State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: OCTOBER 22, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LESTER, DRAPER, SLEMKEWICZ) SS
DIVISION OF ELECTRIC AND GAS (HAFF, BALLINGER)
DIVISION OF LEGAL SERVICES (ELIAS) RVE

RE: DOCKET NO. 981390-EI - FLORIDA POWER & LIGHT COMPANY - INVESTIGATION INTO THE EQUITY RATIO AND RETURN ON EQUITY OF FLORIDA POWER & LIGHT COMPANY

AGENDA: 11/03/98 - REGULAR AGENDA - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\AFA\WP\981390.RCM

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission hold a hearing to determine the appropriate equity ratio and return on equity (ROE) for Florida Power and Light Company (FPL)?

RECOMMENDATION: Yes. Staff believes information exists suggesting that FPL's equity ratio is excessive and that its currently authorized ROE, 12.0%, exceeds a reasonable return required by investors. The Commission should hold a limited proceeding hearing to determine the appropriate equity ratio and ROE for FPL for all regulatory purposes. (Lester, Draper)

DOCUMENT NUMBER-DATE
11799 OCT 22 98
FPSC-RECORDS/REPORTING

STAFF ANALYSIS:

Summary

In its 1998 forecasted earnings surveillance report, FPL projects an equity ratio of 65.7%, which is very high compared with other electric utilities. FPL states that its equity ratio is not out of line when adjusted for the effect of purchased power contracts. Bond rating agencies treat some amount of purchased power contracts as off-balance sheet obligations. Other factors, such as business risk, also affect the equity ratio. Based upon its review of the facts it has obtained to date, staff is recommending that the Commission hold a hearing to review FPL's equity ratio and ROE.

Equity Ratio Analysis

A firm's equity ratio is defined as common equity divided by total investor-supplied capital, which includes common equity, preferred stock, long-term debt and short-term debt. Firms must have a sufficient level of common equity to borrow funds at a reasonable rate of interest. However, for regulated utilities, high levels of common equity can increase the overall cost of capital to unreasonable levels and can shield excess earnings. A utility holding company can maintain the utility subsidiary's achieved ROE within its authorized range by controlling the amount of equity retained at the utility level.

From a regulatory viewpoint, the issue is:

> What is a reasonable level of common equity for the utility?

Both quantitative factors such as interest coverage ratios and credit spreads, and qualitative factors involving the various aspects of business risk, affect this issue. The appropriate regulatory goal is to establish a range for the equity ratio that minimizes the cost of capital while still enabling the utility to maintain its financial viability and attract capital.

As shown on Attachment 1, FPL's equity ratio has increased steadily from 48.6% at the end of 1994 to 64.1% as of March 31, 1998. Also, FPL filed a forecasted surveillance report in March 1998 showing a 65.7% equity ratio for 1998. Staff notes that, compared with other investor-owned electric utilities with AA bond ratings, 65.7% appears excessive.

Staff met with the utility and the Office of Public Counsel (OPC) in June 1998 to discuss the equity ratio issue. FPL representatives responded that the equity ratio should be adjusted to reflect the effect of purchased power contracts. Bond rating agencies, such as Standard and Poor's (S & P) and Moody's, view a portion of purchased power contracts as similar to debt. FPL stated that its equity ratio was reasonable when adjusted for the effect of these off-balance sheet obligations. Staff then began an investigation into equity ratios for electric utilities and the effect of purchased power contracts.

Staff met with FPL and OPC again on September 24, 1998 to discuss its concerns regarding the utility's equity ratio and ROE. The utility responded to these concerns on October 2, 1998.

Staff met with FPL and OPC on October 21, 1998. FPL orally presented a proposal. In light of the issues raised by this recommendation, staff could not support the proposal. Staff believes this recommendation should proceed because utility revenues may need to be held subject to refund depending on the outcome of this matter. Hearing dates have been reserved for February 9 & 10, 1999. By filing this recommendation, staff has not precluded the possibility of FPL presenting proposals or having ongoing discussions.

FPL filed the written version of its proposal at 11:30 a.m. on October 22, 1998. Staff will file a supplemental recommendation addressing this written proposal for consideration at the November 3, 1998 Agenda Conference.

