BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160021-EI
FLORIDA POWER & LIGHT COMPANY
AND SUBSIDIARIES

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

DIRECT TESTIMONY & EXHIBITS OF:
KATHLEEN SLATTERY
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF KATHLEEN SLATTERY

DOCKET NO. 160021-EI

MARCH 15, 2016
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I. INTRODUCTION

Q. Please state your name and business address.
A. My name is Kathleen Slattery. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

Q. By whom are you employed and what is your position?
A. I am employed by Florida Power & Light Company ("FPL" or "Company") as the Senior Director of Executive Services and Compensation.

Q. Please describe your duties and responsibilities in that position.
A. I am responsible for the Company's total rewards programs, including the overall design and administration of all compensation programs and management of executive benefits and services.

Q. Please describe your educational background and professional experience.
A. I have a Bachelor of Science degree from Florida State University and am a graduate of the Florida State University College of Law. I have been a member of the Florida Bar since 1992. Before joining FPL, I worked in labor relations and served as a trustee of two outside electrical worker unions' pension and health and welfare funds. I began working at FPL in September 1996 as a benefit plan administrator and have held various positions of increasing responsibility in Human Resources since that time. My experience at FPL has included qualified and non-qualified benefit plan design and administration, salary and incentive compensation plan design and
administration, and legal compliance of such plans and programs. I have extensive knowledge of FPL’s compensation and benefits philosophy, plans and practices, and of its payroll system. As part of my responsibilities, I regularly rely on surveys and reports produced by third party organizations to stay abreast of trends in compensation and benefits throughout the utility industry and other businesses with which FPL competes for talent.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- Exhibit KS-1 MFRs Sponsored and Co-Sponsored by Kathleen Slattery
- Exhibit KS-2 Total Salaries & Wages 2014
- Exhibit KS-3 Position to Market (2015 Base Pay)
- Exhibit KS-4 Merit Pay Program Awards, 2013 to 2015
- Exhibit KS-5 Total Benefit Program – Relative Value Comparison – 2015
- Exhibit KS-6 Active Employee Medical Plan – Relative Value Comparison – 2015
- Exhibit KS-7 Average Medical Plan Expense Per Employee 2011 to 2016
Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements ("MFRs") in this case?

A. Yes. Exhibit KS-1 contains a listing of the MFRs that I am sponsoring or co-sponsoring.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present an overview of the gross payroll and benefit expenses shown in MFR C-35 and to demonstrate the reasonableness of FPL's forecasted payroll and benefit expenses.

Q. Please summarize your testimony.

A. FPL designs and manages its compensation and benefits programs as parts of a total rewards package. In order to address changing workforce dynamics, to control costs, and to attract, retain, and engage the required workforce, FPL places more focus on flexible, performance-based variable compensation than on less flexible fixed-cost compensation and benefit programs. This focus has allowed the Company to react to market conditions and drive the superior performance documented by other FPL witnesses, while remaining focused on managing total program costs.

FPL's total rewards costs are reasonable and do not include any types of expense that the Commission has not previously approved for recovery. FPL's gross total compensation and benefits in 2017 and 2018 are projected to be less than FPL's gross total compensation and benefits cost in 2013. Total benefits, for example, are projected to decrease from $224.3 million in 2013
to $164.3 million in 2017 and $168.2 million in 2018. Additionally, from 2013 through 2017, total compensation costs are projected to increase 1.2 percent – far lower than the projected Consumer Price Index (“CPI”) of 6.3 percent over the same period (with a modest increase still lower than inflation from 2017-2018). In addition, measurement of the compensation and benefits programs against relevant industry benchmarks demonstrates both programs are very competitive and generally below the market value of benchmarked utility and general industry companies. The Company has diligently managed costs to both engage employees and provide value to customers.

