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Adam Teitzman, Commission Clerk
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20210015-EI
Petition by FPL for Base Rate Increase and Rate Unification

Dear Mr. Teitzman:

Attached for filing on behalf of Florida Power & Light Company ("FPL") in the above-referenced docket is the Rebuttal Testimony of FPL witness Kathleen Slattery.

Please let me know if you should have any questions regarding this submission.

(Document 8 of 15)

Sincerely,

A handwritten signature in black ink, appearing to read 'Wade Litchfield', written in a cursive style.

R. Wade Litchfield
Vice President & General Counsel
Florida Power & Light Company

RWL:ec
Attachment
cc: Counsel of Record

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF KATHLEEN SLATTERY
DOCKET NO. 20210015-EI
JULY 14, 2021

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1 **I. INTRODUCTION**

2

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

4 A. My name is Kathleen Slattery, and my business address is Florida Power &
5 Light Company (“FPL” or “the Company”), 700 Universe Boulevard, Juno
6 Beach, Florida 33408.

7 **Q. Have you previously submitted direct testimony in this proceeding?**

8 A. Yes.

9 **Q. Are you co-sponsoring or sponsoring any rebuttal exhibits in this case?**

10 A. Yes. I am co-sponsoring the following exhibits:

- 11 • LF-10 – FPL’s Notice of Identified Adjustments filed May 7, 2021 and
12 Witness Sponsorship, filed with the rebuttal testimony of FPL witness
13 Fuentes.
- 14 • LF-11 – FPL’s Second Notice of Identified Adjustments filed May 21,
15 2021 and Witness Sponsorship, filed with the rebuttal testimony of FPL
16 witness Fuentes.

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

18 A. The purpose of my rebuttal testimony is to rebut the direct testimony of Office
19 of Public Counsel (“OPC”) witness Ralph Smith regarding executive and non-
20 executive incentive compensation expense, and expense associated with FPL’s
21 incentive program for project development and management. Specifically, I
22 will respond to OPC witness Smith’s concerns as to whether the amounts FPL
23 included for executive and non-executive incentive compensation expense are

1 consistent with the Florida Public Service Commission’s (“Commission”)
2 Order No. PSC-10-0153-FOF-EI (“2010 Rate Case Order”). Additionally, I
3 will respond to OPC witness Smith’s recommendation that the amounts
4 included for the employee incentive program related to project development
5 and management should be capitalized as construction project costs rather than
6 expensed as operations and maintenance (“O&M”).

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

8 A. FPL’s projected compensation and benefits expense is reasonable and prudent,
9 and no intervenor has filed testimony stating otherwise. My rebuttal testimony
10 demonstrates that FPL has excluded from its expense requests for 2022 and
11 2023 the portions of executive and non-executive incentive compensation that
12 were excluded by the Commission in the 2010 Rate Case Order. I also validate
13 that it is appropriate to include the costs associated with the employee incentive
14 program for project development and management in FPL’s forecasted expense
15 for 2022 and 2023, as no Company capital is deployed in the related projects.
16 It is noteworthy that no intervenor witness has questioned, in any way, the
17 reasonableness or prudence of FPL’s underlying performance-based incentive
18 programs.

1 **II. EXECUTIVE AND INCENTIVE COMPENSATION**

2

3 **Q. OPC witness Smith questions whether FPL’s adjustment for executive and**
4 **non-executive compensation is consistent with the 2010 Rate Case Order.**
5 **Has FPL excluded from its expense requests for 2022 and 2023 the portions**
6 **of executive and non-executive incentive compensation that were excluded**
7 **by the Commission in the 2010 Rate Case Order?**

8 A. Yes. Based on the executive compensation adjustment information reflected
9 on MFR C-3 and Exhibit LF-10, FPL has excluded from expense \$51.250
10 million (jurisdictional) in the 2022 Test Year and \$54.028 million
11 (jurisdictional) in 2023 Subsequent Year. In addition, FPL’s revenue
12 requirement calculation includes an adjustment to remove capitalized executive
13 incentive compensation from plant in-service consistent with the 2010 Rate
14 Case Order. As reflected on MFR B-2, the jurisdictional rate base adjustment
15 is \$54.120 million for 2022 Test Year and \$56.699 million for 2023 Subsequent
16 Year. There is no additional adjustment to be made.

17 **Q. Which portions of executive and non-executive incentive compensation are**
18 **excluded?**

19 A. All executive incentive compensation is excluded. For non-executive stock-
20 based incentive compensation, 50% of restricted stock and target performance
21 share awards are excluded, as well as 100% of any expense above target for
22 performance shares.

1 **Q. Has FPL consistently reported the exclusion of these portions of executive**
2 **and non-executive incentive compensation from net operating income on**
3 **its earnings surveillance reports to the Commission since 2010?**

4 A. Yes. FPL has provided monthly earnings surveillance reports to the
5 Commission since 2010 that have consistently reflected the exclusion of these
6 portions of incentive compensation from net operating income.

