

# Form 1 Benchmarking Summary - FPL Compared to Average

## Regional Peer Group

Adj. A&G / Customer  
Adj. A&G / MWh Sold  
Adj. A&G / Total Assets

2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

## Services Peer Group

Adj. A&G / Customer  
Adj. A&G / MWh Sold  
Adj. A&G / Total Assets

2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

## Scale-based Peer Group

Adj. A&G / Customer  
Adj. A&G / MWh Sold  
Adj. A&G / Total Assets

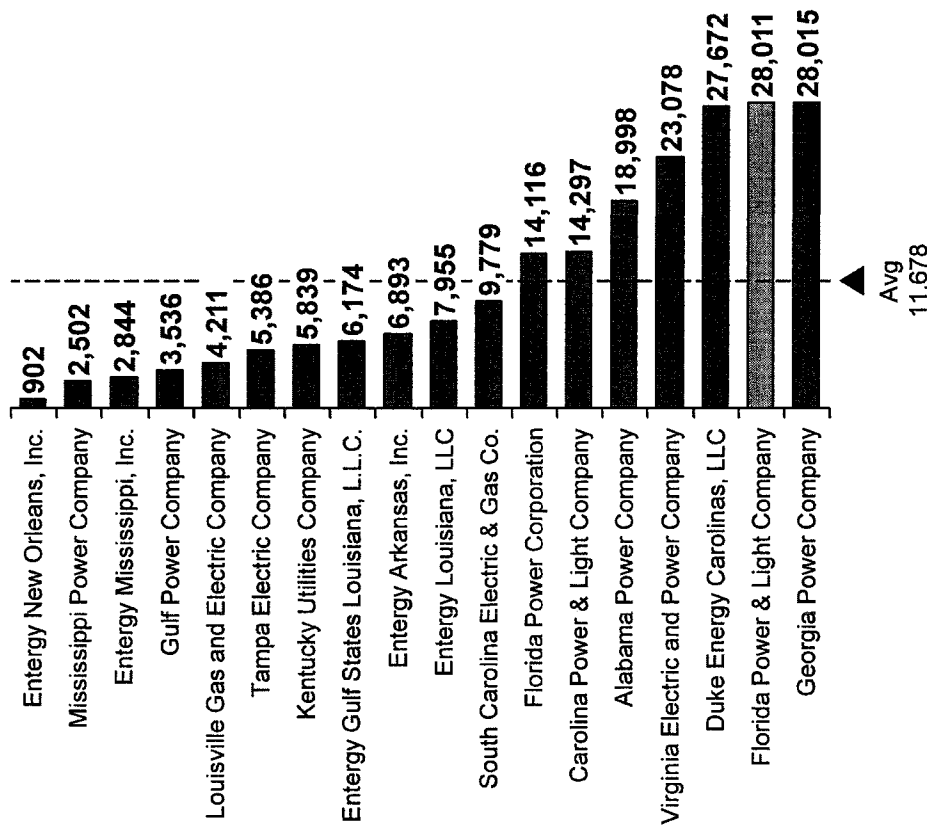
2007	2008	2009	2010
Better	Better	Better	Better
Better	Better	Better	Better
Better	Better	Better	Better

Note: Average is defined as within +/- 10% of the mean; Adj. A&G = Total A&G Less employee pensions & benefits  
Source: SNL Financial, FERC Form 1 Filings; Booz & Company analysis

# Asset Influence on Ratio Performance

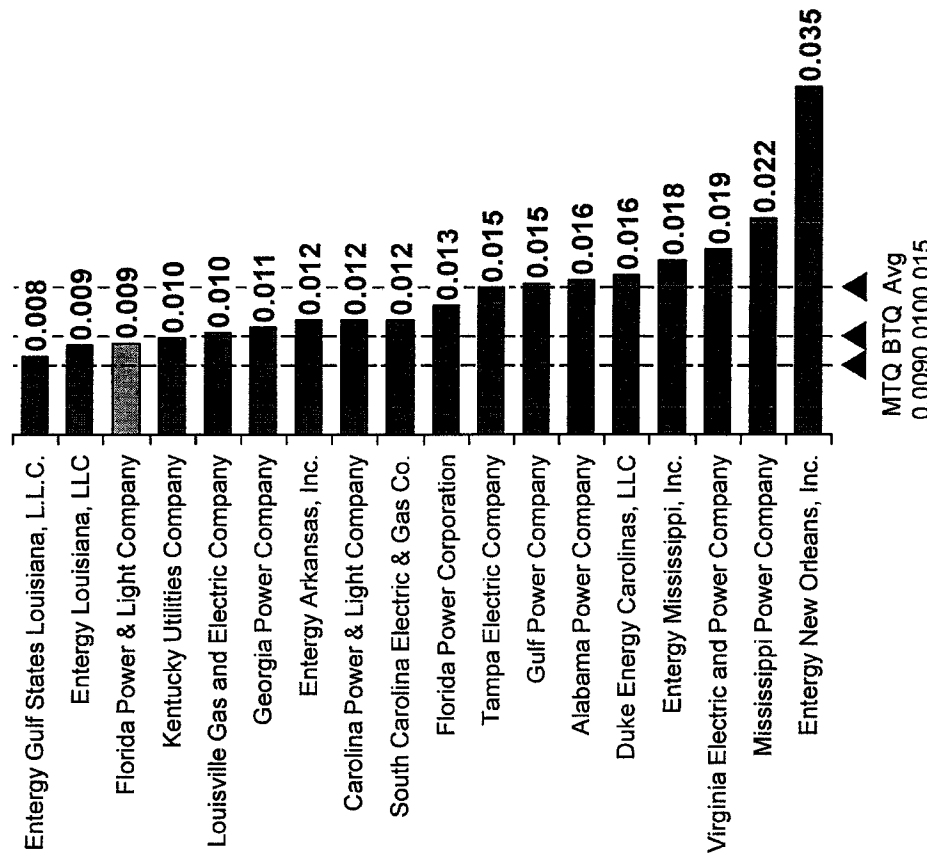
2010 Total Assets (\$000)

Regional Peer Group



2010 Adj. A&G / Total Assets

Regional Peer Group

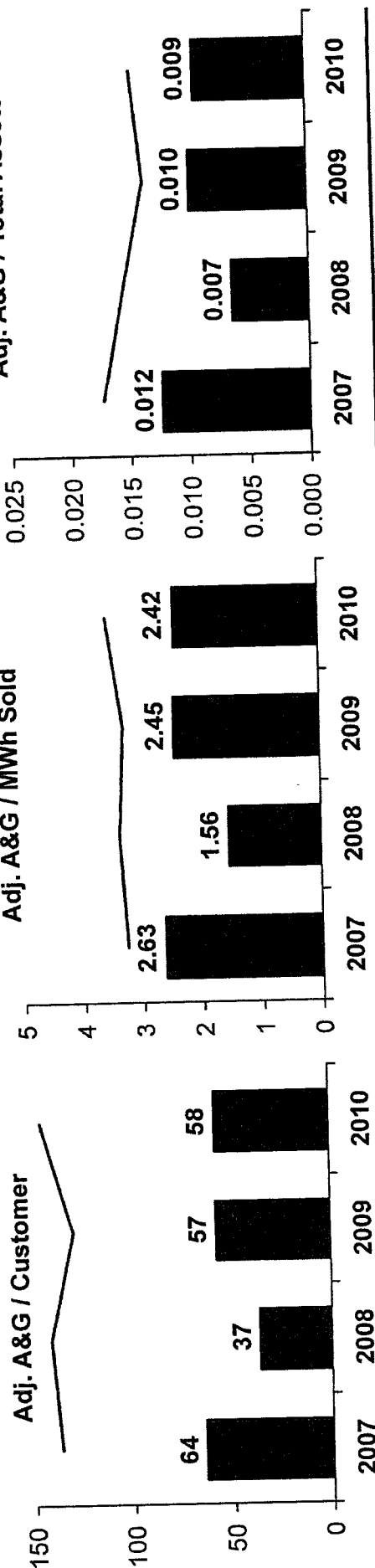


Source: SNL Financial, FERC Form 1 - 2010YE data; Booz & Company analysis

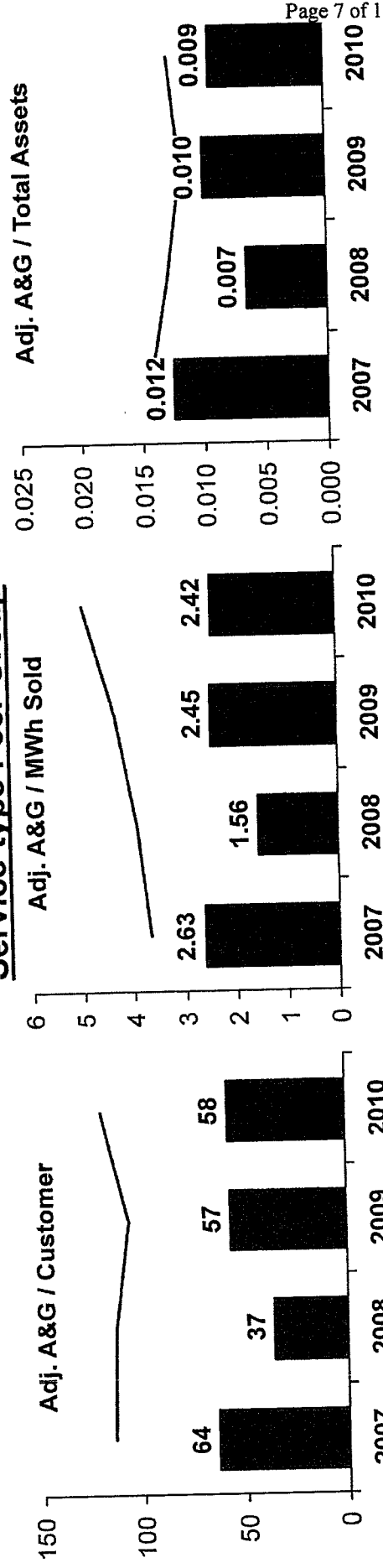
# FPL Compared to Average Ratios (1 of 2)

## Regional Peer Group

— Mean



## Service-type Peer Group

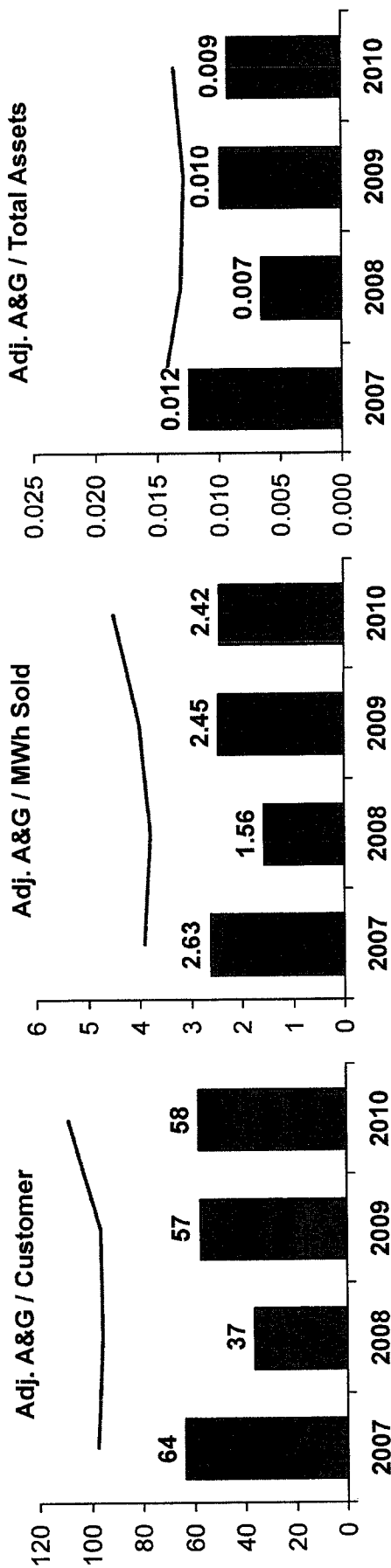


Note: Adj. A&G = Total A&G Less employee pensions & benefits  
Source: SNL Financial, FERC Form 1 Filings; Booz & Company analysis