The total rewards package, emphasizing pay for performance, has served the Company and its customers well. FPL has successfully provided value to its employees and its customers through efficient use of compensation and benefits to drive a culture that rewards improved efficiency and performance. As FPL moves forward, it must continue to provide a competitive total rewards package to its employees in order to attract and retain the necessary talent. The projected levels of total compensation and benefits expense for 2017 and 2018 are reasonable and necessary to serve FPL’s customers and to attract and retain the caliber of employees that create a high-performance organization and deliver superior value for customers.
II. TOTAL COMPENSATION AND BENEFITS

Q. How do FPL’s projected gross total compensation and benefits costs for 2017 and 2018 compare to such costs in the last base rate case?

A. The projected costs are below the Company’s total compensation and benefits costs at the time of the last rate case, and the Company’s request does not include any type of expense that the Commission has not previously approved for recovery.

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

A. There are several key objectives of FPL’s total compensation and benefits approach. The Company designs its compensation and benefits program to attract, retain, engage and competitively reward its employees based on national and local comparative markets. FPL’s compensation program also reflects a pay-for-performance philosophy, linking total compensation to attainment of corporate, business unit, and individual goals such as excellent reliability and customer service. In addition, FPL’s total compensation and benefits approach is designed to control fixed costs by placing greater emphasis on variable cash compensation rather than on the traditional programs that are not performance-based, such as long-term retirement benefits. Finally, the Company strives to manage its various compensation and benefits programs holistically in order to keep its total program expenses at a reasonable level. Because no composite benchmarks are readily available...
for the combined programs, FPL continuously monitors and benchmarks the compensation and benefits components of the total rewards package individually. This ensures that the total program is in line with the median of the combined compensation and benefits programs of the appropriate comparator groups.

Q. How has FPL designed and managed its compensation and benefits programs to achieve these objectives?

A. FPL's approach to the design and management of compensation and benefits is to consider them as parts of one total rewards package. Nearly 20 years ago, FPL made a strategic decision to realign its pay and benefits programs, implementing changes that shifted value from the fixed-cost benefit programs to more flexible pay programs, while simultaneously controlling total program costs. Specifically, in 1997 the Company converted its pension plan to a cash balance plan and also eliminated post-retirement medical coverage for all new hires. At the same time, the Company increased its focus on performance-based variable cash compensation. FPL's strategic decision in 1997 to develop and emphasize a pay-for-performance compensation program has been an important tool in the Company's ability to achieve efficiency, reliability, and customer service improvements over the past two decades, all of which contribute to FPL's ability to deliver superior value for its customers. Moreover, the flexibility provided by these strategic changes has been an essential part of the Company's success in dealing with the workforce challenges confronting the utility industry.
Q. Please describe the challenges faced by the utility industry and FPL in attracting, retaining, and engaging a workforce with the required skills.

A. At a time when the industry continues to face growing demand for electricity, it is challenged by a severe shortage of skilled workers. The staffing firm Manpower, in a 2014 report, “Strategies to Fuel the Energy Workforce,” identified the challenge of obtaining the necessary skilled workers as one of the top concerns of industry executives, 58 percent identifying it as a current problem and 74 percent indicating the challenge will get worse. There are a couple of key factors creating the shortage of skilled workers:

(1) Aging Workforce and Shortage of Replacement Workers: The aging of the electric utility industry workforce has been a growing concern of government and industry leaders. The Center for Energy Workforce Development has estimated that as much as 50 percent of the utility workforce will retire during this decade. Exacerbating the loss of workers to retirement is a shortage of available workers with the requisite qualifications and skills. New workers are not entering the workforce at the same rate as the workers that are retiring, and this gap has been widened by baby boomers that delayed retirement following the financial crisis of 2008.