Purchased Power Effect

A utility can add capacity by buying power with a long-term contract or by building generating plants. Both alternatives have advantages and disadvantages. Regarding financial risk, building capacity can involve adding debt to finance the construction, cost overruns, and regulatory lag. Buying power increases the utility's fixed charges, which, in turn, can reduce financial flexibility.

Particularly since the passage of the National Energy Policy Act of 1992, bond rating agencies have viewed the fixed charges from purchased power contracts in part as off-balance sheet debt equivalents. S & P's method is to discount a utility's capacity payments under a long-term purchased power contract at a 10% discount rate. Part of the present value of the capacity payments is added to the utility's balance sheet as debt for rating purposes. Financial ratios - including the equity ratio and

FPL recovers its capacity payments through the capacity cost recovery clause and the energy charges through the fuel adjustment clause. Also, FPL's contracts with independent power producers are take-and-pay and many have regulatory out clauses. These factors contribute to S & P assigning a low risk factor for FPL's purchased power obligations.

Attachment 2 indicates that FPL's existing purchased power commitments will not increase in the future. Also, two of the contracts on this schedule, Okeelanta and Osceola, are in litigation and may not represent obligations for the future. This could cause a decrease in FPL's off-balance sheet obligation.

An increase in FPL's equity ratio that offsets S & P's off-balance sheet obligation increases the costs to the ratepayers for these contracts. If it is appropriate to recognize these off-balance sheet obligations for regulatory purposes, the cost-effectiveness of these contracts needs further evaluation in the fuel docket.

<u>Equity Ratio Comparison and Trends</u>

Attachment 3 shows the actual and adjusted equity ratios for FPL and a peer group of utilities. The peer group consists of all electric utilities that have AA or AA- bond rating - FPL's is AA-- and have off-balance sheet obligations. Staff notes that, after the imputation of the off-balance sheet obligation, FPL's S & P adjusted equity ratio is 54.9%, which is near the high end of the range for the peer group. FPL's actual and adjusted equity ratio are significantly above the respective median and the average for the peer group. In its response, FPL states that 54.9% is slightly higher than the average and that FPL's capital structure is not out of line. For adjusted equity ratios, the difference between FPL's and the average for the peer group is 6%, from 54.9% to 48.9%. Staff believes this difference is significant and, as explained later, has a significant revenue effect.

Attachment 4 shows the actual and S & P adjusted equity ratios for FPL and the peer group from 1993 through March 31, 1998. FPL's actual and adjusted equity ratio increased significantly during this time whereas the averages for the peer group do not show a corresponding increase.

Staff notes that S & P recently reported that several states have addressed the recovery of high purchased power costs. The article specifically noted that the Florida Public Service

Commission permitted electric utilities to recover the buy-out costs associated with terminating select purchased power contracts.

The article further noted that:

> As states adopt responsive plans toward purchased power, expectations are for lower-risk factors and subsequent improvement in financial coverages.

FPL's off-balance sheet obligation would decrease if S & P lowers the risk factor associated with purchased power.

S & P upgraded FPL's bond rating from A+ to AA- in July 1995. FPL's equity ratio was 51.41% as of June 30, 1995. Since then, FPL's equity ratio has increased substantially while it has not increased its purchased power commitments. Staff does not believe that FPL's increases in its equity ratio were necessary for it to maintain its AA- bond rating. In its response, FPL states that the lower financial risk from a higher equity ratio just offsets the "increased business risk facing the electric utility industry."

Also in its response, FPL states that it has a disproportionate amount of off-balance sheet obligations. The utility believes the average equity ratio for the group of companies to which staff compares it should be a weighted average, though it did not calculate a weighted average in its response. Staff believes the average equity is appropriate for comparison purposes. The amount of the off-balance sheet obligation varies from utility to utility but so does the amount of debt, equity, and assets.

FPL further states that its adjusted equity ratio, using common and preferred stock, is 52.4% as of June 30, 1997 according to Moody's. FPL states that this is less than the average of 55.4% calculated for all electric utilities (22 utilities) rated Aa1, Aa2 or Aa3 in the same report. The range in adjusted equity ratios is from a low of 41.6% for Florida Power Corporation (Aa3) to a high of 63.6% for Tampa Electric Company (Aa2). Staff notes that this Moody's analysis apparently used preferred and common stock in calculating the equity ratio. Staff's analysis is based on the common equity ratio. Also, the Moody's report was as of June 30, 1997 whereas staff has used S & P financial information as of March 31, 1998.