7 **Q. Has FPL made any changes to its methodology for calculating this**
8 **incentive compensation exclusion from net operating income since it began**
9 **to calculate such exclusion in 2010?**

10 A. No. FPL has been consistent in its methodology since 2010.

11 **Q. Was this same methodology for calculating the executive and non-**
12 **executive incentive compensation adjustment from net operating income**
13 **also applied by FPL to its revenue requests in the 2012 and 2016 Rate**
14 **Cases, Docket Nos. 20120015-EI and 20160021-EI?**

15 A. Yes. FPL's minimum filing requirements and testimony in the 2012 and 2016
16 Rate Cases reflected revenue requests which adjusted the same portions of
17 executive and non-executive incentive compensation that were excluded by the
18 2010 Rate Case Order. These adjustments were calculated using FPL's
19 consistent methodology since 2010.

20 **Q. Please explain why the current adjustment is only slightly more than the**
21 **adjustment in 2010.**

22 A. Although OPC witness Smith states that the current adjustment is \$47.859
23 million, FPL has actually excluded from expense \$51.250 million

1 (jurisdictional) in the 2022 Test Year and \$54.028 million (jurisdictional) in
2 2023 Subsequent Year, after factoring in the executive compensation
3 adjustment reflected on Exhibit LF-10.

4
5 Additionally, the 2010 Rate Case Order cited an adjustment figure of \$48.453
6 million that was calculated from gross compensation figures, before removal of
7 compensation costs allocated to affiliates. Therefore, the adjustment figures in
8 the 2010 Rate Case Order were overstated. As a result, the figure of \$48.453
9 million in the 2010 Rate Case Order should have reflected allocation of costs to
10 affiliates, reducing the disallowance to approximately \$35.461 million.

11
12 Finally, it is important to note that while compensation increases at market rates
13 over time, at FPL there were counter-pressures to such increases. FPL
14 streamlined its senior management team over the past 12 years, eliminating
15 seven executive positions and downshifting the work of an additional six
16 executive positions to a lower level. FPL thereby avoided costs while
17 maintaining superior service levels to its customers through these functional
18 consolidations.

19 **Q. Has any intervenor witness questioned the prudence or reasonableness of**
20 **any aspect of FPL's executive or non-executive incentive compensation**
21 **programs?**

22 A. No. Not a single intervenor witness has commented in any way on FPL's
23 program design or compensation levels.

1 **III. INCENTIVE PROGRAM RELATED TO PROJECT MANAGEMENT**

2

3 **Q. Has FPL included in O&M expense in the 2022 Test Year and 2023**
4 **Subsequent Year an employee incentive program related to project**
5 **development and management that references “construction”?**

6 A. Yes. FPL has included an employee incentive program that provides
7 recognition and compensation to a small number of FPL project developers,
8 engineers, and project managers who achieve pre-established goals related to
9 construction projects undertaken by large commercial customers.

10 **Q. Has OPC witness Smith questioned the prudence or reasonableness of this**
11 **program?**

12 A. No. OPC witness Smith has not raised any objections to the program itself—
13 neither the design nor the total cost. Rather, OPC witness Smith only questions
14 whether the amounts for the employee incentive program related to project
15 development and management should be expensed as O&M or treated as capital
16 construction project costs.

17 **Q. Please explain why the costs associated with this employee incentive**
18 **program are appropriately included as O&M expense in the 2022 Test**
19 **Year and the 2023 Subsequent Year.**

20 A. These costs should remain in O&M expense because the projects do not involve
21 any deployment of Company capital, but instead involve large commercial
22 customers engaging FPL engineers and project managers to work with them to
23 design improvements to the customers’ facilities. These projects involve

1 deployment of the customers' own capital dollars on their property for
2 conservation and other improvements that will facilitate considerable savings
3 to the customers over time. FPL provides a turnkey service to these commercial
4 end-use customers, such as schools, hospitals, municipalities, etc. FPL
5 employees design projects that meet customer needs, model the projected
6 savings over time, and oversee implementation. No FPL capital is deployed so
7 compensation costs are expensed, as is appropriate.

8

9

IV. CONCLUSION

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11 **Q. Should any incentive compensation expense not already adjusted by FPL**
12 **in its filing be removed from the 2022 Test Year or 2023 Subsequent Year**
13 **O&M request?**

14 A. No. FPL has already excluded from its expense requests for 2022 and 2023 the
15 portions of executive and non-executive incentive compensation that were
16 excluded in the 2010 Rate Case Order, and the suggestion that any additional
17 reduction should be made is unsupported and should be rejected. Furthermore,
18 the small employee project management incentive program questioned by OPC
19 witness Smith should remain in forecasted expense, as no Company capital is
20 deployed in such construction projects, which are performed by large
21 commercial customers on their facilities using their own capital. Therefore,
22 OPC witness Smith's recommended adjustments should be rejected.

1 As previously demonstrated in my direct testimony, FPL's compensation and
2 benefits expense is reasonable and prudent, and this fact has not been refuted
3 by any witness in this case. Furthermore, FPL's expense requests for 2022 and
4 2023 do not include any type of expense that the Commission has not previously
5 approved for recovery.

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

7 A. Yes.