(2) Demands of Emerging Technologies: The growing demand for renewable generation solutions and the transition to a smart grid operating model are creating additional demand for skilled workers and will further impact the skill shortage. The emerging technology will place a greater focus on
information technology, distribution resources, and customer interaction. In its 2014 report, Manpower projected 100,000 net new industry jobs by 2020, many of them requiring a “tech-savvy” skill set, while the Bipartisan Policy Center’s Task Force on America’s Future Energy Jobs predicted in 2013 that utilities will require 150,000 new workers by 2030 in “information-technology intensive roles” (Harvard Business Review, “Solving the Looming Talent Shortage in the Energy Industry,” August, 2013).

Q. To what extent have these industry challenges impacted FPL’s efforts to attract and retain the necessary workforce?

A. FPL is facing the same workforce challenges as other electric utilities. Currently, 26 percent of FPL’s workforce is eligible to retire, and 47 percent of the workforce is projected to be retirement eligible in five years. In addition, among the operations groups (generation and power delivery) the numbers are slightly higher, with 29 percent eligible to retire now and 50 percent in five years.

Clearly, there are a number of factors driving the skill shortage in the utility industry and challenging FPL’s and other companies’ ability to attract and retain the required workforce. Although the industry and educational institutions have recognized the challenges and started to address future demands, in the short term, the factors discussed above are creating competition for skilled resources and applying pressure on compensation levels.
Q. How has the redesign of the compensation and benefit programs helped FPL to respond to current and future workforce challenges and meet the program objectives?

A. As a result of the total compensation and benefit design changes, FPL and its customers are in a better position than many other utilities, because FPL is not nearly as burdened with the considerable cost of pension and post-retirement medical obligations and is therefore better able to address the changing workforce dynamics. The changes have allowed the Company to better focus on the elements of the total rewards package that have more value for attraction, retention, and engagement of the required workforce, such as variable performance-based pay. The Company is able to provide a core level of compensation and benefits to all positions based on market analysis and performance, but has the flexibility to respond to the dynamics of an ever-changing workforce. The redesign has been part of FPL’s efforts to keep its expenses down, thus saving our customers money while improving service.

III. TOTAL COMPENSATION

Q. What are FPL’s gross total compensation costs for the projected 2017 Test Year and the 2018 Subsequent Year?

A. FPL’s gross total compensation cost, represented as Gross Payroll on MFR C-35, is projected to be $1.077 billion for the 2017 Test Year and $1.103 billion for the 2018 Subsequent Year.
Q. Is FPL seeking recovery for all of its projected total compensation expense in 2017 and 2018?

A. No. FPL has excluded from its expense request the portions of executive and non-executive incentive compensation that were excluded by the 2010 Rate Order, Order No. PSC-10-0153-FOF-EI. FPL continues to believe these expenses are necessary and reasonable and properly recoverable in rates. They are effective tools in attracting, retaining and engaging our workforce, and play a significant role in delivering value to customers. Nonetheless, FPL has chosen to forego recovery of these expenses in this rate case in an effort to narrow the items at issue.

Q. How has FPL’s total compensation cost changed since the last rate case, and is the cost reasonable?

A. For the period from 2013 to 2017 represented on MFR C-35, FPL’s total compensation or gross payroll expense is forecasted to increase by 1.2 percent, from $1.065 billion to $1.077 billion. Gross payroll as represented on MFR C-35 includes all wages and salaries, overtime pay, premium pay and miscellaneous other earnings. It also includes those costs that are ultimately allocated to other subsidiaries as well as the aforementioned incentive compensation costs that FPL is not seeking to recover. The 2013 to 2017 increase in gross payroll of approximately 1.2 percent is much lower than the projected CPI increase of 6.3 percent for the same period, and even lower yet compared to a projected compensation increase of 12.0 percent by the WorldatWork Index for the same period (assuming the 2013-2016 annual
three percent increase continues through 2017). The FPSC has previously
recognized WorldatWork’s market projections as an appropriate basis for
compensation comparisons.

