

NUCLEUS RESEARCH

CASE STUDY: FLORIDA POWER & LIGHT

THE BOTTOM LINE

By deploying HighRoads, Florida Power & Light increased vendor competitiveness, reduced benefits costs, and eliminated plan administration costs.

ROI: 163%

Payback: 7 months

THE COMPANY

Florida Power & Light (a subsidiary of FPL Group, Inc.) is the largest electric utility in Florida, with \$11.8 billion in revenues in 2005, more than 4.3 million customers, and more than 12,000 employees. Because Florida is a destination for America's growing population of retirees, the company's customer base is both predominantly residential and rapidly growing. Over the last 10 years, FPL's customer base has grown at an average annual rate of 2.1 percent, which is above the industry average.

FPL Energy has completed a number of acquisitions and plans to bring on line 1,900 megawatts of generating capacity by mid-2005, and an additional 1,150 megawatts by mid-2007. The company is also positioning itself as a premier employer in order to compete for employees among a shrinking pool of workers. This requires the utility to maximize the benefits it can offer while also minimizing the impact of employee benefits on the bottom line.

THE CHALLENGE

In late 2003, FPL was beginning to feel operationally strained in its management of benefits. At one point, there were 14 RFPs outstanding for benefits in the areas of medical, dental, life and

vision. Plan data was in various locations, and much of it was in 3-ring binders, making RFP management and data retrieval difficult and inefficient.

FPL was the first American company to win the Deming Quality award. The company has a culture that emphasizes both operational efficiency and the attainment of high quality metrics. As a result, the benefits department began seeking ways to improve its operations.

THE STRATEGY

In early 2004, the company met with HighRoads, viewed a product demonstration, and determined the solution could improve both RFP administration and data warehousing. At the time, HighRoads was finalizing some new functionality in the product that was particularly suited to FPL, so there was a good fit between the solution and the company's needs. After some further research, the company determined that there were few other strong players in this solution space and purchased HighRoads.

FPL began using HighRoads in April 2004. Adoption proceeded fairly rapidly. After a short period of loading data into the system, the company began performing RFPs, completing two mid-sized RFPs for dental and mental health during June, and a much larger RFP at the end of 2004.

HighRoads has been fully deployed for several years. Two employees operate the system, which supports the job functions of 20 employees in FPL's benefits department.

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KEY BENEFIT AREAS

Adoption of HighRoads has enabled FPL to reduce plan administration costs, improve vendor competition, and reduce benefits costs. Key benefits from the solution include:

- **Reduced plan administration costs.** HighRoads automates a number of tactical and labor-intensive tasks such as distribution of RFPs, analysis of RFP responses, and completion of plan renewals. Before HighRoads was deployed an RFP was completed in 90 to 120 days. FPL now completes RFPs in less than 60 days. As a result, the company has increased the average number of RFPs completed per year from one to three.
- **Reduced benefits costs.** FPL has used HighRoads to make its benefits vendors more competitive, and reduce the overall cost of benefits. For all of its RFPs, the company uses the HighRoads competitive bid option, which publishes - on a real-time basis - all of the current bids for a given RFP, creating an auction-like environment for competing vendors. FPL estimates that this bidding feature, combined with the increased RFP frequency, has enabled FPL to save \$1.1 million per year in benefits costs.
- **Improved negotiation power.** With HighRoads, FPL is able to aggregate both its data and its buying power more effectively than before the deployment. This is an important benefit to the company because it is rapidly growing through both acquisitions and mergers and expects its workforce to double as a result of a potential merger. This requires

careful management of both benefits costs and negotiation power.

- **Improved compliance.** FPL operates in a highly regulated environment, and must seek government approval for its rate increases. When applying for a rate increase, the company needs to both justify its cost structure and prove the necessity of a rate increase. Because of the data storage and reporting features in HighRoads, the company is more readily able to prove that it has the best available benefits contracts for its employees.

KEY COST AREAS

Key cost areas for deployment included software, personnel, and consulting. Because the solution is delivered as an on-demand solution, there were no hardware costs. Consulting costs consisted of assistance provided by HighRoads for the initial implementation and online competitive bid RFPs. Two members of the human resources department each dedicate a portion of their time to supporting the solution on an ongoing basis.

LESSONS LEARNED

FPL's HighRoads deployment has been successful as a result of the cost reductions. Additionally, there were few significant challenges during the deployment. However, the company indicated that it could obtain even more efficiency improvements with the deployment if the front end of the solution could be more fully integrated with the summary plan descriptions. FPL hopes that this functionality will become available at some point.

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CALCULATING THE ROI

Nucleus calculated the costs of software, consulting, and personnel over a 3-year period to quantify FPL's investment in HighRoads. Direct benefits consisted of reduced costs related to administration of renewals and RFPs as well as reductions to the administrative and other costs of employee benefits.

DETAILED FINANCIAL ANALYSIS

SUMMARY

Project: HighRoads
Annual return on investment (ROI): 163%
Payback period (years): 0.62
Net present value (NPV): 1,055,646
Average yearly cost of ownership: 204,293

ANNUAL BENEFITS

	Pre-start	Year 1	Year 2	Year 3
Direct	0	1,264,200	1,264,200	1,264,200
Indirect	0	0	0	0
Total Benefits				
Per Period	0	1,264,200	1,264,200	1,264,200

DEPRECIATED ASSETS

	Pre-start	Year 1	Year 2	Year 3
Software	390,000	0	0	0
Hardware	0	0	0	0
Total Per Period	390,000	0	0	0

DEPRECIATION SCHEDULE

	Pre-start	Year 1	Year 2	Year 3
Software	0	78,000	78,000	78,000
Hardware	0	0	0	0
	0	78,000	78,000	78,000

EXPENSED COSTS

	Pre-start	Year 1	Year 2	Year 3
Software	0	0	0	0
Hardware	0	0	0	0
Consulting	0	35,000	35,000	0
Personnel Training	0	50,960	50,960	50,960
Other	0	0	0	0
Total Per Period	0		85,960	50,960

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FINANCIAL ANALYSIS

	Year 1	Year 2	Year 3
Net cash flow before taxes	1,178,240	1,178,240	1,213,240
Net cash flow after taxes	628,120	628,120	645,620
Annual ROI - direct & indirect benefits			163%
Net cash flow after taxes (direct only)	628,120	628,120	645,620
Annual ROI - direct benefits only			163%
Net present value (NPV)			1,055,646
Payback (years)			0.62
Average annual cost of ownership			204,293
3-year cumulative ROI			271%
3-year IRR			151%

FINANCIAL ASSUMPTIONS

All government taxes 50%
Discount rate 15%