# FPL Compared to Average Ratios (2 of 2)

## Scale-based Peer Group

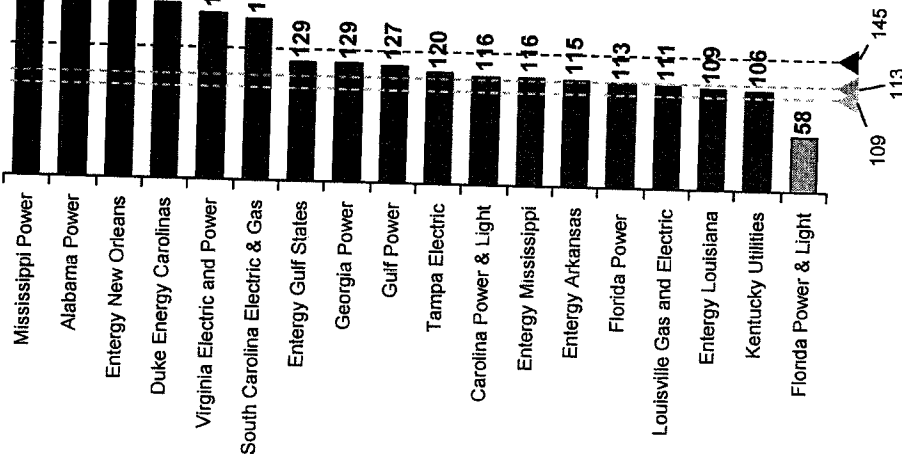
— Avg



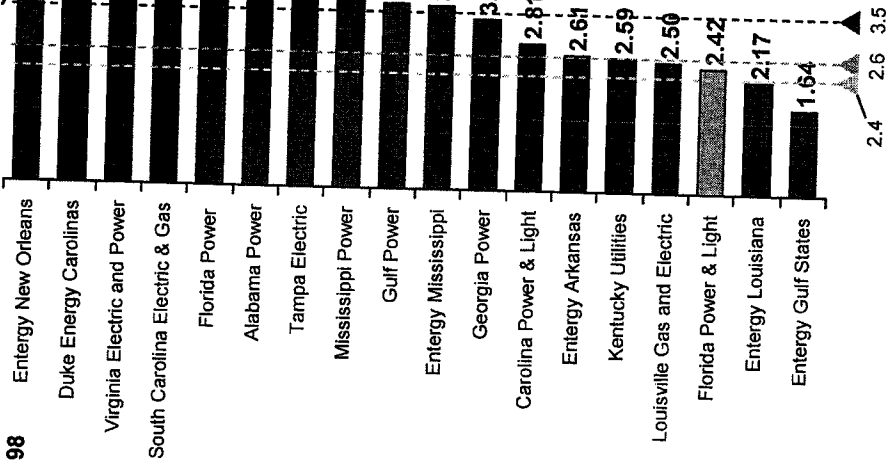
Note: Adj. A&G = Total A&G Less employee pensions & benefits  
Source: SNL Financial, FERC Form 1 Filings; Booz & Company analysis

# Regional Peer Group - 2010 A&G

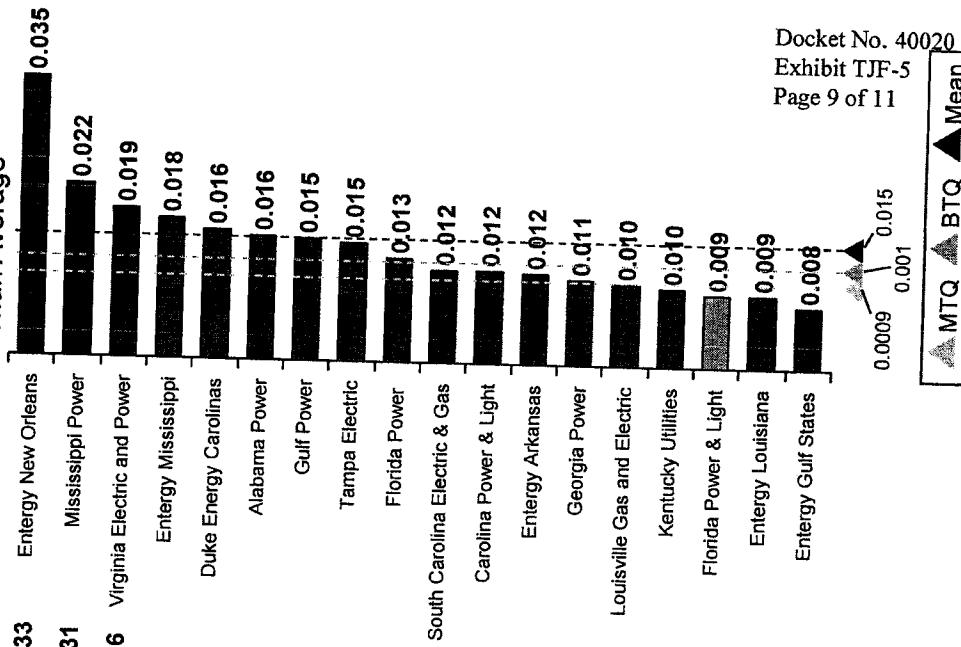
**Adj. A&G / Customer**  
Better Than Average



**2010 Adj. A&G / MWh Sold**  
Better Than Average



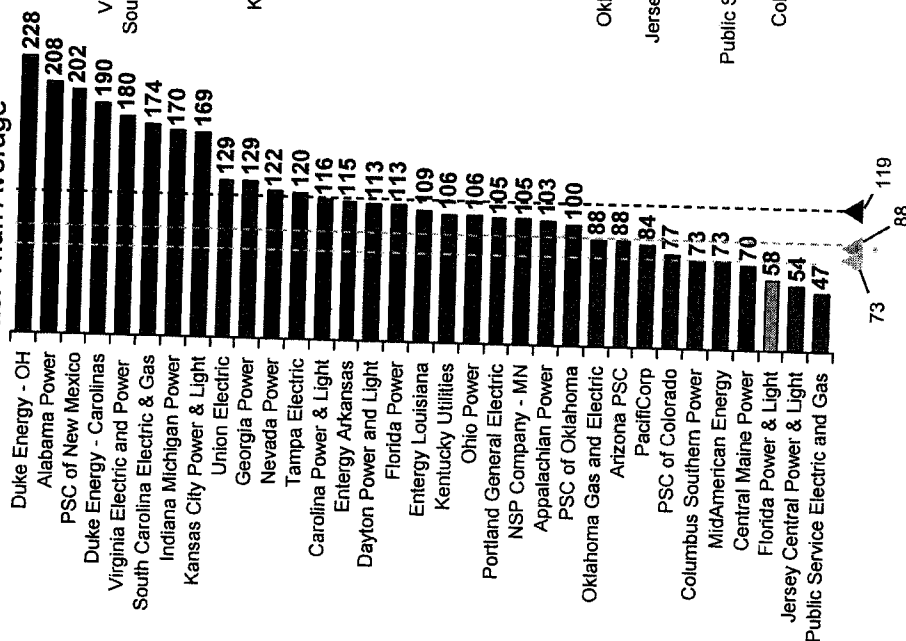
**2010 Adj. A&G / Total Assets**  
Better Than Average



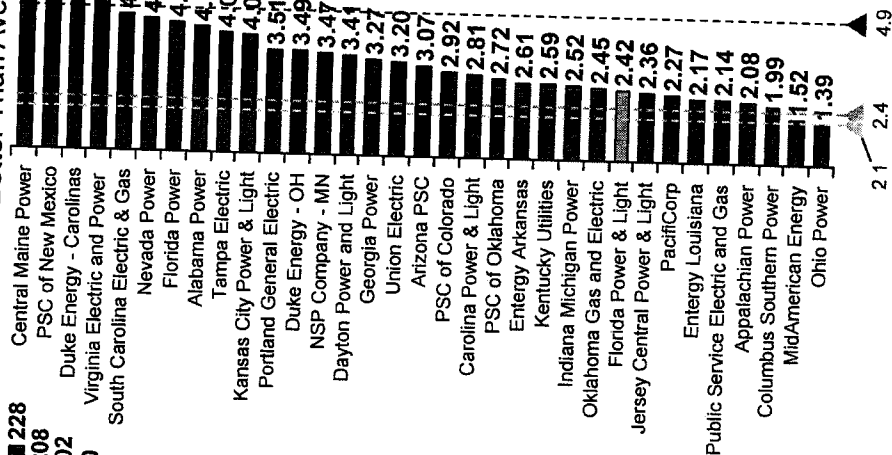
Note: Average defined as peer group mean +/- 10%  
Source: SNL Financial, FERC Form 1, Booz & Company analysis

# Services Peer Group - 2010 A&G

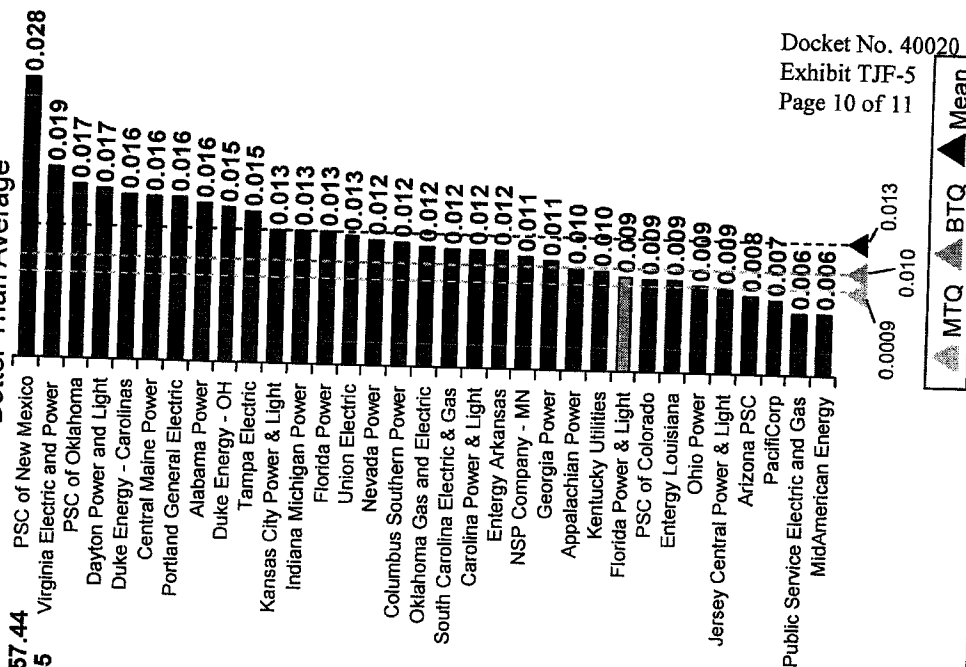
Adj. A&G / Customer  
Better Than Average