A contributing factor in managing the gross payroll expense below CPI is the
reduction in staffing over the period. The Company’s culture of continuous
improvement and an ongoing focus on efficiency have enabled it to maintain
high levels of performance with less staffing. However, FPL’s compensation
cost trend since the last rate case is also in line with or below the inflation
indices on a gross payroll per employee basis (line 4 of MFR C-35) which
removes the impact of staffing reductions. From 2013 to 2017, gross payroll
per employee is projected to increase by 5.8 percent, which is 0.5 percent
below the projected CPI trend and substantially below the WorldatWork
inflation factor.

The projected growth in compensation cost from the 2017 Test Year to the
2018 Subsequent Year is also reasonable. Gross payroll from 2017 to 2018 is
projected to increase by $25.8 million, or 2.4 percent, which is below the
projected CPI increase of 2.6 percent.

Clearly, the change in the Company’s compensation cost since the last rate
case is reasonable in both the Test and Subsequent Years.
Q. How does FPL's gross payroll cost compare with that of other utilities?

A. FPL's total compensation cost compares very favorably to that of other utilities as demonstrated by review of Federal Energy Regulatory Commission Form No. 1 report data. FPL has reviewed its total compensation cost and compared it to that of other comparable utilities. The companies in the comparison included other regional utilities as well as other vertically integrated utilities of similar size. As shown on Exhibit KS-2, FPL continues to be one of the more efficient utilities from a total compensation standpoint. This efficiency is particularly evident when one looks at total compensation — whether on a per-customer, or megawatt hour, basis.

Q. What is FPL's total compensation philosophy?

A. As discussed previously, FPL considers compensation and benefits as components of a total rewards program. FPL's philosophy has been, and continues to be, to provide competitive, market-based salaries with consideration of an individual's performance and contribution to the Company's key goals. The performance-based pay programs have enabled FPL to develop a culture of employee commitment and ownership in the performance of the Company. Each salaried employee's compensation has a portion of pay that is variable. The variable pay is linked to individual, business unit and corporate objectives that benefit our customers, including budget goals and operating efficiency milestones such as plant availability, service reliability, and quality of customer service. The strategic emphasis on the variable pay program, rather than fixed salary and benefits costs,
encourages performance at an individual employee level and adds flexibility in recognizing that performance.

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

A. FPL uses a variety of compensation survey resources to evaluate its program, because the Company’s recruiting department searches nationally for personnel to fill managerial, professional, and technical positions. Most of the key nuclear energy and engineering positions cannot be filled from the local labor pool, so FPL must remain competitive in national as well as local markets. FPL utilizes nationally recognized third party compensation survey sources to aggregate and assess comparative data from other national and regional employers, both in general industry and the utility industry. It is important to utilize both general and utility comparative market information, since FPL’s workforce encompasses multi-industry talents. FPL utilizes several information sources for compensation survey data, including:

- Willis Towers Watson, an international human resources consulting firm;
- Mercer, LLC, an international human resources consulting firm;
- Aon Hewitt, an international human resources consulting firm;
- WorldatWork, a global human resources association of more than 30,000 compensation, benefits and human resources professionals;
- Bureau of Labor Statistics (the Consumer Price Index or CPI).
Q. How does FPL’s base compensation program compare to the market?
A. FPL’s base pay levels are comparable to the rates paid by its competitors (generally companies of similar size, scale, and complexity) for employees performing similar jobs and with similar skill sets. FPL performs a detailed annual benchmarking analysis of its base pay rates to determine “position to market.” The most recent market analysis completed in 2015 included market survey data from approximately 50 sources, including Willis Towers Watson, Aon Hewitt, and Mercer. Exhibit KS-3 demonstrates that, as of the date of this latest study, FPL has maintained its average base pay, in the aggregate, below market, i.e., below the median or 50th percentile.