Cost of Debt

The higher equity ratio has not enabled FPL to borrow at a significantly lower rate of interest. On June 11, 1998, FPL issued 10 year bonds rated AA- and yielding 6.08%, approximately 57 basis points above comparable treasury bonds. On June 22, 1998, Consolidated Edison issued 10 year bonds rated A+ and yielding 6.18%, approximately 72 basis points above comparable treasury bonds. As of March 31, 1998, FPL's equity ratio was 64.1% (54.9% adjusted) and Consolidated Edison's equity ratio was 54.9% (51.4% adjusted). This example shows that, for similar debt, FPL's cost of borrowing is only 15 basis points less than a utility with a lower bond rating and a significantly lower equity ratio. This is not enough to offset the higher capital costs imposed by the higher equity ratio.

The appropriate capital structure is the relative amounts of debt and equity that minimize the company's cost of capital. In theory, there is no exact point, but a range of relative ratios, over which the cost of capital is minimized. However, in FPL's situation, equity maintained at the utility level has increased significantly without a commensurate decrease in the cost of debt or equity. The result has been a steady increase in the overall cost of capital that ratepayers have had to support. Attachment 5 compares the overall cost of capital, pre-tax and after-tax, for each of the investor-owned electric utilities in Florida. This shows that, over the past 5 years, Tampa Electric's cost of capital has increased slightly and FPC's and Gulf's cost of capital have declined. In contrast, FPL's overall cost of capital has steadily increased.

Business Risk Analysis

Business risk consists of qualitative factors that affect the utility's operating income. Lower levels of business risk allow a company to take on more debt. Traditionally, as regulated monopolies, utilities have low business risk and use large amounts of debt.

According to S & P, FPL has a business profile of 3 on a scale of 1 to 10 with 1 being the strongest. Business profiles of 1 and 2 are reserved for distribution-only utilities. Therefore, FPL has the strongest possible business profile for an electric utility that has generating capacity.

S & P notes that FPL's service territory has strong economic and population growth, supportive regulation, and small industrial load. Regarding competitiveness, S & P notes that FPL has competitive rates and that there are cross-state border transmission capacity limitations. In its quarterly meetings with security analysts, FPL has stated its belief that deregulation of generation in Florida is unlikely to occur in the near future.

S & P stated in its August 1998 Utility Credit Report that one challenge FPL faces is improving the performance of the St. Lucie nuclear plant. After that report, the NRC released its 1998 Systematic Assessment of Licensee Performance (SALP) score for St. Lucie. The score improved from 2.0 to 1.5. FPL's Turkey Point nuclear plant is at a perfect 1.0.

Non-utility Risks and Effects

In its August 1998 Utility Credit Report for FPL, S & P listed as a challenge the performance of FPL's sister company - FPL Group Capital (FPL-GC). This company is the funding entity for FPL Group's non-utility investments. FPL-GC has a much riskier business profile of 7 compared with 3 for FPL. Yet FPL-GC's equity ratio was 40.2% as of December 31, 1997, much lower than FPL's equity ratio. FPL-GC has an A bond rating.

FPL Group, the parent company of FPL and FPL-GC, guarantees the unsecured debt of FPL-GC, and FPL Group is dependent on the operations of FPL for 98% of its net income. In its Utility Credit Report for FPL-GC, S & P states:

> Standard and Poor's views the acquisitions of U.S.-based generating assets and the ownership of IPP plants to be high risk due to fluctuating energy prices, competition from other suppliers, power grid constraints, renegotiated contracts, and possible legal and regulatory impediments. Credit quality expectations dictate that the financial benefits and cash flow provided from these generating activities will be commensurate with the high level of risk assumed.

However, despite S & P's opinion that the financial and business profile of IPPs is at the high end of the risk spectrum, FPL Group finances its riskier investments through FPL-GC with much more debt than its investment in FPL. This is contrary to what financial theory suggests and raises the concern that FPL's ratepayers are subsidizing FPL Group's riskier investments.