2010 Adj. A&G / MWh Sold  
Better Than Average



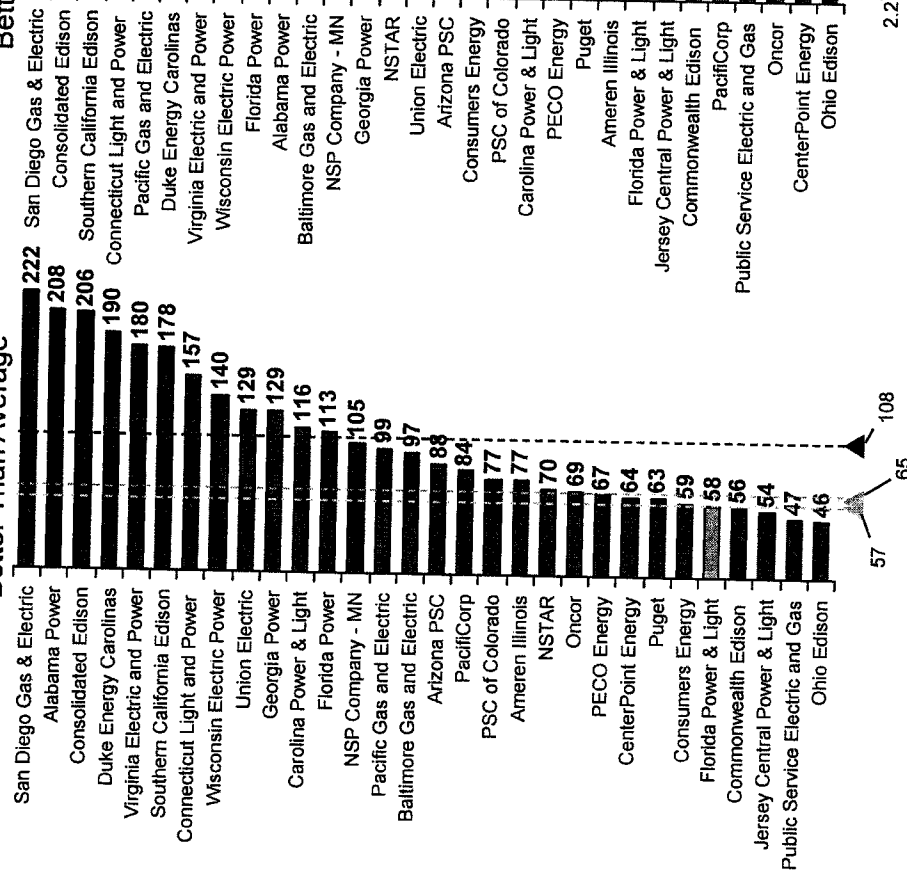
2010 Adj. A&G / Total Assets  
Better Than Average



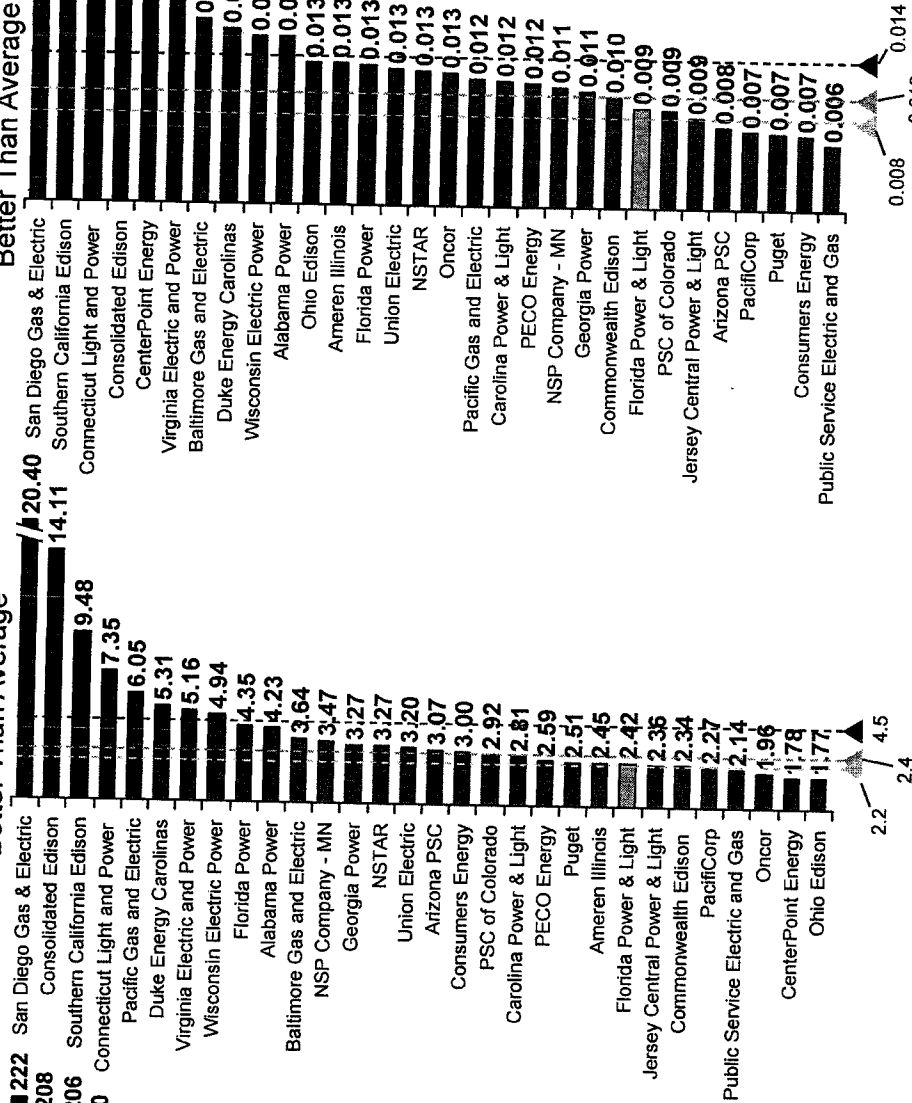
Note: Average defined as peer group mean +/- 10%  
Source: SNL Financial, FERC Form 1, Booz & Company analysis

# Scale Peer Group - 2010 A&G

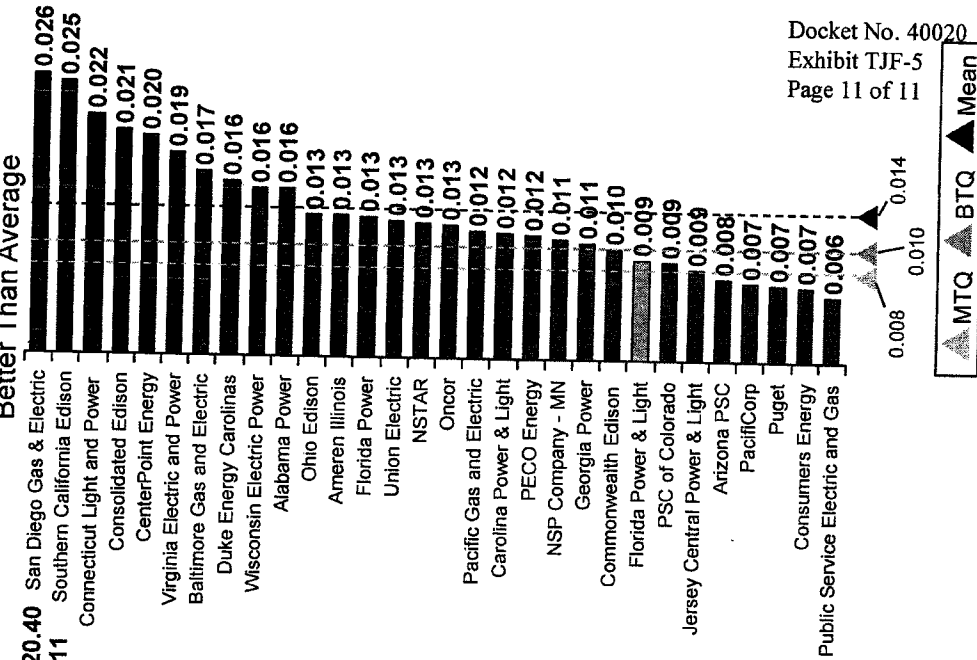
**Adj. A&G / Customer**  
Better Than Average



**2010 Adj. A&G / MWh Sold**  
Better Than Average



**2010 Adj. A&G / Total Assets**  
Better Than Average



Note: Average defined as peer group mean +/- 10%  
Source: SNL Financial, FERC Form 1, Booz & Company analysis

**PUC DOCKET NO. 40020**

**APPLICATION OF LONE STAR  
TRANSMISSION, LLC FOR  
AUTHORITY TO ESTABLISH  
INTERIM AND FINAL RATES  
AND TARIFFS**

§  
§  
§  
§  
§

**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**DIRECT TESTIMONY**

**OF**

**JULIE S. RICE**

**ON BEHALF OF**

**LONE STAR TRANSMISSION, LLC**

**January 9, 2012**



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**JULIE S. RICE, WITNESS FOR**

### **LONE STAR TRANSMISSION, LLC**

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**EXECUTIVE SUMMARY OF JULIE S. RICE**

Lone Star Transmission, LLC ("Lone Star" or the "Company") receives Human Resources ("HR") services from Florida Power & Light Company ("FPL") and NextEra Energy Resources, LLC ("NEER") as part of the NextEra Energy, Inc. ("NextEra Energy") family of companies. NextEra Energy's philosophy has been, and continues to be, to provide competitive, market-based salaries with consideration of an individual's performance and contribution to NextEra Energy's key goals. Lone Star also enjoys access to the comprehensive and competitive benefits package available to its employees through NextEra Energy. As a result, Lone Star is able to attract, motivate and retain key personnel who are necessary to successfully operate the Company in an efficient, reliable and safe manner.

My testimony:

- describes the FPL and NEER HR organizations, the services they provide to Lone Star, the benefits that result for Lone Star's customers and the reasonableness of costs that are charged to Lone Star;
- sets forth the total pay philosophy through which Lone Star employees are offered competitive, market-based salaries and benefits and explains the industry data against which Lone Star assesses the reasonableness of its total pay program;
- explains the comprehensive health, welfare, retirement and other benefits available to Lone Star employees at a reasonable cost to ratepayers; and
- supports the reasonableness and necessity of Lone Star's HR expenses that it seeks to recover through rates.

My testimony, exhibits and supporting materials demonstrate that Lone Star's HR costs are reasonable, necessary and competitive. Accordingly, the HR costs Lone Star seeks to include in its cost of service are reasonable and necessary expenses to provide service to Lone Star's customers.

**DIRECT TESTIMONY OF JULIE S. RICE**

**I. POSITION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.**

A. My name is Julie S. Rice. I am Director of Compensation & Planning for NEER.  
My business address is NextEra Energy Resources, 700 Universe Blvd., Juno  
Beach, Florida 33408.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of Lone Star.

**Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL  
BACKGROUND?**

A. I have a Bachelor's degree in Business Administration from Palm Beach Atlantic  
University. In addition, I have over 21 years of experience at NextEra Energy and  
its affiliates. My experience in the HR organization has included roles of  
increasing responsibility in HR systems, diversity and compensation and benefits  
that have provided me with a strong working knowledge of the design and  
administration of HR programs. In my current role as Director of Compensation  
and Planning, I am directly responsible for the design and administration of all  
compensation programs, participate in the design of benefit programs and direct  
the HR budget for NEER. My overall experience has provided me with extensive  
knowledge of NextEra Energy's compensation and benefits philosophy, plans and  
practices, which apply to Lone Star and its HR needs.

**II. PURPOSE OF DIRECT TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my direct testimony is to present an overview of Lone Star's compensation and benefits programs, both in terms of philosophy and costs. I will provide detail on the specific pay and benefit plans and demonstrate the reasonableness and necessity of the compensation and benefits costs for Lone Star direct employees requested by the Company for inclusion in rates. I also support the reasonableness and necessity of certain HR affiliate costs.

**Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?**

A. Yes. I have prepared and sponsor the exhibits listed in the table of contents.

**Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?**

A. Yes.

**Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES?**

A. Yes. I sponsor or co-sponsor the schedules listed in the table of contents.

1   **Q.    HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY OF**  
2   **OTHER WITNESSES WHO ARE ADDRESSING RELATED TOPICS?**

3   A.   My testimony is related to the direct testimony of Lone Star witness Cheryl  
4       Dietrich who discusses affiliate costs. Specifically, the NextEra Energy corporate  
5       HR costs are allocated to the individual business units, including Lone Star, using  
6       the allocation methodologies discussed by Ms. Dietrich.

7  
8   **Q.    WHAT TOTAL DOLLAR AMOUNT ARE YOU SUPPORTING AS PART**  
9   **OF LONE STAR'S RATE REQUEST?**

10  A.   With regard to the interim rate period, I am supporting a total of \$5.56 million for  
11       direct Lone Star payroll costs, \$534,538 for health and welfare and retirement  
12       benefit costs for Lone Star employees and \$337,932 for legally-required benefits  
13       related to Lone Star's direct employees. For affiliate costs to be recovered  
14       through interim rates, I am supporting a total of \$292,975 for shared services HR  
15       costs charged to Lone Star.

16  
17       For the final rate period, I am supporting a total of \$5.82 million in direct Lone  
18       Star payroll costs, \$490,646 for health and welfare and retirement benefits for  
19       Lone Star employees and \$343,815 for legally-required benefits incurred on  
20       behalf of Lone Star's direct employees. The affiliate costs I support for the final  
21       rate period are a total of \$207,348 for shared services HR costs charged to Lone  
22       Star.

**III. HUMAN RESOURCES ORGANIZATION, SERVICES AND COSTS**

**Q. DOES LONE STAR HAVE ITS OWN HR ORGANIZATION?**

A. No. Lone Star does not have its own HR organization. HR support is provided by the HR organizations within NextEra Energy's two largest subsidiaries, NEER and FPL.

**Q. WHAT SERVICES DO THE NEER AND FPL HR ORGANIZATIONS PROVIDE TO LONE STAR?**

A. NEER and FPL provide the following HR services to Lone Star: (1) design and administration of pay programs (base pay, annual performance incentive pay and long-term incentive pay) and benefit programs (health and welfare, retirement, post-employment and post-retirement); (2) payroll and benefit administration and employee call center assistance; (3) talent acquisition, including recruitment, hiring and relocation processes; (4) employee relations support, organization design and compliance with regulatory requirements; and (5) design and administration of training and development programs. NEER and FPL do not provide duplicative services to Lone Star.

**Q. IS LONE STAR'S RELIANCE ON THIS HR ARRANGEMENT REASONABLE?**

A. Yes. Lone Star must offer a full range of HR programs and services, including a competitive compensation and benefits package, to attract, motivate and retain the caliber of employees necessary to meet operational goals and provide safe and

1 reliable service to its customers. Lone Star must also ensure compliance with all  
2 applicable employment regulations. Accomplishing these HR objectives requires  
3 a broad range of specialized skills across multiple functional disciplines. Lone  
4 Star's relatively small size makes it impractical and costly for Lone Star to staff a  
5 comprehensive HR function internally, and outsourcing the broad range of  
6 services would be cost prohibitive and require considerable management  
7 oversight. Lone Star can take advantage of economies of scale by obtaining HR  
8 services from NextEra Energy through a shared services model, which benefits  
9 Lone Star in terms of cost, quality and timeliness and, in turn, benefits Lone  
10 Star's customers by controlling costs. This shared services approach provides the  
11 necessary HR services and employee support in the most cost-effective manner,  
12 which directly benefits customers, and allows Lone Star management to focus on  
13 core operations, all to the benefit of customers.

14  
15 **Q. ARE THESE SERVICES DUPLICATED BY LONE STAR OR ANY**  
16 **OTHER AFFILIATE?**

17 A. No, these are unique services and are not duplicated by any other affiliate or Lone  
18 Star.

19  
20 **Q. WHAT HR ORGANIZATION COSTS ARE CHARGED TO LONE STAR?**

21 A. Lone Star incurs affiliate charges for the range of services provided by the FPL  
22 and NEER HR organizations (collectively referred to as "NextEra Energy HR  
23 organization").

1    **Q.    WHAT LEVEL OF HR ORGANIZATION COSTS IS LONE STAR**  
2    **SEEKING TO RECOVER THROUGH RATES?**

3    A.    The costs for HR organization support for the interim rate period are \$292,975,  
4    and the costs for the HR organization support for the final rate period are  
5    \$207,348.

6

7    **Q.    ARE THE NEXTERA ENERGY HR ORGANIZATION COSTS**  
8    **REASONABLE? IF SO, WHY?**

9    A.    Yes. The HR costs are incurred for services necessary to fulfill the HR needs of  
10   Lone Star related to payroll, benefits, recruiting, retention and other crucial HR  
11   services. The reasonableness of the NextEra Energy HR organization costs are  
12   supported by benchmarking data. NextEra Energy participates in the  
13   PricewaterhouseCoopers ("PwC") Saratoga Utilities Consortium and utilizes the  
14   PwC Saratoga workforce measurement databases to benchmark costs and  
15   performance. PwC Saratoga is a recognized expert with over 40 years'  
16   experience in workforce measurement with a database covering over 450 metrics  
17   and including 1,600 clients across multiple industry segments.

18

19   One of the metrics reported in the PwC Saratoga database is HR Cost per  
20   Employee, which represents total internal and external costs incurred directly by  
21   HR divided by average number of employees. For 2010, the median HR cost per  
22   employee for companies similar to NextEra Energy in revenue size was \$1,882.



NextEra Energy's HR cost per employee was \$1,813, which is below the median value and demonstrates the reasonableness of the HR costs.

#### IV. TOTAL PAY PROGRAM

##### **Q. WHAT IS LONE STAR'S TOTAL PAY PHILOSOPHY?**

A. Consistent with the NextEra Energy philosophy, Lone Star considers total compensation and benefits as components of a comprehensive total pay program. The 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 give the Company the opportunity to develop a sense of employee commitment and ownership in the performance of the Company. Each employee's compensation has a portion of pay that is variable. The variable pay is linked to individual performance and Lone Star objectives, such as operational reliability and safety. The strategic emphasis on a total pay program that is variable, rather than based on fixed salary and benefits costs, encourages performance at an individual employee level and adds flexibility in recognizing that performance.

##### **Q. WHAT RESOURCES DOES NEXTERA ENERGY USE TO EVALUATE AND MONITOR THE LONE STAR TOTAL PAY PROGRAM?**

A. NextEra Energy uses a variety of compensation survey resources with a focus on national markets to evaluate the program. To find the requisite skills, the recruiting department searches nationally for personnel to fill managerial,

professional and technical positions. NextEra Energy utilizes nationally recognized third-party compensation survey sources to aggregate and provide 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 because the workforce encompasses multi-industry talents. The primary information sources for compensation survey data include the following:

- Towers Watson, an international HR consulting firm;
- William M. Mercer Incorporated, an international HR consulting firm;
- Bureau of Labor Statistics (the Consumer Price Index or CPI);
- Aon Hewitt, an international HR consulting firm; and
- WorldatWork, a global HR association of more than 30,000 compensation, benefits and HR professionals.

**Q. HOW DOES LONE STAR'S BASE PAY COMPARE TO THE RELEVANT MARKET?**

A. Lone Star base pay levels are comparable to the rates paid by its competitors for employees performing similar jobs and with similar skill sets. NextEra Energy performs a detailed annual benchmarking analysis of its pay rates to determine how NextEra Energy compares to the market benchmarking data. The most recent market analysis completed in 2011 included market survey data from approximately 50 sources, including Towers Watson, Aon Hewitt and Mercer.

Exhibit JSR-1 demonstrates NextEra Energy has maintained its average base pay for exempt and non-exempt jobs at or below the market.

**Q. WHAT LEVEL OF DIRECT PAYROLL COSTS IS LONE STAR SEEKING TO RECOVER THROUGH RATES?**

A. Lone Star is requesting recovery of \$5.56 million of direct gross payroll costs in interim rates and seeks to recover \$5.82 million in direct gross payroll costs in final rates.

**Q. WHAT ARE THE COMPONENTS OF LONE STAR'S TOTAL PAY PROGRAM?**

A. The Lone Star total pay program includes four components:

- base pay;
- short-term incentive pay ("STI");
- long-term incentive pay ("LTI"); and
- benefits.

**Q. DO LONE STAR'S CUSTOMERS BENEFIT FROM THE TOTAL PAY PROGRAM AVAILABLE TO EMPLOYEES? IF SO, HOW?**

A. Yes. The costs of Lone Star's total pay program are competitive with the market and fall within the range of compensation offered by comparable entities as shown by the benchmark data I discuss. This means that the Company is able to

attract, motivate and retain employees necessary to safely and effectively operate the Company and provide reliable service at a reasonable cost.

**Q. ARE THE COSTS ASSOCIATED WITH LONE STAR'S TOTAL PAY PROGRAM REASONABLE AND NECESSARY?**

A. Yes. To effectively recruit and retain talented and qualified employees necessary to operate the Company, Lone Star must offer employees a competitive pay package. The components of the pay package are necessary to put Lone Star in a position to attract necessary employees, and the costs of the plan are reasonable.

**A. Base Pay and Short-Term Incentive Pay**

**Q. PLEASE DESCRIBE LONE STAR'S BASE PAY PROGRAM.**

A. Lone Star's base pay program includes the salaries paid to employees, the annual performance-based merit program and other increases for changes such as promotions that may occur outside of the annual merit program. This is a component of Lone Star's total pay program, which is designed to afford the Company flexibility in encouraging and recognizing employee performance rather than relying solely on a fixed salary and benefits package.

**Q. PLEASE DESCRIBE THE ANNUAL PERFORMANCE-BASED MERIT PROGRAM.**

A. There are two components to the annual performance-based merit program. The first component is a merit award (or base pay raise) determined by an individual's

1 performance level and salary position relative to market. The second component  
2 is STI, which I will refer to as an annual performance-based incentive award, that  
3 provides a discretionary payment based on each individual's contribution as well  
4 as Company results in comparison to pre-established objectives.  
5

6 **Q. HOW DOES LONE STAR'S ANNUAL PAY INCREASE PROGRAM**  
7 **COMPARE TO MARKET?**

8 A. NextEra Energy regularly benchmarks its annual pay increase program against  
9 relevant market data to ensure that the program is reasonable and competitive.  
10 Pay increase data is analyzed for both the non-exempt and exempt employee  
11 populations. For 2011, NextEra Energy's annual merit base and variable pay  
12 awards are in line with the relevant market data.  
13

14 **Q. WHAT TYPES OF GOALS ARE INCLUDED IN THE ANNUAL**  
15 **PERFORMANCE-BASED INCENTIVE AWARD PROGRAM?**

16 A. Lone Star's annual performance-based incentive award program is tied to metrics  
17 for construction progress, operational reliability, safety, compliance with North  
18 American Electric Reliability Corporation ("NERC") Reliability Standards and  
19 Electric Reliability Council of Texas ("ERCOT") Protocols and Operating Guides  
20 and controlling costs for customers.

1 Q. DO THE GOALS IN THE ANNUAL PERFORMANCE-BASED  
2 INCENTIVE AWARD PROGRAM PROVIDE BENEFITS FOR  
3 CUSTOMERS? IF SO, HOW?