Q. Please describe FPL’s annual performance-based merit program.
A. There are two components to FPL’s annual performance-based merit program. The first component is a merit award determined by an individual’s performance level and salary position relative to market. The second component is a variable pay program that provides a payment based on each individual’s contribution as well as Company and business unit results in comparison to pre-established objectives. FPL’s variable compensation is awarded based on an individual’s contribution to corporate, business unit, and individual performance indicators. These performance indicators include controlling customer-related costs and operating efficiency milestones such as plant availability, service reliability, and quality of customer service.
Q. How do FPL’s annual pay increase program and variable pay awards compare to market?
A. FPL regularly benchmarks its annual pay increase program and variable pay awards against relevant market data. As shown in Exhibit KS-4, FPL’s annual pay program, including merit base increases and variable incentive pay awards, has been below market for the period from 2013 through 2015.

IV. BENEFITS

Q. Please describe FPL’s benefits package.
A. Again, FPL’s benefits program is designed and managed as part of the total rewards package. The benefits package includes a full complement of benefits, comprised of three primary components: health and welfare benefits, retirement plans, and various benefits required by law.

Q. What are FPL’s projected benefits costs for the 2017 Test Year and 2018 Subsequent Year?
A. Total benefits costs are projected to be $164.3 million in 2017 and $168.2 million in 2018, the major components of which are as follows:

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<th>Benefits Component</th>
<th>2017</th>
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<tr>
<td>Health and welfare benefits</td>
<td>$101,427,000</td>
<td>$104,126,000</td>
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<tr>
<td>Retirement benefits</td>
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<tr>
<td>o Pension plan</td>
<td>($60,529,000)</td>
<td>($62,555,000)</td>
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Benefits required by law include social security and medicare tax, federal and state unemployment taxes, and workers' compensation.

Q. **How has FPL’s total benefits cost changed since the last rate case?**

A. Total benefits cost is projected to decrease from a total of $224.3 million in 2013 to $164.3 million in the 2017 Test Year and $168.2 million in the 2018 Subsequent Year. However, 2013 included a one-time expense of $33.8 million for an Early Retirement Program ("ERP") as part of a cost savings initiative. Without the one-time ERP expense, the decrease in benefits cost is projected to be $26.2 million from 2013 to the 2017 Test Year and $22.3 million from 2013 to the 2018 Subsequent Year.

Q. **What is driving the decrease in the benefits cost?**

A. The primary driver of the decrease in projected benefits cost is an increase of about $20 million in the pension credit, resulting in a net decrease of $20 million in the total benefits cost. The significant recovery from the stock market crash of 2008 with the resulting favorable impact on investment performance of pension assets has been the largest factor in the favorable
increase. The Company is also forecasting decreases of five to seven percent in health and welfare benefits since the last rate case, despite significant increases in the industry trend for medical expense. This is addressed in greater detail later in this testimony.

Q. How does FPL evaluate the design and cost of its benefit plans and how do the plans compare to those of other companies?

A. FPL uses the Aon Hewitt Benefit Index, an actuarial tool that compares the value of benefit plans. Aon Hewitt is an internationally recognized benefits consulting firm that provides analysis and consultation on the competitiveness of participating companies' benefit programs and produces the Aon Hewitt Benefit Index. The study methodology first analyzes the value of each benefit plan for each individual in the plan and then converts the individual values to a composite value for the entire employee population by applying a standard set of actuarial and employee participation assumptions. The index base point of 100.0 is set as the average of the values of the base companies selected for the comparison. Index values below 100.0 indicate that a company is being more successful than average in managing plan design as a means of controlling benefits cost. FPL has used the Aon Hewitt study to compare its benefits programs to those of companies in the general industry and utility industry sectors, and to those of Fortune 500 companies participating in the study.
Exhibit KS-5 displays the relative value of FPL’s total benefits program for 2015 compared to a base utility comparator group composed of 13 electric utilities that are most similar to FPL in terms of revenue and workforce composition or that are Florida-based. The graph also displays relative value comparisons to a broader utility group (composed of the 36 utilities that participated in the survey), to a general industry grouping, and to Fortune 500 companies that participated in the study. The graph shows that FPL’s Benefit Index for the total benefit program is below average compared to the base utility comparator group and each of the other industry groupings. FPL’s total benefits program rated 88.9 as compared to a 100.0 average for the 13 utilities in the base utility comparator group and to a 100.3 average for the broader utility group and 91.0 average for Fortune 500 companies. These results are consistent with the Company’s objective to emphasize cash compensation over traditional long-term benefits, which helps keep costs low for the benefit of customers.