Capital Expenditures

In September 1998, FPL accelerated its plans for repowering projects for the Ft. Myers and Sanford plants. Based on this acceleration, the current forecast for capital expenditures is:

Capital Expenditures ($ Millions)

	1997	1998	1999	2000
Current Forecast	**$551**	**$630**	**$770**	**$824**

This increased projected capital expenditures by about $225 million for the 1998-2000 period over the previous forecast. FPL's estimated depreciation and amortization expense for 1998 is $1,045 million. Therefore, FPL can rely on internal funds for financing this expansion and does not face major financing stress in the future. In its response to staff, the utility did not discuss any other projects it anticipates undertaking that would increase debt and decrease the equity ratio.

In Docket No. 950359-EI, the Commission authorized accelerated depreciation of generating assets and accelerated amortization of regulatory assets for FPL in Order No. PSC-96-0461-FOF-EI, dated April 2, 1996. In Docket No. 970410-EI, the Commission extended the depreciation and amortization through 1999 in Order No. PSC-98-0027-FOF-EI, dated January 5, 1998. S & P notes this is positive for the utility's credit profile. S & P also notes that:

> FP&L strengthened its balance sheet in 1997 by retiring about $500 million of long-term debt and preferred stock. The continued accelerated recovery of generating facilities and regulatory assets in 1998 will further strengthen the balance sheet.

A hearing would allow the Commission to determine if FPL's strengthening of its balance sheet benefits ratepayers.

Conclusion on Equity Ratio

For financial analysis and bond rating purposes, it may be appropriate to impute fixed charges like capacity and lease payments in calculating financial ratios. However, FPL's achieved ROE is calculated using the actual level of equity, not the level adjusted by S & P. Given FPL's risk profile as discussed above and the consequences of a high equity ratio, staff questions why the utility's adjusted equity ratio should exceed the average for utilities with off-balance sheet obligations and similar bond ratings. Once the equity ratio is adjusted for the purchased power effect, the result is that FPL is a very low risk utility. The benefits of this low risk should inure to the ratepayer as well as the investor. Staff believes a hearing is necessary to determine all the factors affecting FPL's equity ratio and to determine a reasonable equity ratio for regulatory purposes.

Revenue Effect of Higher Equity Ratio

Staff noted above that a high equity ratio can shield excess revenue and earnings. Attachment 6 shows the effect of four different equity ratio adjustments. If FPL's equity ratio was held to 57.13% so that its adjusted equity ratio matched the average for the peer group - 48.93%, then the revenue effect is approximately $74 million.

ROE Discussion

The Commission set FPL's currently authorized ROE at 12.0% in July 1993. The 30-year treasury bond was yielding 6.62% in July 1993. As of September 1998, the yield was 5.19%. Currently, the 30-year treasury bond is at historic lows and has been below 5%.

In its response, FPL states that the credit spread over the 30-year treasury bond for a AA- rated utility bond was 60 basis points in July 1993. It states that recent credit spreads were 170 basis points. It states that, because of this increase in the spread, AA- rated electric utility bonds have decreased by 50 basis points in yield since July 1993. Staff notes that a decrease of 50 basis points is significant. Staff believes the current level of interest rates could cause an eventual decline in the credit spread.

In Docket No. 960502-GU, the Commission set City Gas' ROE at 11.3% in Order No. PSC-96-1404-FOF-GU, dated November 20, 1996. In Docket No. 960833-TP, the Commission set BellSouth Telecommunications' ROE at 12.0% in Order No. PSC-98-0604-FOF-TP, which was issued on April 29, 1998. Staff believes that FPL has less risk than BellSouth Telecommunications. Recent ROEs set by other state regulatory commissions have been as follows:

COMPANY	ORDER DATE	ROE
EMPIRE DISTRICT ELECTRIC	07/21/98	9.50%
METROPOLITAN EDISON	06/26/98	10.00%
ROCHESTER ELECTRIC L & P	06/24/98	11.00%
GREEN MOUNTAIN POWER	06/08/98	11.25%
CONCORD ELECTRIC COMPANY	05/11/98	10.20%
PACIFICORP	05/05/98	10.00%

SOURCE: RATE OF RETURN DATA BOOK, 3RD QTR., 1998, KAN & ASSOC.