4 A. Yes. The goals include the successful and timely completion of the transmission  
5 infrastructure as well as providing cost-effective and reliable service in a safe  
6 manner. Each of the goals provides direct benefits to Lone Star's customers who  
7 must receive safe and reliable transmission service that complies with applicable  
8 regulatory and reliability standards. The goals encourage Lone Star to operate  
9 efficiently and effectively at a competitive cost, which benefits customers.

10  
11 Q. WHICH LONE STAR EMPLOYEES ARE ELIGIBLE TO RECEIVE  
12 INCENTIVE COMPENSATION THROUGH THE ANNUAL  
13 PERFORMANCE-BASED INCENTIVE AWARD PROGRAM?

14 A. All Lone Star employees are eligible to receive incentive compensation through  
15 the annual performance-based incentive award program.

16  
17 B. Long-Term Incentive Pay

18 Q. DOES LONE STAR HAVE AN LTI PLAN?

19 A. Yes. The LTI is a key component of the compensation package, along with base  
20 pay and annual STI. LTI is designed to incent employees' long-term performance  
21 by focusing employees on sustained improvements in performance over time.

1   **Q.    WHAT IS THE PURPOSE OF THE LTI?**

2    A.    One purpose of the LTI is to provide a long-term focus in management decision-  
3       making to help achieve the long-term goals and success of the Company. Another  
4       purpose is to facilitate attracting and retaining a high quality management team  
5       because the LTI is an essential part of a competitive pay program in this industry.  
6       Participation in the LTI is limited to exempt employees of Lone Star, which is  
7       more restricted than for STI.

8

9   **Q.    PLEASE DESCRIBE THE PERFORMANCE GOALS ASSOCIATED**  
10   **WITH LTI.**

11   A.    The performance goals associated with the LTI are identical to the metrics used in  
12       Lone Star's annual performance-based incentive award program.

13

14   **Q.    DOES THE LTI COMPONENT OF TOTAL PAY BENEFIT**  
15   **CUSTOMERS? IF SO, HOW?**

16   A.    Yes. The LTI goals incent long-term management performance and focus that  
17       directly benefits customers consistent with my discussion of the ways in which  
18       customers benefit from the goals in the annual performance-based incentive  
19       award program. Meeting the construction and operational milestones and  
20       achieving the levels of efficiency, reliability and safety prescribed by the goals  
21       benefits customers who, in turn, receive timely, safe, reliable and cost-effective  
22       service.

**C. Benefits**

**Q. PLEASE DESCRIBE NEXTERA ENERGY'S BENEFITS PACKAGE.**

A. The NextEra Energy benefits program, for which Lone Star employees are eligible, is designed and managed as part of a comprehensive total pay package in conjunction with compensation. The benefits package includes a full complement of benefits, comprised of three primary components:

- health and welfare benefits;
- retirement plans; and
- legally-required benefits (social security tax, federal and state unemployment taxes and workers' compensation).

**Q. WHAT LEVEL OF BENEFITS COSTS IS LONE STAR SEEKING TO RECOVER THROUGH RATES?**

A. Lone Star's total benefit costs for the interim rate period are \$872,470 and for the final rate period are \$834,461. These are benefits costs attributable to Lone Star's direct employees for health and welfare benefits, retirement plans and legally-required benefits.

**Q. HOW DOES NEXTERA ENERGY EVALUATE THE DESIGN AND COST OF ITS BENEFIT PLANS, AND HOW DO THE PLANS COMPARE TO THOSE OF OTHER COMPANIES?**

A. To evaluate the design and cost of its benefit plans, NextEra Energy uses the Aon Hewitt Benefit Index, an actuarial tool that compares the relative value of benefit plans. Aon Hewitt Associates is an internationally recognized benefits consulting



1 firm that provides analysis and consultation on the competitiveness of  
2 participating companies' benefit programs and produces the Aon Hewitt Benefit  
3 Index. The study methodology first analyzes the value of each benefit plan for  
4 each individual in the plan and then converts the individual values to a composite  
5 value for the entire employee population by applying a standard set of actuarial  
6 and employee participation assumptions. An index of 100.0 represents the  
7 average of the comparator companies selected. NextEra Energy uses the Aon  
8 Hewitt study to compare its benefits programs to those of companies in the  
9 general industry and utility industry sectors, and to those of participating Fortune  
10 500 companies.

11  
12 Exhibit JSR-2 displays the relative value of the plan design of NextEra Energy's  
13 total benefits program compared to a core comparator group composed of 14  
14 electric utilities most similar to NextEra Energy in terms of revenue and  
15 workforce dynamics. The graph also displays relative value comparisons to a  
16 broader utility group composed of 22 companies, to a general industry grouping,  
17 and to Fortune 500 companies that participated in the study. The graph shows  
18 that NextEra Energy's Benefit Index for the total benefit program is in line with  
19 other Fortune 500 companies and is more conservative than the average plan  
20 design compared to the other utilities. These results are consistent with NextEra  
21 Energy's goal to emphasize cash compensation rather than traditional long-term  
22 benefits.

1 NextEra Energy also uses the Towers Watson's BENVAL Study, which is an  
2 actuarial tool that compares the value of benefit plans. Towers Watson is a  
3 nationally recognized benefits consulting firm whose Employee Benefit  
4 Information Center analyzes the competitiveness of participating companies'  
5 benefits programs and produces the BENVAL Study. The study methodology  
6 first analyzes the value of each benefit plan and then converts the plan value to a  
7 series of relative value indices by applying a common set of actuarial methods  
8 and assumptions. This method of comparison neutralizes the effect of differences  
9 in employee demographics and geographic differences and establishes a  
10 controlled environment where differences in value among employer plans are  
11 strictly a function of differences in plan provisions. NextEra Energy's BENVAL  
12 index for the total benefit program ranks below the average of similar energy  
13 services companies that participated in the 2011 Towers Watson BENVAL Study  
14 for the benefit plan design, which means that the relative value of NextEra  
15 Energy's benefits plans, in terms of level of coverage, is more conservative than  
16 other companies. Again, the results of the benchmarking data are consistent with  
17 NextEra Energy's emphasis on cash compensation over traditional long-term  
18 benefit plans.

1 Q. WHAT CONCLUSIONS DO YOU DRAW FROM THE RESULTS OF THE  
2 BENCHMARKING DATA RELATED TO OVERALL BENEFIT PLAN  
3 DESIGN?

4 A. Although NextEra Energy's overall benefit plans are more conservative than other  
5 companies in terms of plan design, these results are consistent with NextEra  
6 Energy's objective to emphasize cash compensation over traditional long-term  
7 benefits. The emphasis on cash compensation rather than traditional benefits  
8 allows Lone Star to offer a total pay package that is attractive, competitive and  
9 comparable to the compensation packages with which Lone Star competes for  
10 employees. The total pay package allows Lone Star to effectively recruit and  
11 retain employees.

12  
13 1. Health and Welfare Benefits

14 Q. WHAT HEALTH AND WELFARE BENEFITS ARE PROVIDED TO  
15 LONE STAR EMPLOYEES?

16 A. Lone Star employees as well as their spouses and dependents are eligible to  
17 participate in the dental, vision, life and dependent life insurance, disability and  
18 medical (including pharmacy, mental health, substance abuse and Employee  
19 Assistance Program ("EAP")) programs.

1 **Q. HOW DOES THE HR ORGANIZATION DETERMINE THE PLAN**  
2 **DESIGN OF HEALTH AND WELFARE BENEFITS FOR EACH YEAR?**

3 A. NextEra Energy's benefits department reviews trends in health care claims as well  
4 as plan designs and programs available across industries to determine the optimal  
5 plan design and pricing structure that will provide competitive, cost-effective  
6 benefits for all employees. The benefits department also utilizes benchmark  
7 information received from Aon Hewitt regarding industry trends and cost  
8 benchmarks provided by the Hewitt Health Value Initiative report received  
9 annually. The plan design is reviewed and approved annually.  
10

11 **Q. WHAT IS THE DIFFERENCE BETWEEN THE TOTAL COST OF THE**  
12 **PLAN AND THE AMOUNT PAID BY LONE STAR EMPLOYEES?**

13 A. On average, Lone Star employees pay approximately 35% of the plan costs. The  
14 amount paid by active employees varies depending on a number of factors,  
15 including the employee's base pay rate, whether they cover dependents, how  
16 many dependents they cover and whether they participate in and complete  
17 incentives designed to improve employee health.  
18

19 **Q. IS THE COST SHARING RATIO THAT NEXTERA ENERGY TARGETS**  
20 **FOR EMPLOYEE MEDICAL EXPENSES REASONABLE?**

21 A. Yes. NextEra Energy benchmarks its plan design to ensure its deductibles,  
22 coinsurance and out-of-pocket maximums are in line with the average of the  
23 Fortune 500 and utility companies captured in Aon Hewitt's benchmarking

1 information. As evidenced by the Hewitt Health Value Initiative, NextEra  
 2 Energy's cost sharing ratio is reasonable. In 2011, the cost sharing for the  
 3 Fortune 500 benchmark is estimated to be a company-to-employee ratio of 64.2%  
 4 to 35.8% for premiums and out-of-pocket costs; the utility industry benchmark  
 5 reflects a cost sharing ratio of company-to-employee of 65.9% to 34.1%. NextEra  
 6 Energy's company to employee ratio of 35% to 65% compares favorably to the  
 7 benchmarking data. By aligning the employee cost share with other Fortune 500  
 8 and utility companies, NextEra Energy is able to maintain a competitive benefits  
 9 package that allows it to attract, motivate and retain key talent, while ensuring  
 10 costs are reasonable.

11  
 12 **Q. WHAT, IF ANY, INITIATIVES DOES NEXTERA ENERGY PURSUE TO**  
 13 **CONTROL HEALTH CARE COSTS?**

14 A. NextEra Energy has made health care cost control a key strategic initiative,  
 15 applying the continuous improvement process from its quality program to develop  
 16 an integrated health strategy that will optimize value and control costs for both the  
 17 company and employees. NextEra Energy's successful cost control strategy has  
 18 included a variety of initiatives, including the following:

- 19 • Price incentives to encourage cost effective plan selections;
- 20 • Dependent eligibility audits;
- 21 • Subrogation;
- 22 • Emphasis on employee consumer responsibility;
- 23 • Per child pricing to align cost of coverage with benefit received;

- Comprehensive health promotion and care management programs;
- Incentives to drive behavior changes, including planned migration to outcome-based incentives for 2012;
- Proactive vendor management and bids to drive cost effective administration;
- Value-based pharmacy design to promote therapeutic compliance, especially for employees with chronic health conditions; and
- Cost transparency, *i.e.*, transparent full pass-through contract with pharmacy benefit manager.

One additional long-term cost control initiative has been the aggressive promotion of the employee's responsibility for his or her health and the creation of a healthy work environment, as evidenced by NextEra Energy's comprehensive health and well-being programs. The comprehensive health and well-being programs, developed over the past 15 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 costs.

**Q. HAS NEXTERA ENERGY 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:

- 2011 "Corporate Health & Productivity Award" from the Institute for Health and Productivity Management;
- "Best Employers for Healthy Lifestyles" Platinum Award from the National Business Group on Health—2005, 2006, 2007, 2009, 2010, 2011;

- 2008 “Innovations in Prevention” Gold Award from the Department of Health and Human Services;
- 2007 Leadership Award in Health from the Florida Health Coalition; and
- 2007 feature on ABC World News Tonight recognizing the company’s impact on managing employee health and well-being.

**Q. WHO HAS NEXTERA ENERGY RETAINED FOR INSURANCE AND CLAIMS ADMINISTRATION?**

A. NextEra Energy retains the services of CIGNA for medical, mental health, substance abuse, EAP, dental and disability plan administration. CVS Caremark provides the administration of the pharmacy program.

