost
11 programs.

12
13 Witness Schultz points out that FPL has not eliminated its executive incentive
14 programs since those costs were disallowed in the prior rate case, and cites this as
15 evidence that FPL would not eliminate its non-executive programs if denied
16 recovery for them in the current rate case. In fact, FPL has taken a temporary
17 "wait and see" approach during the recent period of uncertainty around recovery
18 of cash and equity incentive compensation expense. FPL believes that its current
19 total rewards program, with its emphasis on performance-based pay, is optimal
20 and directly benefits customers. However, if regulatory decisions perpetuate
21 disallowance of performance-based incentive compensation, then FPL would
22 have an obligation to its shareholders to re-evaluate the program design.
23 Legitimate, reasonable expenses incurred in delivering service to our customers

1 need to be recovered; if regulatory policy precludes recovery of a legitimate
2 expense, then FPL and other penalized utilities will be induced to re-design their
3 compensation and benefits programs to conform to regulatory policy that
4 disfavors performance-based compensation, rather than to drive performance of
5 the organization for the benefit of customers.

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

8 A. There are five primary reasons: (1) the plans are part of a market-based,
9 competitive total rewards program that has been demonstrated to be prudent and
10 reasonable, and effective in producing the desired results; (2) the focus of the
11 discussion should be on how much is paid, not how it is paid, and no witness has
12 presented evidence that FPL's employee compensation is excessive or
13 unreasonable; (3) the incentive plans rely on customer-focused operating
14 performance goals to determine employee payouts; (4) eliminating or reducing the
15 plans would negatively impact the competitive position of the Company's total
16 rewards package and the Company's ability to attract and retain talent; and (5)
17 disallowance of part or all of the cost would be inconsistent with the most recent
18 Commission precedent.

19

1 **reductions, for the 2013 Test Year. Should the Commission accept that**
2 **analysis?**

3 A. No. His conclusion is premised on the incorrect assumption that the payroll
4 budget is solely a function of staffing levels. FPL has historically estimated
5 employee projections based on optimal staffing levels, but historically somewhat
6 under-estimated salaries and wages. This is because FPL budgets employee
7 projections at the staffing level necessary to most efficiently get the work done to
8 ensure the Company delivers on its customer service and reliability commitments.
9 However, market conditions and workforce demographic factors have caused the
10 Company to fall slightly short of its staffing goals. The result is that the Company
11 has to sometimes rely on less efficient staffing models (such as overtime,
12 temporary labor, etc.), which drives costs up. In order to insulate customers from
13 these potentially higher costs, the Company focuses on total compensation and
14 benefits at optimal staffing levels when formulating its forecast. Therefore, the
15 methodology employed by OPC witness Schultz, which only considers one input
16 in a dynamic equation, is an incomplete analysis, underestimates FPL's actual
17 costs, and should be rejected. As I will discuss subsequently, the past 10 years of
18 history for actual versus budgeted base and overtime payroll bears this out.

19 **Q. Do you have other concerns with OPC witness Schultz's methodology?**

20 A. Yes. Although he presents more than 10 years of data on his exhibit (HWS-2), he
21 elects to base his recommended adjustment on five months of data, January to
22 May of 2012, not even half of one annual cycle. Even if one accepted his
23 methodology, and I do not, it would be difficult to consider five months of data as

1 a representative sample in any industry or company. It shows a lack of
2 understanding of the variability and complexity of the work.

3 **Q. Is there a more appropriate methodology to analyze the reasonableness of**
4 **payroll costs?**

5 A. Yes. It would be more appropriate to actually analyze the dollars spent on
6 payroll. In fact, it is surprising that OPC witness Schultz would recommend a
7 disallowance of the magnitude he has proposed without any consideration of
8 historical payroll dollars.

9 **Q. Have you analyzed the Company's historical payroll expense?**

10 A. Yes. Exhibit KS-9 presents a variance analysis of FPL's budgeted to actual gross
11 payroll expense from 2002 to 2012, including both base and overtime payroll.
12 The inclusion of overtime expense is essential to get a representative view of
13 reasonable and necessary payroll expense, and its omission is a flaw in OPC
14 witness Schultz's analysis.

15 **Q. Please summarize the results of the analysis of historical payroll expense.**

16 A. As demonstrated in the table on Exhibit KS-9, the size and direction of the
17 variance between actual and budgeted gross base and overtime payroll fluctuates
18 from year to year. However, the average variance for the 10 year period is less
19 than one percent (-0.31%). In other words, actual expenditures have been nearly
20 at budgeted levels on average, which supports the conclusion that no payroll
21 adjustment of any size is warranted. Moreover, even if an adjustment were made,
22 it could not reasonably be greater than this 10-year average, which is over three
23 percentage points below witness Schultz's recommended adjustment of 3.76%.