Based upon the decline in interest rates and the levels of returns approved in other jurisdictions, it appears the currently allowed ROE is excessive. Therefore, staff recommends the Commission hold a limited proceeding hearing to determine the appropriate ROE for FPL for all regulatory purposes.

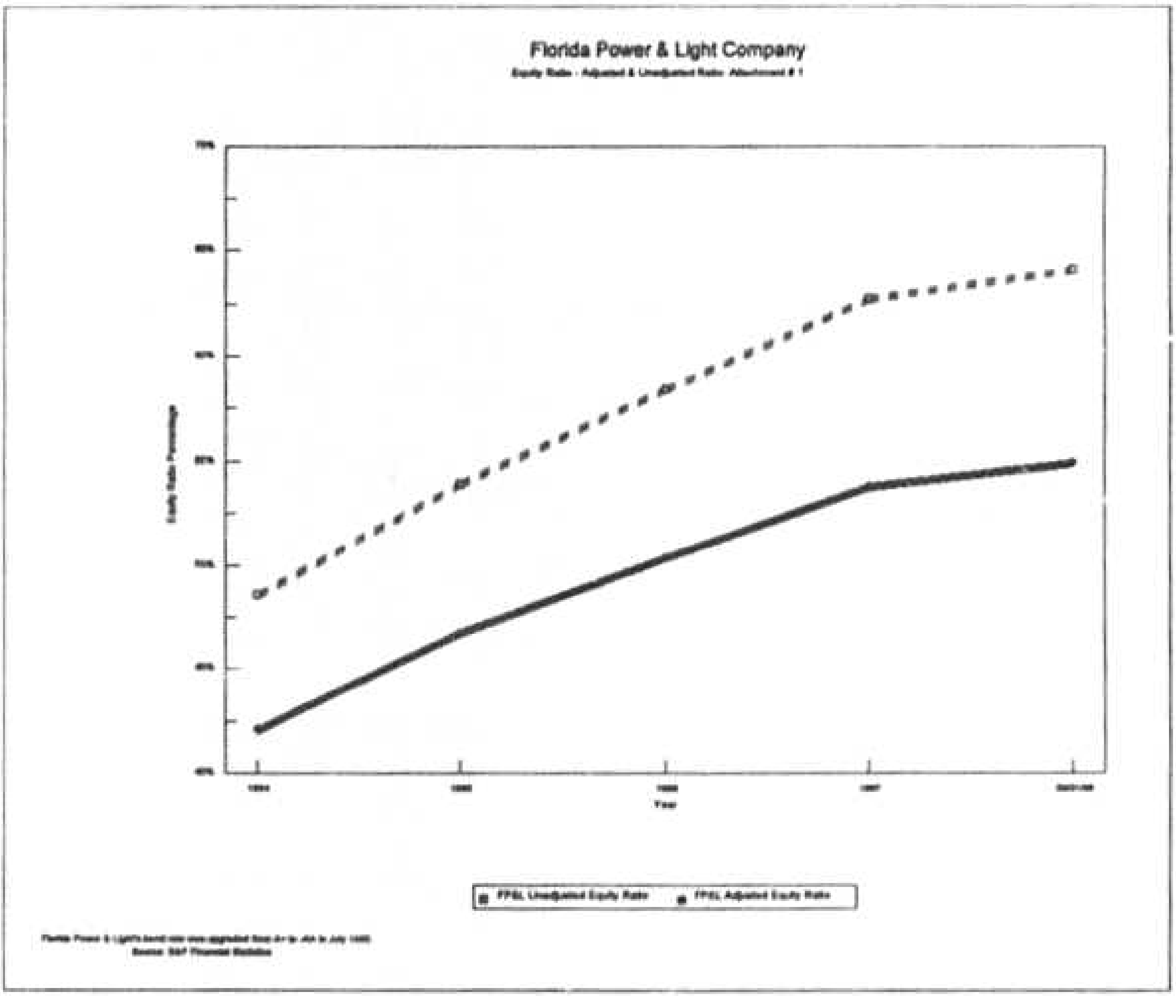
ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. The docket should remain open for a hearing. (Elias)

STAFF ANALYSIS:

The docket should remain open for a limited proceeding hearing regarding FPL's equity ratio and ROE.