**Q. HOW DOES NEXTERA ENERGY ENSURE THAT INSURANCE CARRIERS AND CLAIMS ADMINISTRATORS ARE CHARGING A COMPETITIVE RATE FOR THEIR SERVICES?**

A. The benefits department in HR works in conjunction with the Integrated Supply Chain department to periodically put administrative services out for bid to ensure the rates received are competitive and that the appropriate services are included in those rates. Benefits management consistently looks for opportunities to reduce costs associated with the administration of the benefits plans. It also uses multi-year contracts to better control overall costs. The most recent bid was completed in 2009, which included the medical, mental health/substance abuse, EAP and disability program administration with a January 1, 2010 implementation. Also in 2010, a market test was performed on the pharmacy program to assess the

1        competitiveness of the rates at the time, and the contract was re-negotiated with  
2        lower rates for the 2011 contract year. In addition, claims payments are audited  
3        on a regular basis to ensure that vendors are paying the health care claims  
4        appropriately.

5  
6    **Q.    ARE THERE ANY OTHER HEALTH AND WELFARE BENEFITS THAT**  
7        **NEXTERA ENERGY OFFERS?**

8    **A.    Yes, NextEra Energy also offers post-retirement and post-employment benefits.**  
9

10   **Q.    ARE THERE ANY LONE STAR DIRECT COSTS ASSOCIATED WITH**  
11        **POST-EMPLOYMENT OR POST-RETIREMENT BENEFITS INCLUDED**  
12        **IN LONE STAR'S RATE FILING REQUEST?**

13   **A.    No. There are no costs in Lone Star's request related to post-retirement benefits**  
14        **because all current Lone Star employees were hired after April 1, 1997, which is**  
15        **the cut-off date for eligibility for such benefits. In addition, no current Lone Star**  
16        **employee is receiving post-employment benefits, and Lone Star does not**  
17        **anticipate having any employees eligible for post-employment benefits in the**  
18        **applicable rate periods.**



**Q. IS THERE ANY COMPARISON DATA AVAILABLE SUPPORTING THE REASONABLENESS OF LONE STAR'S HEALTHCARE COSTS COMPARED TO OTHER COMPANIES IN THE UTILITY INDUSTRY?**

**A.** Yes. NextEra Energy benchmarks both the design and cost of the medical plans to ensure the reasonableness compared to peer companies. With respect to plan design as it relates to the level of coverage, the relative value of NextEra Energy's medical plan for active employees is below the average plan design for the other companies participating in the 2011 Aon Hewitt Benefits Index, which is illustrated by Exhibit JSR-3.

The results of the 2011 Towers Watson BENVAl Study provide further evidence of the reasonableness of NextEra Energy's medical plan design compared to other utilities. NextEra Energy's medical plan had a relative value of 91.4 as compared to the index of 100 for the energy companies in the comparator group. The results of this benchmarking data are consistent with NextEra Energy's overall emphasis on cash compensation rather than traditional benefits.

Finally, NextEra Energy uses the Hewitt Health Value Initiative to benchmark total health care costs against those of other utilities. As shown in Exhibit JSR-4, NextEra Energy's per-employee per year health care costs have been consistently lower than those of other utilities. The results of these benchmarking studies are consistent with NextEra Energy's overall emphasis on cash compensation rather

1 than traditional long-term benefits in order to arrive at a reasonable total  
2 compensation package.

3  
4 **Q. ARE THE COMPANY'S HEALTH AND WELFARE BENEFITS COSTS**  
5 **REASONABLE AND NECESSARY?**

6 A. Yes. The costs to provide health and welfare benefits are necessary as part of the  
7 Company's total pay package to recruit and retain qualified employees. As  
8 shown by the benchmark data, the costs to provide these benefits are equal to or  
9 lower than the average cost of health and welfare benefits when measured against  
10 other utility companies and Fortune 500 companies. Moreover, the constant  
11 oversight and efforts employed to reduce health care costs also keep these costs  
12 reasonable.

13  
14 **2. Retirement Plans**

15 **Q. PLEASE EXPLAIN THE BENEFITS PROVIDED UNDER LONE STAR'S**  
16 **RETIREMENT PLANS.**

17 A. Under NextEra Energy's retirement plans, Lone Star employees are offered  
18 retirement plans consisting of a pension plan and a 401(k) employee savings plan.  
19 This is consistent with the retirement plans of approximately 75% of utility  
20 industry companies included in the Aon Hewitt Benefits Index.

1 **Q. WHAT LEVEL OF RETIREMENT PLAN EXPENSE IS LONE STAR**  
 2 **SEEKING TO RECOVER THROUGH RATES?**

3 A. The retirement plan expense for direct Lone Star employees for purposes of  
 4 interim rates is \$75,158, based on a 401(k) savings plan expense of \$198,872  
 5 offset by a credit of \$(123,714) for the pension plan. With regard to final rates,  
 6 the 401(k) savings plan expense of \$206,808 is offset by the pension credit of  
 7 \$(212,047) resulting in a retirement plan credit of \$(5,239) for Lone Star direct  
 8 employees. The assets of the pension plan have been beneficially invested such  
 9 that the expected return on assets exceeds the actuarially determined projected  
 10 obligation, which directly reduces the cost of service for ratepayers.

11  
 12 **Q. HOW IS PENSION PLAN EXPENSE CHARGED TO LONE STAR?**

13 A. Lone Star's portion of the pension expense, or credit, is calculated by the FPL  
 14 Benefits Accounting group based on actuarial reports and pensionable earnings  
 15 and then allocated to Lone Star. The calculation methodology and billing process  
 16 is the same as used for other business units.

17  
 18 **Q. WAS THE PENSION PLAN EXPENSE CALCULATED USING**  
 19 **ACTUARIAL REPORTS?**

20 A. Yes, consistent with PURA §36.065, the pension plan expense is derived from  
 21 actuarial reports calculated by Aon Hewitt Associates. The pension plan expense  
 22 represents the amount required by GAAP under ASC 715 (formerly known as  
 23 SFAS No. 87) "Employers' Accounting for Pensions."

1 **Q. PLEASE DESCRIBE THE BASIC FEATURES OF LONE STAR'S 401(K)**  
 2 **SAVINGS PLAN.**

3 A. The 401(k) retirement savings plan provides an employee with the ability to save  
 4 for retirement. Employees can contribute up to 50% of base pay on a pre-tax,  
 5 after-tax, or combination basis up to the IRS limits. NextEra Energy matches  
 6 employee contributions up to 4.75% according to the following schedule:

<u>Employee Contribution</u>	<u>Company Match</u>	<u>Portion of Total Match</u>
Up to 3% of pay	100%	= 3.0%
From 4% to 6% of pay	50%	= 1.5%
The 7 <sup>th</sup> % of pay	25%	= 0.25%
4.75% Total Match		

7 The company match is provided in the form of NextEra Energy company stock  
 8 and employees may divest the company stock at any time. In addition, consistent  
 9 with IRS regulations, employees age 50 and older may elect to make additional  
 10 catch-up contributions.

11  
 12 **Q. PLEASE INDICATE HOW THE SAVINGS PLAN EXPENSE WAS**  
 13 **CALCULATED AND CHARGED TO LONE STAR FOR THE RATE**  
 14 **PERIODS.**

15 A. The expense associated with the retirement savings plan is charged to Lone Star  
 16 based on the actual bi-weekly amount each Lone Star employee contributes to the  
 17 plan. The costs for the rate periods have been estimated based on the anticipated

1 base pay for the calendar year assuming a contribution level of 6%, which is  
2 based on the historical contribution rate of current Lone Star employees.  
3

4 **Q. DO BENCHMARKING STUDIES SUPPORT THE REASONABLENESS**  
5 **OF LONE STAR'S RETIREMENT PLANS?**

6 A. Yes. The Aon Hewitt Benefits Index looks at the design features of the retirement  
7 plans and provides a benchmark against other utility plans. As shown in the Aon  
8 Hewitt Benefits Index's comparison chart, included as Exhibit JSR-5, NextEra  
9 Energy's retirement plans scored between the average for the utility industry and  
10 the averages for general industry and Fortune 500 companies.  
11

12 The 2011 Towers Watson BENCAL Study also evaluates the design features of  
13 retirement plans and provides a benchmark against a comparator group of other  
14 companies similar to NextEra Energy. The relative value of NextEra Energy's  
15 retirement plan design is more conservative than the average plan design. Both  
16 the Aon Hewitt Benefit Index and BENCAL Study illustrate the reasonableness  
17 of Lone Star's plans and their costs and validate the efforts to monitor the  
18 competitiveness of its benefits plans and control program costs.

1                   **3.     Legally-Required Benefits**

2   **Q.     WHAT AMOUNT OF SOCIAL SECURITY TAX IS INCLUDED IN LONE**  
 3   **STAR'S RATE FILING REQUEST FOR DIRECT EMPLOYEES?**

4   **A.     For the interim rate period, the Social Security tax total is \$311,285, and Social**  
 5   **Security tax included for the final rate period is \$316,815.**

6  
 7   **Q.     WHAT AMOUNTS OF FEDERAL ("FUTA") AND STATE ("SUTA")**  
 8   **UNEMPLOYMENT TAXES ARE INCLUDED IN LONE STAR'S RATE**  
 9   **FILING REQUEST FOR DIRECT EMPLOYEES?**

10  **A.     FUTA and SUTA included in the Lone Star request are as follows:**

	<u>Interim Period</u>	<u>Final Period</u>
FUTA	\$1,848	\$1,848
SUTA	\$10,692	\$10,692

14  
 15  **Q.     WHAT AMOUNT OF WORKERS' COMPENSATION EXPENSE IS**  
 16  **INCLUDED IN LONE STAR'S RATE FILING REQUEST FOR DIRECT**  
 17  **EMPLOYEES?**

18  **A.     Workers' Compensation expense for the interim rate period is \$14,107 and**  
 19  **\$14,460 for the final rate period.**

**1 Q. HOW WERE THESE COSTS DETERMINED?**

A. The employment-related taxes have been calculated based on Lone Star employee base pay, applying the applicable state and federal tax rates and taking into account the salary limits prescribed by law for each type of tax. Lone Star's workers' compensation expense for the interim and final rate periods represents its allocated portion of the NextEra Energy premium based on Lone Star's payroll for the 2011-2012 policy period, inflated by CPI.

## V. CONCLUSION

10 Q. WHAT IS YOUR CONCLUSION WITH REGARD TO THE COMPANY'S  
11 TOTAL COMPENSATION AND BENEFITS PACKAGE?

12     A.     Lone Star provides value to its employees and customers through efficient use of  
13           compensation and benefits to promote a culture focused on efficiency, reliability  
14           and service. Lone Star's total compensation and benefits package is reasonable,  
15           necessary and consistent with industry benchmarking surveys and studies.  
16           Therefore, the costs associated with these HR activities are reasonable and  
17           necessary and should be included in the Company's rates.

19 Q. IS THE COMPANY'S REQUEST FOR THE HR-RELATED COSTS YOU  
20 SUPPORT REASONABLE?

21 A. Yes. Lone Star's direct costs for payroll and benefits as well as the amounts  
22 allocated to Lone Star for services provided by the FPL and NEER HR  
23 organizations are reasonable and necessary expenses for the provision of service.