1 **Q. What conclusions should the Commission draw from the expense analysis in**
2 **Exhibit KS-9?**

3 A. The analysis demonstrates that the five-month sample upon which witness Schultz
4 bases his recommendation is wildly skewed and cannot be considered
5 representative; it illustrates the considerable impact of overtime expense, raising
6 questions about a methodology that entirely ignores that part of the equation; and
7 it provides evidence that the assumed predictability inherent in witness Schultz's
8 analysis and recommendation does not exist.

9
10 My analysis demonstrates what I have stated previously: this is a dynamic
11 equation and the payroll budget is not solely a function of the staffing levels.
12 Based on ever changing operational demands, environmental challenges, and
13 economic conditions, payroll expense will fluctuate, sometimes slightly under and
14 sometimes slightly over budget. But overall the average variance is far less than
15 OPC witness Schultz's recommended adjustment.

16 **Q. Based on his analysis, OPC witness Schultz makes reference to "excessive"**
17 **headcount and recommends a disallowance of the payroll associated with**
18 **nearly 400 positions. Should the Commission accept that recommendation?**

19 A. No. Even if one accepted witness Schultz's methodology, his recommendation
20 can only be characterized as excessive. Witness Schultz has referenced dozens of
21 headcount figures from various disparate sources in his testimony, but I would
22 highlight three relevant numbers with respect to the Company's staffing
23 complement:

1	2011 Average Actual Staffing	9,971
2	July 2012 Actual Staffing	10,207
3	2013 Test Year Average Budgeted Staffing	10,147

4 The July 2012 actual staffing number is only one percent below the MFR C-35
5 2012 average staffing figure of 10, 312, and is .6% above the 2013 Test Year
6 average staffing figure of 10, 147. Despite the fact that the Company's 2013 Test
7 Year projected average staffing level is 60 positions less than the current actual
8 staffing level, OPC witness Schultz considers it reasonable to recommend a
9 disallowance of 381 positions from the 2013 Test Year staffing, and claims he is
10 making a "conservative adjustment." His analysis is flawed and anything but
11 conservative, and should be rejected.

12

13 **VII. BENEFITS AND PAYROLL TAXES**

14

15 **Q. OPC witness Schultz has recommended an adjustment of \$4.9 million in**
16 **employee benefits costs based on his analysis of headcount. Do you have**
17 **concerns with his recommendation?**

18 **A.** Yes. His recommendation is inappropriate based on the objections I have
19 previously raised. But beyond that, his assumptions and analysis are invalid in
20 that benefits participation is not identical to the Company headcount numbers that
21 witness Schultz used in his analysis. FPL employees are not required to elect
22 benefits coverage, and some opt out of the various benefits plans. FPL's benefits

1 department calculates the benefits costs included in MFR C-35 based on enrolled
2 headcount.

3 **Q. Do you have other concerns with witness Schultz's analysis of benefits?**

4 A. Yes. Witness Schultz's analysis of benefits costs seems to include or exclude
5 pension and post-retirement benefits ("OPEB") costs arbitrarily – including them
6 in testimony when referencing costs, but excluding them from his calculated
7 disallowance.

8 **Q. Did Witness Schultz provide an explanation for his treatment of pension and**
9 **OPEB costs?**

10 A. Yes. He states that he excluded pension and OPEB from his adjustments mainly
11 because those cost estimates are "based on actuarial assumptions and
12 calculations."

13 **Q. Is that a logical basis for his methodology and explanation?**

14 A. No. Most of FPL's benefits costs are based on actuarial assumptions and
15 calculations. It appears that witness Schultz may have determined he could
16 increase the amount of his proposed disallowance by excluding the pension credit
17 and thus increasing the base cost for purpose of calculating his disallowance.

18 **Q. OPC witness Schultz has recommended an adjustment of \$1.6 million in**
19 **payroll tax expense based on his analysis of headcount. Do you have**
20 **concerns with his recommendation?**

21 A. Yes. His recommendation is inappropriate based on the objections I have
22 previously raised on his payroll headcount analysis. It should be rejected.

1 **Q. OPC witness Schultz has also suggested that the O&M factor for employee**
2 **benefits expense in the 2013 Test Year is excessive and recommends a**
3 **disallowance. Could you comment on his analysis?**

4 A. Yes. This is one more example of witness Schultz trying to compare data that is
5 not comparable. In this instance, he uses two different sources of data, fails to
6 validate the comparability of the data, calculates an artificial variance, and then
7 uses it as the basis for recommending a \$9.957 million disallowance.

8 **Q. Please elaborate on the problems with his analysis.**

9 A. As indicated in his notes on his Exhibit HWS-4, page 2 of 2, labeled “Benefit
10 Expense Analysis,” witness Schultz used different sources for his historical and
11 budget data; the historical data from MFR C-35 and the budget data for FERC
12 account 926 from MFR C-4, apparently assuming that the benefits-related data on
13 the forms are equivalent. However, although the two sources are substantially the
14 same, there are differences between them. FERC account 926 from MFR C-4
15 reflects all amounts forecasted for employee-related benefit expenses. The
16 amounts reflected on MFR C-35, which include amounts forecasted in FERC
17 accounts 925, 926, and 408, represent fringe benefits related to the Company’s
18 standardized benefits programs and exclude a few items included in FERC
19 account 926 on MFR C-4, such as the Company’s vacation accrual, certain
20 clause-related adjustments, and non-recurring items not considered part of the
21 employee benefits package.