Attachment No. 1



	1994	1995	1996	1997	01/31/98
Florida Power & Light					
Unadjusted Equity Ratio	48.6%	54.0%	58.5%	62.7%	64.1%
Adjusted Equity Ratio	42.1%	46.8%	50.4%	53.8%	54.9%

Attachment No. 2

FP&L Estimation of the S & P OBS Calculation

Purchased Power:	Risk Factor		
Southern Company	40%	$893,735,678	$357,494,271
SJRPP	50%	752,018,536	376,009,268
CoGen	10%	3,282,154,505	328,215,451
sub-total			1,061,718,990
FP&L Fuels			186,300,000
Total Imputed Debt			$1,248,018,989

Capacity Payment Forecast For Firm Capacity Power
Discount Rate = 10%
All Net Present Values In $1/Current Year

		Cedar Bay (1)	Bio-Energy	Broward North Std.	Broward South Std.	Broward North Neg.	Broward South Neg.	Ft. Crushed Stone	Indiantown Cogen (2)	Palm Bch. Resource Recovery	Osceola (3)	Okeelanta (3)	Royster	Southern Company	SJRPP
Actual	1997	$84,088,748	$1,810,800	$12,864,310	$13,310,738	$2,798,052	$830,287	$41,871,279	$102,282,211	$12,327,840	$0	$0	$3,702,088	$123,407,387	$79,325,591
	1998	82,808,019	1,604,400	13,579,300	14,039,308	2,842,280	836,160	44,003,220	111,417,788	13,308,080	17,288,320	21,338,000	3,585,820	127,118,120	83,873,888
	1999	83,887,397	1,704,000	14,312,700	14,788,888	2,853,300	849,200	47,289,280	111,868,824	14,183,740	17,888,844	22,411,200	3,878,310	127,887,840	85,131,888
	2000	88,104,575	1,808,800	15,088,200	15,585,408	3,024,120	882,220	50,315,880	112,854,984	14,848,775	18,750,818	23,538,800	3,771,800	124,825,820	88,252,348
	2001	82,446,152	1,922,400	15,901,800	16,427,188	3,080,000	879,500	54,208,140	113,084,328	15,757,875	19,748,352	24,728,800	3,873,750	123,808,380	88,170,048
	2002	85,873,728	2,042,400	16,760,200	18,478,003	3,110,200	881,200	57,886,840	113,852,368	16,808,775	20,741,138	25,972,800	1,008,800	121,884,400	88,880,423
	2003	88,433,703	2,168,400	17,860,000	19,080,763	3,192,720	1,008,320	61,174,880	114,240,408	17,305,270	21,780,878	27,274,800	0	124,586,460	86,882,910
	2004	103,088,077	2,302,800	18,615,150	20,033,624	3,214,200	1,022,700	64,989,120	114,829,518	18,452,700	22,880,888	28,652,400	0	125,178,840	79,888,570
	2005	108,914,451	0	19,822,250	22,084,130	3,286,320	1,028,820	67,508,200	115,435,780	18,448,415	24,004,794	30,097,200	0	123,080,880	86,482,157
	2006	110,880,833	0	20,885,300	23,255,308	3,323,700	1,057,560	0	116,083,044	20,488,840	25,242,204	31,608,200	0	122,073,840	85,823,888
	2007	114,880,194	0	21,798,400	24,510,884	3,383,160	1,078,400	0	116,748,812	21,808,885	26,516,724	33,205,200	0	120,877,040	84,851,058
	2008	119,257,584	0	22,975,000	25,804,028	3,440,520	1,099,820	0	117,418,880	22,772,280	27,851,818	34,878,800	0	120,757,880	90,271,238
	2009	123,887,853	0	24,217,600	15,738,833	3,511,200	1,117,200	0	118,082,448	23,908,850	29,253,588	36,632,400	0	120,538,320	91,388,208
	2010	125,255,801	0	25,524,400	0	3,579,840	1,138,040	0	118,768,120	8,077,388	30,772,840	38,472,000	0	50,891,300	92,575,824
	2011	132,891,888	0	0	0	3,652,440	1,182,140	0	119,483,792	0	32,272,198	40,412,400	0	0	94,085,428
	2012	137,803,433	0	0	0	3,726,000	1,188,500	0	120,238,888	0	33,888,524	42,448,200	0	0	91,808,240
	2013	114,433,199	0	0	0	3,808,200	1,211,700	0	120,883,544	0	35,888,388	44,578,800	0	0	90,087,088
	2014	119,835,868	0	0	0	3,860,880	1,238,580	0	121,787,824	0	37,387,100	46,830,000	0	0	90,943,411
	2015	125,018,738	0	0	0	3,881,120	1,268,720	0	122,581,704	0	39,275,340	49,182,000	0	0	93,721,380
	2016	127,878,108	0	0	0	4,073,520	1,298,120	0	80,210,788	0	41,284,200	51,660,000	0	0	39,307,068
	2017	132,281,473	0	0	0	4,171,200	1,327,200	0	81,888,560	0	43,335,387	54,268,150	0	0	31,587,583
	2018	137,165,438	0	0	0	4,272,840	1,358,540	0	81,701,138	0	45,517,568	56,988,759	0	0	39,480,885
	2019	142,227,003	0	0	0	4,381,080	1,383,980	0	81,508,118	0	47,808,828	59,868,942	0	0	34,017,838
	2020	147,488,798	0	0	0	4,488,600	1,430,100	0	81,308,088	0	50,217,117	62,883,888	0	0	88,312,284
	2021	152,942,128	0	0	0	4,613,400	1,467,300	0	81,115,078	0	52,748,848	66,053,256	0	0	22,840,088
	2022	158,580,898	0	0	0	4,737,480	1,507,360	0	80,917,008	0	55,401,828	69,378,256	0	0	0
	2023	164,408,447	0	0	0	4,868,400	1,548,380	0	80,877,852	0	58,181,772	72,869,840	0	0	0
	2024	170,554,204	0	0	0	5,005,760	1,590,280	0	80,780,240	0	61,122,114	76,538,320	0	0	0
	2025	0	0	0	0	5,151,880	1,634,280	0	80,881,832	0	64,200,031	80,393,088	0	0	0
	2026	0	0	0	0	5,305,080	1,687,560	0	0	0	67,432,857	84,441,988	0	0	0
		879,803,213	9,748,172	136,087,883	125,740,730	91,878,621	8,712,204	287,182,344	1,880,757,308	119,355,458	230,273,403	285,345,167	13,814,280	883,758,879	752,018,338