1    **Q.    DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2    **A.    Yes, it does.**



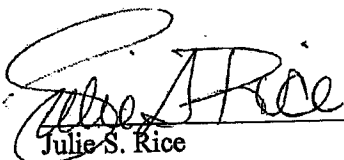
STATE OF FLORIDA           §  
   §  
COUNTY OF PALM BEACH   §

**AFFIDAVIT OF JULIE S. RICE**


BEFORE ME, the undersigned authority, on this day personally appeared Julie S. Rice,  
who, having been placed under oath by me, did depose as follows:

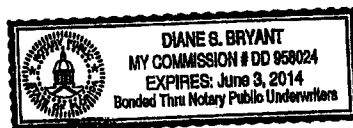
1.     “My name is Julie S. Rice. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge. My current position is Director of Compensation & Planning for NextEra Energy Resources, LLC.
2.     I have prepared the foregoing direct testimony, and the attached exhibits offered by me are true and correct to the best of my knowledge.”

Further affiant sayeth not.

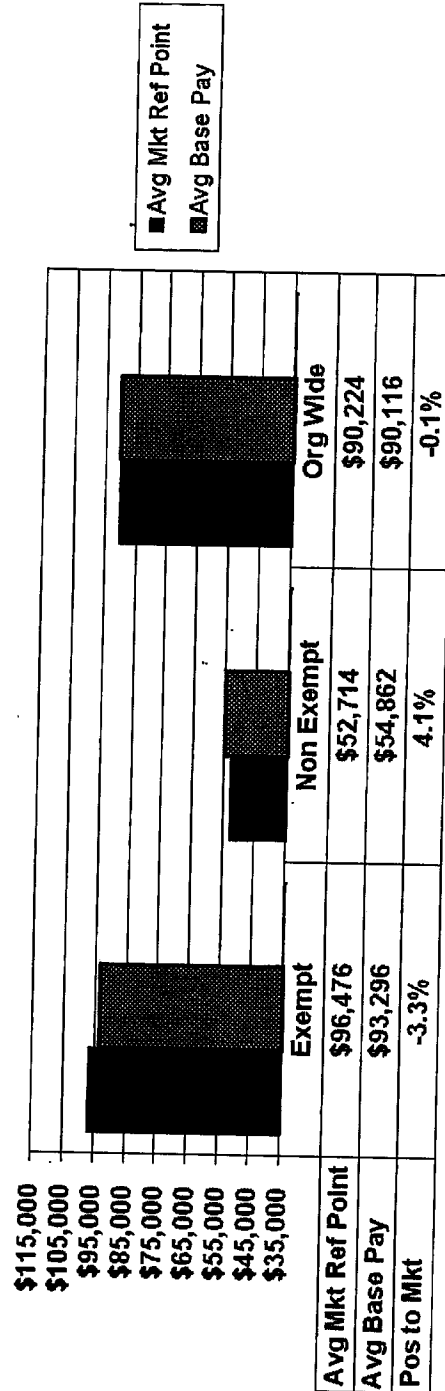
  
Julie S. Rice

SUBSCRIBED AND SWORN TO BEFORE ME by the said Julie S. Rice this 16<sup>TH</sup> day  
of December 2011.

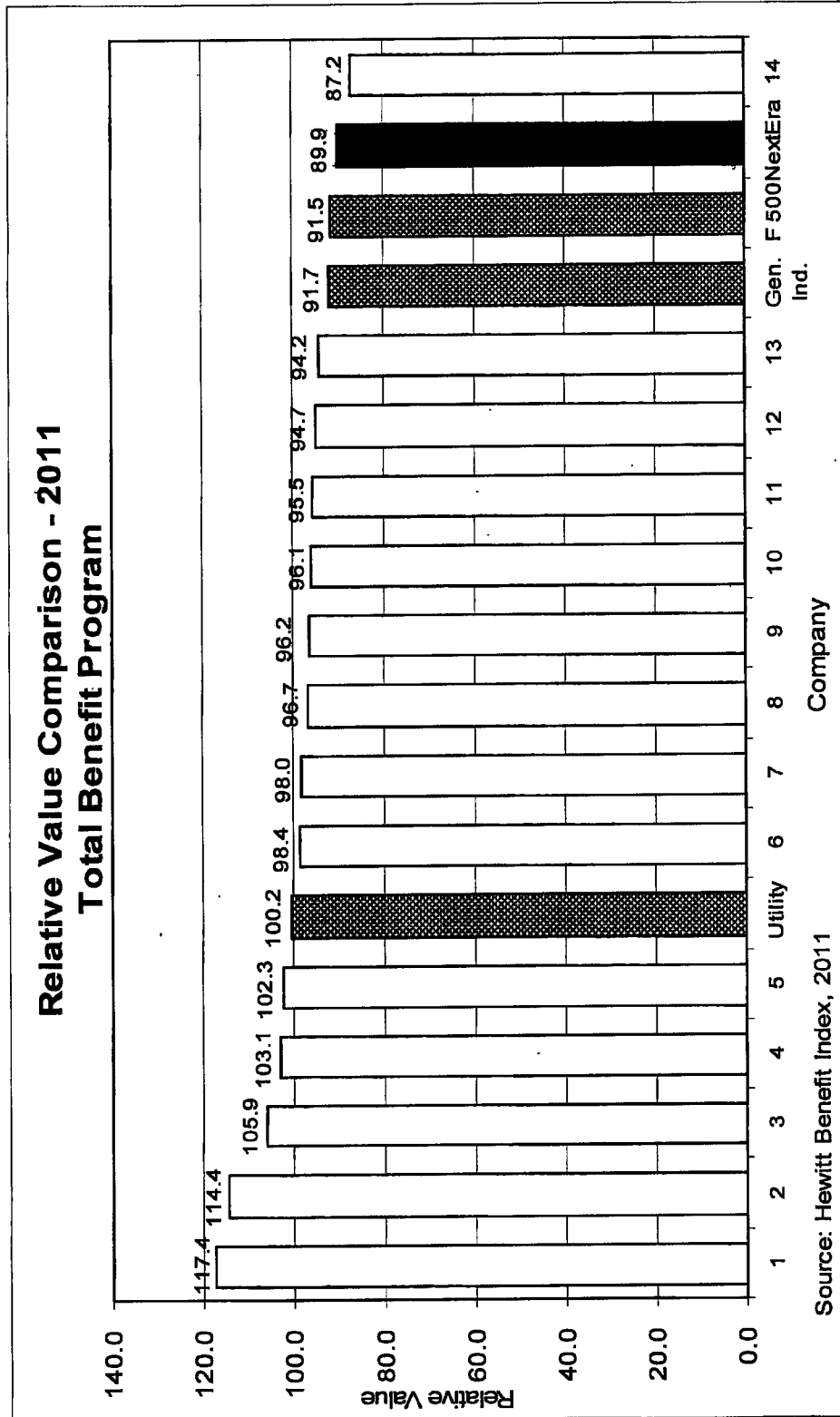
  
Notary Public, State of Florida



## NextEra Energy Inc. Transmission Position to Market (2011 Base Pay)

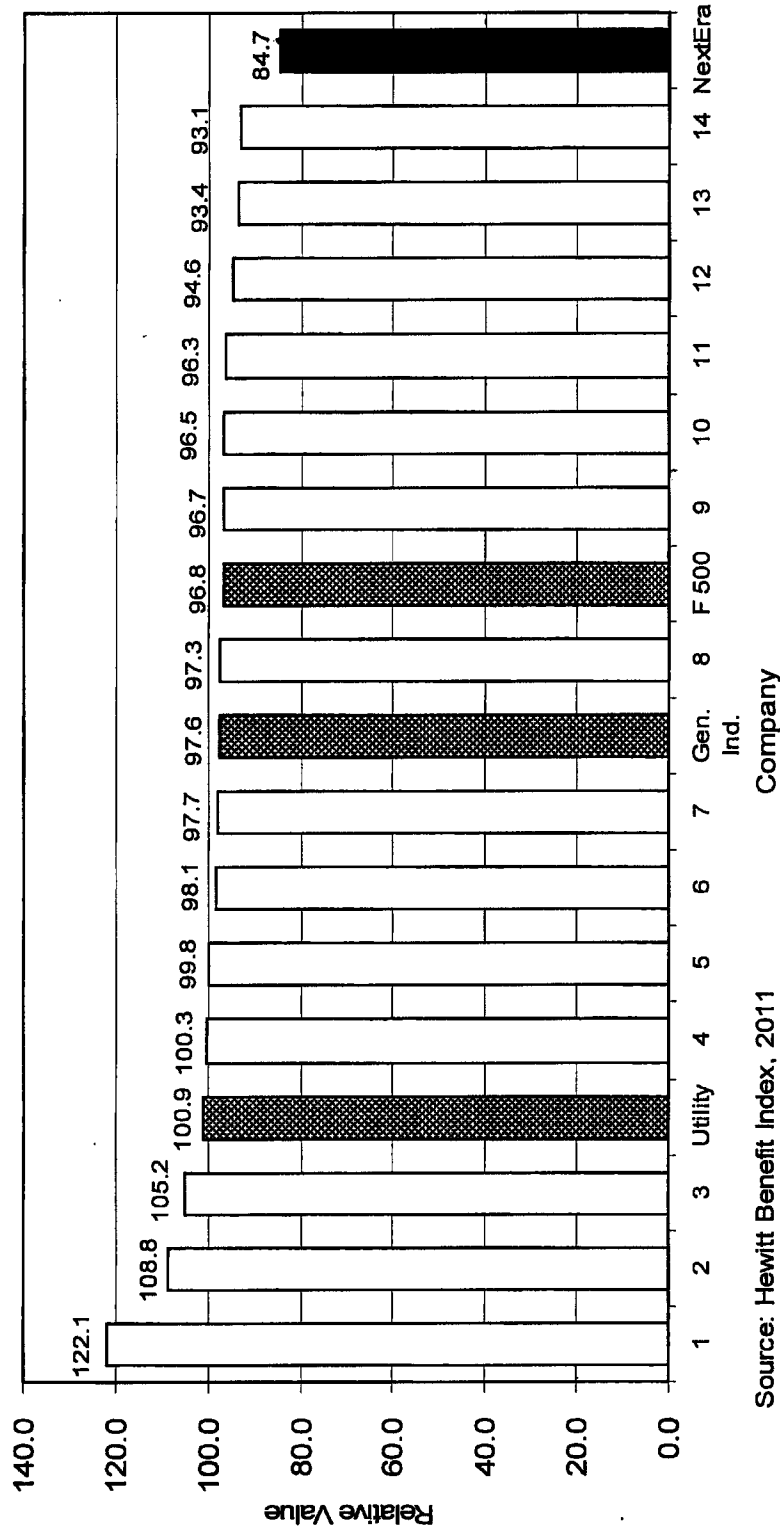


Market reference points are determined via benchmarking 2011 industry survey sources including Towers Watson, Mercer and Aon Hewitt.