Q. What is FPL’s projected medical cost for the 2017 Test Year?

A. FPL’s projected medical cost is $86.0 million for active employees in the 2017 Test Year. As shown on MFR C-35, this represents a decrease of over $2 million or 2.8 percent for the 2013 to 2017 period. It is well below the 6.3 percent projected increase in CPI and significantly below the utility industry health care trend of a 21.2 percent increase.
Q. What is FPL's projected medical cost for the 2018 Subsequent Year?
A. FPL's projected medical cost is $88.2 million for active employees in the 2018 Subsequent Year as shown on MFR C-35, which represents no increase from the Company's medical expense in 2013. This projected flat expense compares to an increase of 8.9 percent in CPI and a significant increase of 27.7 percent in the utility industry health care trend, as forecast by Aon Hewitt, over the same time frame.

Q. How does FPL determine the plan design of medical benefits for each year?
A. FPL's benefits department reviews trends in health care claims as well as plan designs and programs available across various industries, to determine the optimal plan design and pricing structure that will provide competitive, cost-effective benefits for all employees.

Q. How does FPL's medical plan compare to industry standards?
A. The relative value of FPL's medical plan for active employees is below average when compared to other utility and general industry companies participating in the 2015 Aon Hewitt Benefits Index. As illustrated by Exhibit KS-6, FPL's plan had a relative value of 85.0 as compared to the average of 100.0 for the 13 utilities in the base utility comparator group and the average of 103.2 for the broader utility group. FPL's relative value for active medical is also below both the general industry and Fortune 500 company averages.
Q. How do FPL’s projected medical costs per employee compare to those of other utilities and the national average?

A. FPL tracks medical plan expense per employee on an ongoing basis as a means of comparing its costs to those of other companies. Exhibit KS-7 illustrates FPL’s medical plan expense per employee for 2011 to 2015 and the projected cost for 2016 as compared to the utility industry benchmark. FPL’s average expense per employee has remained below the utility industry average from 2011 to 2015 and is projected to remain below the industry average in 2016, as illustrated in Exhibit KS-7. The increases in FPL’s health care plan expense per employee for 2011 through 2014 have been below the utility industry trend reported by Aon Hewitt, and per employee plan expense actually decreased slightly in 2015. Furthermore, Aon Hewitt’s forecasted utility industry benchmark for 2016 is approximately 15 percent above FPL’s projected medical plan expense per employee of $12,900 in 2016.

Q. What specific initiatives has FPL pursued to successfully control health care costs?

A. FPL has made health care cost control a key strategic initiative, applying a continuous improvement process to develop an integrated health strategy that will optimize value and control costs for both the Company and employees. FPL’s ability to keep per employee health care costs below the utility industry benchmarks and to project that costs remain below the utility industry benchmarks in 2016 and beyond has been the direct result of aggressive
management of the drivers of health care costs. The Company's successful
cost control strategy has relied upon a variety of initiatives, including:

- Plan design featuring consumerism, choice, and price incentives to
  encourage cost-effective plan selections;
- Comprehensive health promotion together with implementation of
  wellness incentives and utilization and care management
  programs;
- Dependent eligibility audits and per dependent pricing to align cost
  of coverage with benefit received;
- Aggressive vendor management and contracting, including multi-
  medical plan administrator approach; and
- Aggressive specialty pharmacy management to encourage use of
  more cost-effective specialty drugs.