22

1 The other major problem with witness Schultz's analysis is that he formulates his
2 recommendation on actual May 2012 year-to-date data, failing to consider even
3 one full annual cycle. FPL is setting rates using forecasted 2013 Test Year data,
4 and witness Schultz's proposed disallowance based on historical amounts from a
5 completely different time period should not be accepted.

6 **Q. If the Commission were to adopt witness Schultz's recommendation to adjust**
7 **FPL's employee benefit expenses for the 2013 Test Year, can you please**
8 **provide the proper calculation of the O&M factor for employee benefit**
9 **expense?**

10 A. Yes. The table below presents the O&M factor for employee benefit expense,
11 using MFR C-35 as the source for 2012 and 2013, not FERC account 926 from
12 MFR C-4, consistent with witness Schultz's methodology for 2009 to 2012 YTD:

13 O&M Factor for Employee Benefit Expense

	<u>MFR C-4</u>	<u>MFR C-35</u>
14		
15	2009	78.82%
16	2010	72.08%
17	2011	73.86%
18	2012 YTD	74.47%
19	2012 Budget	80.69%
20	2013 Budget	78.27%

21 As clearly shown above, the O&M expense factor trend for employee benefits
22 was distorted on witness Schultz's Exhibit HWS-4. His claim that the expense
23 allocation is excessive is incorrect and should be rejected.

1 **Q. Is there a valid reason why the benefits expense factor for 2012 and 2013 is**
2 **slightly higher than prior years?**

3 A. Yes. I would first point out that the O&M expense factor for 2013 is within an
4 expected and reasonable range, approximately the same as 2009. However, there
5 is a very valid reason for the increase in 2013 compared to 2010-2011. In 2013,
6 the amount of overtime being capitalized is reduced by \$20.3 million from 2012,
7 because of the rampdown of the Nuclear Extended Power Uprate project. The
8 elimination of that overtime from both total payroll and capitalized payroll has
9 resulted in a 2% increase in total payroll expensed. Because the allocation of the
10 benefits pool follows the allocation of payroll, there is also a 2% increase from
11 2012 to 2013 for benefits allocated to expense.

12 **Q. What conclusion can you draw from the Benefit Expense Analysis on OPC**
13 **witness Schultz's Exhibit HWS-4 and his recommended disallowance?**

14 A. It is a flawed analysis and his recommendation should be rejected. The O&M
15 expense factor for the 2013 Test Year is properly forecasted, and there is a valid
16 reason for the slight increase in 2013.

17

18

VIII. CONCLUSION

19

20 **Q. Does OPC witness Schultz provide any valid evidence to challenge the overall**
21 **reasonableness of the total compensation and benefits package?**

22 A. No. He has proposed reducing non-executive cash incentive pay by attempting to
23 revise the history of the last order, and he has recommended reducing payroll

1 without analyzing payroll expense. But importantly, he has not provided any
2 evidence to challenge the overall reasonableness of the total compensation and
3 benefits package. And that is the real test of any total compensation and benefits
4 plan. FPL's plan has been demonstrated to be prudent and reasonable, and has
5 supported the Company's achievement of superior performance.

6 **Q. Does this conclude your rebuttal testimony?**

7 **A. Yes.**

FPL Budget vs. Actual - Gross Base Payroll and Overtime (\$000s) - 2002 to 2011

	----- Base Pay	Budget Overtime	----- Base + OT	----- Base Pay	Actual Overtime	----- Base + OT	Base + OT Variance	Variance Percent
2002	583,742	53,065	636,807	554,610	77,542	632,152	(4,655)	-0.74%
2003	590,672	58,773	649,445	561,508	96,669	658,177	8,732	1.33%
2004	630,992	63,246	694,238	590,997	165,051	756,048	61,810	8.18%
2005	670,231	69,070	739,301	628,353	114,879	743,232	3,931	0.53%
2006	716,808	76,894	793,702	639,664	109,151	748,815	(44,887)	-5.99%
2007	730,959	87,590	818,549	678,760	119,761	798,521	(20,029)	-2.51%
2008	766,318	74,404	840,722	722,759	108,168	830,927	(9,795)	-1.18%
2009	798,174	80,589	878,762	741,591	102,333	843,924	(34,839)	-4.13%
2010	774,042	65,682	839,724	734,670	102,563	837,233	(2,491)	-0.30%
2011	798,844	111,305	910,148	773,926	123,536	897,462	(12,686)	-1.41%
2012 YTD*	388,793	53,927	442,719	391,603	64,075	455,678	12,959	2.84%

* YTD June 2012

Average 2002 - 2012 YTD	-0.31%
--------------------------------	---------------