Total CoGen 3,282,154,808

DOCKET NO. 98139[illegible]-EI
DATE: October 22, 1998

Attachment No. 3

Florida Power & Light Company

Equity Ratio - Adjusted & Unadjusted, Off Balance Sheet Debt

S & P Bond Rating/Utilities	OBS Debt	Equity Ratio	Adjusted Equity Ratio	Difference Between Col. A - B
	March 31, 1998			
AA		(a)	(b)	
Madison G & E	$10.4	57.0%	55.2%	1.78%
Tampa Electric Company	41.3	59.8	58.7	1.12
AA-				
Central Illinois Light Co.	13.7	48.7	47.8	0.96
Florida Power Corp.	450.3	47.2	42.1	5.08
Indianapolis P & L	60.1	53.8	51.7	2.09
Kentucky Utilities	138.5	51.4	46.1	5.29
Louisville G & E	16.8	48.0	47.5	0.56
Northern State Power (MN)	229.5	47.7	45.6	2.09
Oklahoma G & E	136.8	54.3	49.8	4.50
Otter Tail Power	31.1	46.4	43.4	2.97
Union Electric Company	35.4	52.6	52.2	0.42
Wisconsin P & L	144.6	53.1	47.0	6.14
Average		51.7%	48.9%	2.75%
Median		52.0%	47.6%	4.39%
Florida Power Light	$1,261.1	64.1%	54.9%	9.20%

* In Millions

Source: S 7 P Financial Statistics, Global Utilities Rating Service, March 31, 1998

Attachment No. 4

Florida Power & Light Company: Equity Ratio - Adjusted & Unadjusted, Off Balance Sheet Debt For S & P's Double A Rated Companies with OBS Debt