Q. Are there other initiatives FPL has taken that have contributed to the
successful management of health care costs?

A. Yes. A key long-term cost control initiative has been the creation of a healthy
work environment and the aggressive promotion of the employee's personal
responsibility for his or her own health, as evidenced by the Company's
comprehensive health and well-being programs. FPL's comprehensive health
and well-being programs, developed over the past 20 years, have led to
reductions in health risk factors for the employees who have participated in
them, which will benefit our employees through better health and our
customers through lower plan cost in the Test and Subsequent Years and beyond.

Q. Has FPL received recognition for successful management of its health care programs and costs?

A. Yes. The effectiveness of the programs has been acknowledged through frequent national recognition, including the “Best Employers for Healthy Lifestyles” Platinum Award from the National Business Group on Health every year from 2009 through 2015, and the Edington Next Practice Award from Edington Associates in 2015.

Q. What are FPL’s expectations for the rate of increase in medical costs?

A. Aon Hewitt is forecasting utility industry health care cost increases of approximately 19 percent from 2016 to 2018, driven by a number of factors: the aging population, the growing burden of chronic diseases, various federal and state mandates, an increase in utilization and costs of prescription drugs including specialty drugs, hospital/provider consolidations, and enhancements in medical technology that will increase utilization. Thus, while FPL has been successful in controlling total medical costs and in managing per-employee medical costs below the utility industry average, rising health care costs continue to be a concern going forward. However, as noted previously, for purposes of the rate request in this case, FPL projects medical costs at or below 2013 levels, representing a significant achievement in cost control and remarkable achievement within the industry.
Q. How has FPL's successful management of its health care program and costs been a benefit to customers?

A. As I mentioned previously, the Company has reduced health care program costs from 2013 to 2015 and maintained both total program costs and per employee medical costs well below CPI and Aon Hewitt's reported health care cost trends. This success in controlling medical costs reduces the Company's revenue requirements, which is a direct benefit to customers.

Q. Does FPL offer retirement plans to employees, and is that consistent with industry practices?

A. Yes. FPL offers its employees retirement plans consisting of a pension plan and a 401(k) employee savings plan, as do approximately 85 percent of the utility industry comparator group included in the 2015 Aon Hewitt Benefit Index. The Company also provides post-employment medical, life, and disability benefits; however, as discussed previously, the post-employment medical and life benefits were discontinued for employees hired on or after April 1, 1997.

Q. What is FPL's projected retirement expense in the 2017 Test Year?

A. The projected expense for the 2017 Test Year is a credit of $13.0 million. This is the net result of the pension plan credit of $60.5 million that is partially offset by the 401(k) employee savings plan expense of $33.6 million and the post-employment medical, life, and disability benefits expense of $13.9 million.
Q. What is FPL’s projected retirement expense in the 2018 Subsequent Year?

A. For the 2018 Subsequent Year, FPL’s projected retirement expense is a credit of $13.6 million, the components being a pension plan credit of $62.6 million partially offset by expenses of $35.0 million for the employee savings plan and $13.9 million for post-employment medical, life, and disability benefits.

Q. Why are the retirement expense and the employee pension benefit reflected as a credit?

A. The assets of the pension plan have been beneficially invested such that the fair value of the assets exceeds the actuarially determined projected obligation. The size of the pension plan credit is sufficient to offset the employee savings plan and post-employment benefit expenses -- thus the net credit for retirement expense.

FPL’s pension benefit is calculated based on Financial Accounting Standards Board ("FASB") Codification, ASC 715 which covers retirement benefits. Whereas many utilities must recover a pension cost associated with providing a retirement plan to its employees from customers, FPL has, through prudent investment over time, been able to grow its pension assets at a faster rate than the costs of its plan obligations. Even after the major market correction, the pension trust still exceeds its obligations and, therefore, creates a negative expense (a credit) to the benefit of customers.
Q. How do FPL’s retirement plans compare to the industry?