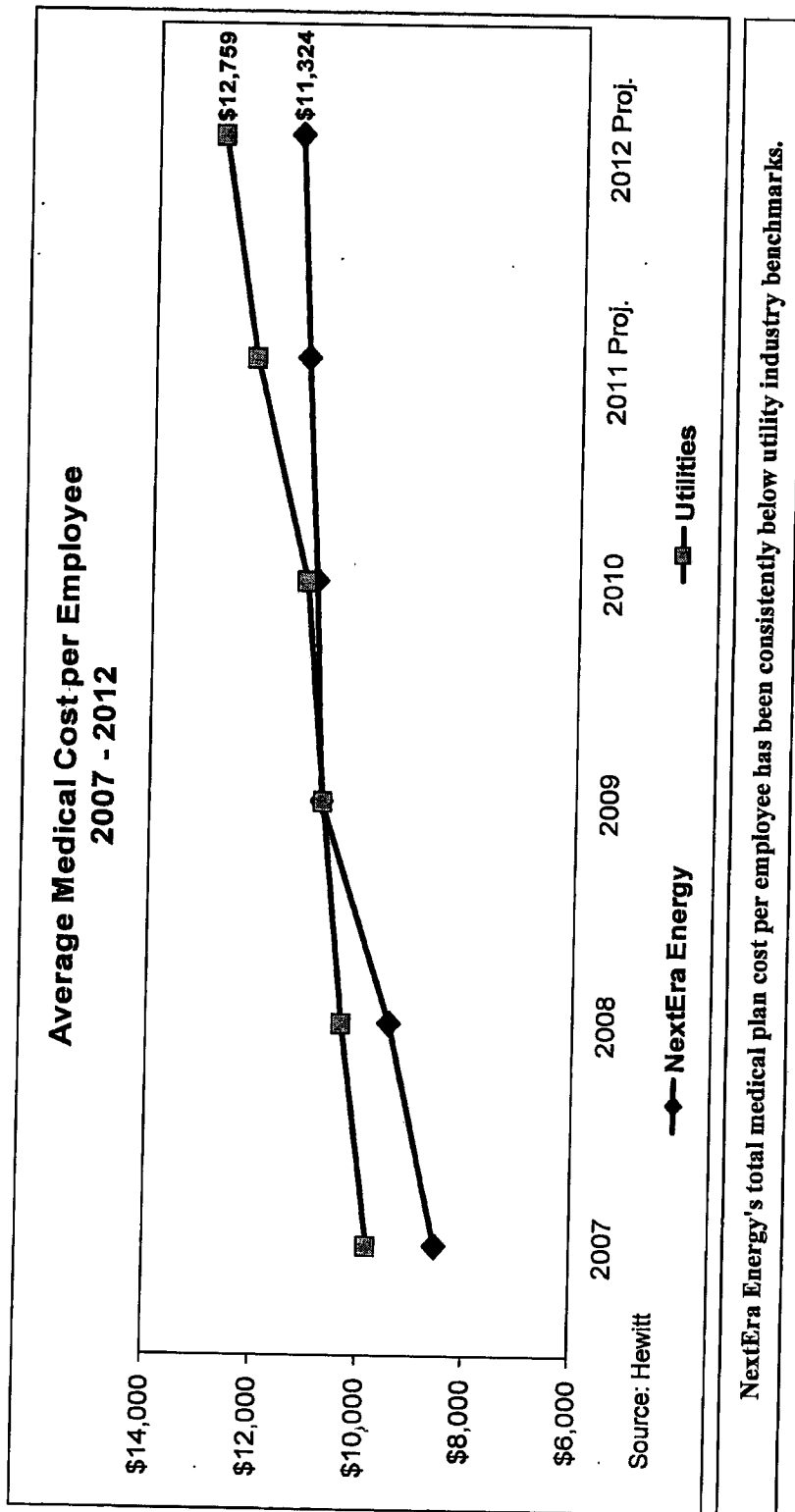


- Comparison includes Company Contributions to determine "value" of the benefit plan design within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: CenterPoint Energy, Consolidated Edison, Dominion Resources, Duke Energy, Edison International, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise Group, Southern Company, and Tampa Electric.

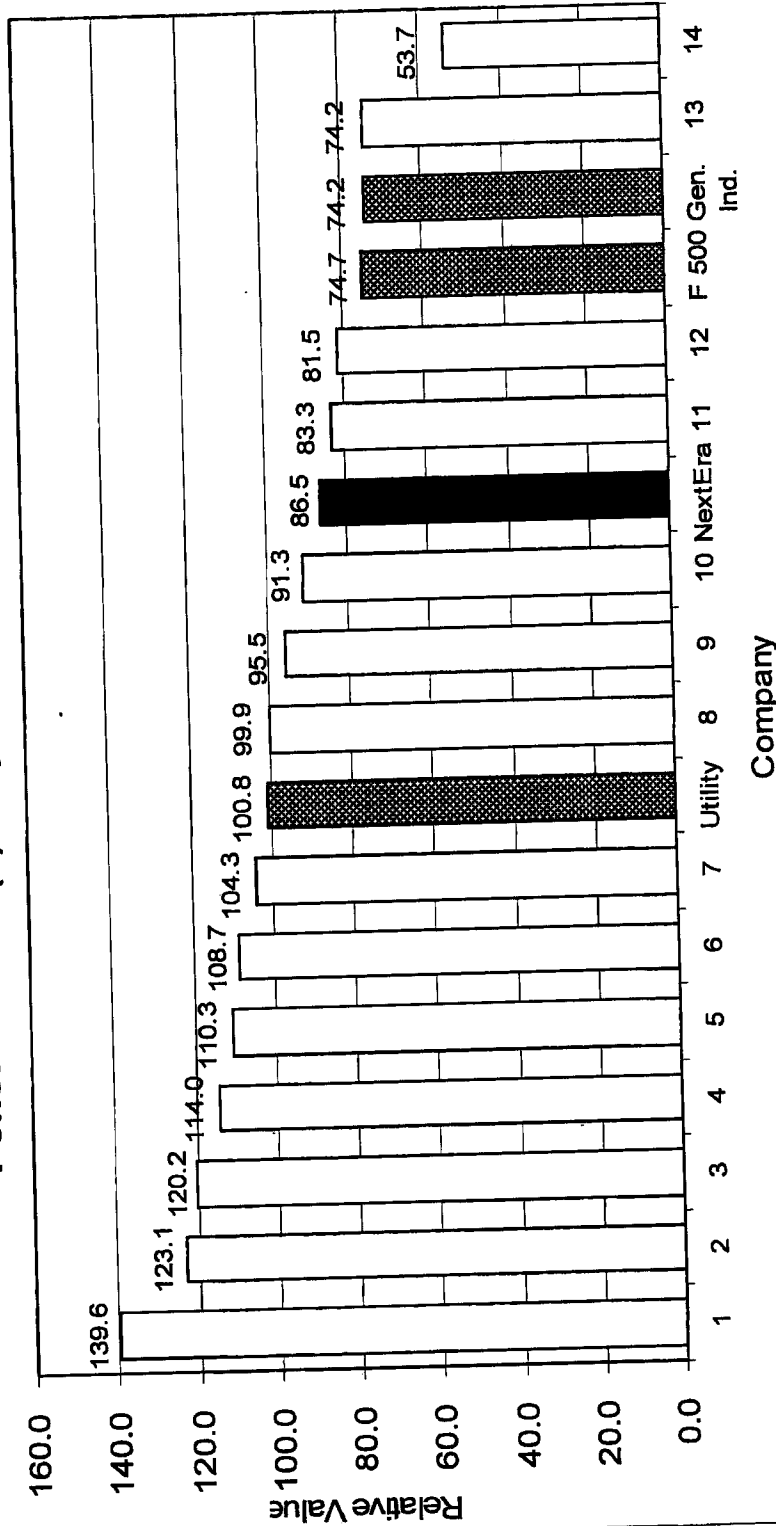
## Relative Value Comparison - 2011 Active Employee Medical Plan



- Comparison includes Company Contributions to determine "value" of the benefit plan design within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: CenterPoint Energy, Consolidated Edison, Dominion Resources, Duke Energy, Edison International, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise Group, Southern Company, and Tampa Electric.



# **Relative Value Comparison - 2011 Pension & 401(k) Employee Savings Plan**



Source: Hewitt Benefit Index, 2011

- Comparison includes Company Contributions to determine "value" of the benefit plan design within the Benefit Index Methodology.
- Comparator Group Average = 100. Companies Included in Comparator Group: CenterPoint Energy, Consolidated Edison, Dominion Resources, Duke Energy, Edison International, Energy Future Holdings, Entergy, Exelon, FirstEnergy, PG&E, Progress Energy, Public Service Enterprise Group, Southern Company, and Tampa Electric.

**PUC DOCKET NO. 40020**

**APPLICATION OF LONE STAR  
TRANSMISSION, LLC FOR  
AUTHORITY TO ESTABLISH  
INTERIM AND FINAL RATES  
AND TARIFFS**

**§  
§  
§  
§  
§**

**BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS**

**DIRECT TESTIMONY**

**OF**

**JEANNE H. CAMP, FCAS, MAAA**

**ON BEHALF OF**

**LONE STAR TRANSMISSION, LLC**

**January 9, 2012**

**INDEX TO THE DIRECT TESTIMONY OF  
JEANNE H. CAMP, FCAS, MAAA, WITNESS FOR  
LONE STAR TRANSMISSION, LLC**

EXECUTIVE SUMMARY OF JEANNE H. CAMP .....	ES-1
I. POSITION AND QUALIFICATIONS .....	1
II. PURPOSE OF DIRECT TESTIMONY .....	2
III. ACTUARIAL ANALYSIS FOR SELF-INSURANCE RESERVE.....	3
IV. RECOMMENDED ACCRUAL AMOUNT AND RELATIONSHIP TO ROBERT HUGHES' TESTIMONY .....	11

**LIST OF EXHIBITS**

EXHIBIT JHC-1	Jeanne H. Camp <i>Curriculum Vitae</i>
EXHIBIT JHC-2, Page 1	Industry Transmission Historical Claim Experience
EXHIBIT JHC-2, Page 2	Projected Ultimate Transmission Losses (Final Rates)
EXHIBIT JHC-3	Selection of Loss Cost Trend, Handy-Whitman Index
EXHIBIT JHC-4	Simulated Losses to Insured Property (Final Rates)
EXHIBIT JHC-5	Simulated Losses to Insured Property (Interim Rates)



**EXECUTIVE SUMMARY OF JEANNE H. CAMP**

My testimony addresses the actuarial analysis necessary to support the self-insurance accrual and reserve recommendations of Lone Star Transmission, LLC ("Lone Star" or the "Company") witness Robert Hughes. The actuarial analysis is a necessary component of the self-insurance reserve recommendations because it provides the analytical basis for the self-insurance reserve accrual and target reserve amounts. My testimony:

- explains the role of an actuary;
- provides an overview and description of the actuarial analysis conducted for Lone Star, which predicts the level of property losses Lone Star is likely to experience in the future; and
- includes Lone Star's annual expected losses for its commercially-insured and self-insured assets, which form the basis for Mr. Hughes' recommendations for Lone Star's accruals and target reserve level for the self-insurance reserve.

The information in my direct testimony and supporting materials demonstrates that the actuarial analysis I conducted on behalf of Lone Star, which determines the level of losses Lone Star is likely to experience in the future, provides a solid foundation for the self-insurance accrual and reserve recommendations contained in Mr. Hughes' testimony. This information gives the Public Utility Commission of Texas ("Commission") assurance that the proposed accruals in Mr. Hughes' testimony should be included in Lone Star's cost of service.

**DIRECT TESTIMONY OF JEANNE H. CAMP, FCAS, MAAA**

**I. POSITION AND QUALIFICATIONS**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.**

A. My name is Jeanne H. Camp. I am employed by Robert Hughes Associates, Inc. as the Chief Actuary. My business address is Robert Hughes Associates, Inc., 15215 Park Estates Lane, Houston, Texas 77062.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am testifying on behalf of Lone Star.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND PREVIOUS WORK EXPERIENCE.**

A. I graduated Phi Beta Kappa with a Bachelor of Arts Degree in Mathematics from Trinity University in 1976. Following my graduation from Trinity University, I went to work for United Services Automobile Association as an actuarial analyst in 1976. While there, I developed data systems and performed rate-level reviews concerning the adequacy of private passenger automobile insurance. In 1981, I went to work as a consulting actuary for Independent Actuarial Services of Texas, Inc., an insurance consulting firm, where I worked until 1985. In 1985, I became a vice president and casualty actuarial consultant for Tillinghast, Nelson and Warren, Inc. In 1988, I went to work as the Chief Actuary for Robert Hughes Associates, Inc. My consulting experience has included insurance rate-level