A. As shown in the Aon Hewitt Benefit Index’s comparison chart (Exhibit KS-8), FPL’s retirement plans are valued at 86.8, well below the averages of the comparator companies and the utility industry (100.0 for the comparator and 97.8 for the utility companies).

Q. Does this evaluation demonstrate the reasonableness of FPL’s qualified retirement plans?

A. Yes. FPL provides both a pension and 401(k) employee savings plan to its employees in order to attract and retain high quality employees. However, through careful management of the plans, FPL has been able to keep their relative value considerably below the average in the utility industry as demonstrated by the Aon Hewitt Benefits Index (Exhibit KS-8).

Q. Please summarize your testimony concerning FPL’s total compensation and benefits costs for 2017 and 2018.

A. With its emphasis on pay for performance, FPL’s total rewards package has served the Company and its customers well. The Company has made good progress in controlling costs as evident on MFR C-35, and the total compensation and benefits costs are very competitive when measured against relevant benchmarks (as demonstrated on Exhibits KS-2 through KS-8). The 2017 and 2018 projected levels of compensation and benefits expense are reasonable and necessary to attract and retain the caliber of employees that create a high-performance organization.
1 Q. Does this conclude your direct testimony?

2 A. Yes.
Florida Power and Light Company

**MFRs SPONSORED AND CO-SPONSORED BY KATHLEEN SLATTERY**

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<td>Prior</td>
<td>Test</td>
<td>PAYROLL AND FRINGE BENEFIT INCREASES COMPARED TO CPI</td>
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</tbody>
</table>
Total Salaries & Wages
Per Customer 2014

APC  Alabama Power
APS  Arizona Public Service
BGE  Baltimore Gas & Electric
CME  Commonwealth Edison
CNE  Consolidated Edison
DEC  Duke Energy Carolinas
DEF  Duke Energy Florida
DEP  Duke Energy Progress
DTE  DTE Electric
FPL  Florida Power & Light

GPC  Georgia Power
GLF  Gulf Power
PGE  Pacific Gas & Electric
PEC  PECO Energy
PSEG  Public Service Electric & Gas
SDE  San Diego Gas & Electric
SCE  Southern California Edison
TEC  Tampa Electric
VEP  Virginia Electric & Power

SOURCE: FERC FORM 1
Position to Market (2015 Base Pay)

All Non-Bargaining Employees

Exempt

<table>
<thead>
<tr>
<th>Median Market Reference Point</th>
<th>$101,000</th>
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</thead>
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<tr>
<td>Median Base Salary</td>
<td>$99,805</td>
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<tr>
<td>Position to Market</td>
<td>-1.2%</td>
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</table>

Non Exempt

<table>
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<tr>
<th>Median Market Reference Point</th>
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</thead>
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<tr>
<td>Median Base Salary</td>
<td>$51,302</td>
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<tr>
<td>Position to Market</td>
<td>-3.2%</td>
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</table>

Market reference points are determined using current industry survey sources including Willis Towers Watson, Mercer and Aon Hewitt.
Merit Pay Program Awards

2013 to 2015

FPL's annual pay program has been below market from 2013 through 2015.

SOURCE: Market Data - WorldatWork
Total Benefit Program

Relative Value Comparison - 2015

The relative value of NextEra Energy's benefits program is below those of the comparator utility group, general industry, and Fortune 500 companies.

Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.


SOURCE: Aon Hewitt Benefit Index, 2015
The relative value of NextEra Energy's medical plan is below those of the comparator utility group, general industry, and Fortune 500 companies.

Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.


SOURCE: Aon Hewitt Benefit Index, 2015
FPL's total medical plan cost per employee has been consistently below utility industry benchmarks.

*Plan expense includes medical claims after employee out-of-pocket costs.*
The relative value of NextEra Energy's retirement plans is below those of the comparator utility group.

Comparison includes Company Contributions to determine "value" within the Benefit Index Methodology.


SOURCE: Aon Hewitt Benefit Index, 2015