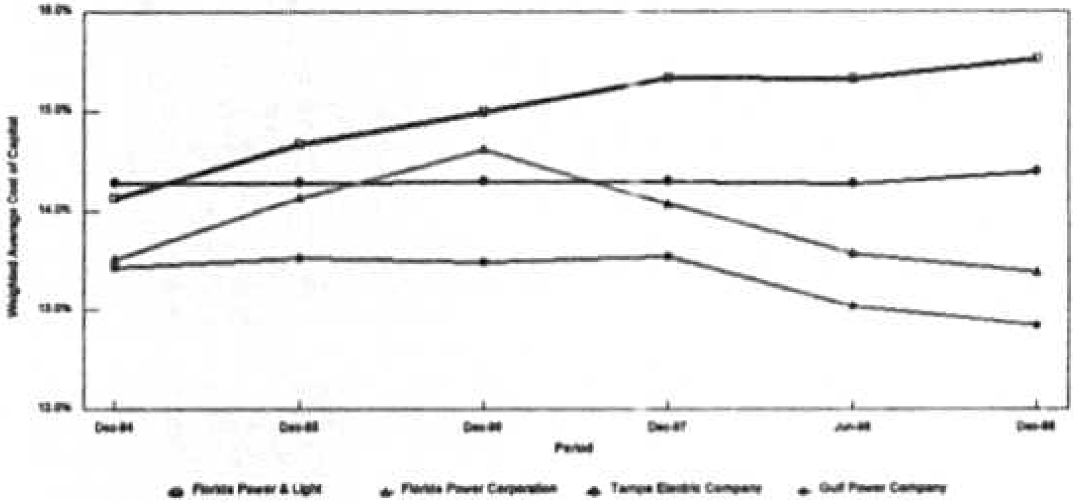
UNADJUSTED EQUITY RATIO	1993	1994	1995	1996	1997	03/31/98	% of Chg. From 1994
Central Illinois Light Company	45.0%	45.4%	44.4%	47.4%	47.5%	48.7%	7.4%
Florida Power Corp.	47.0	51.1	54.8	59.4	47.4	47.2	-7.5
Florida Power & Light		48.6	54.0	58.5	62.7	64.1	31.9
Indianapolis P&L	50.8	49.8	48.3	51.9	55.8	53.8	8.1
Kentucky Utilities	52.4	48.0	47.3	48.2	49.7	51.4	7.1
Louisville G&E	44.3	44.2	44.4	46.1	47.9	48.0	8.8
Madison G&E	55.3	53.4	55.1	53.0	52.5	57.0	6.7
Northern State Power (MN)					48.6	47.7	N/A
Oklahoma G&E			52.7	50.8	52.6	54.3	N/A
Otter Tail Power		45.4	45.5	[illegible]	46.4	46.4	2.3
Tampa Electric Co.	53.2	55.7	56.3	59.1	57.0	59.8	7.3
Union Electric Co.	51.3	51.7	52.5	52.8	53.8	52.6	1.8
Wisconsin P&L	50.5	51.9	52.6	53.5	51.1	53.1	2.3
Adjusted Equity Ratio							
Central Illinois Light Company	44.1%	44.5%	43.4%	46.2%	46.6%	47.8%	7.4%
Florida Power Corp.	41.9	45.2	48.0	51.9	42.3	42.1	-6.7
Indianapolis P&L	50.5	49.5	47.9	49.9	53.7	51.7	4.4
Kentucky Utilities	47.2	43.4	42.8	44.3	44.7	46.1	6.1
Louisville G&E	43.7	43.6	43.8	45.5	47.4	47.5	8.9
Madison G&E	53.4	51.7	53.3	51.3	51.0	55.2	6.9
Northern State Power (MN)					46.5	45.6	N/A
Oklahoma G&E			48.4	46.9	48.5	49.8	N/A
Otter Tail Power		45.4	44.5	41.6	43.4	43.4	-4.3
Tampa Electric Co.	51.7	54.3	55.0	[illegible]	56.0	58.7	8.1
Union Electric Co.	50.9	51.2	52.0	[illegible]	53.4	52.2	2.0
Wisconsin P&L	45.4	46.5	47.0	[illegible]	45.3	47.0	1.0
Averages	47.6%	47.5%	47.8%	[illegible]	48.2%	48.9%	3.0%
Florida Power & Light		42.1%	46.8%	[illegible]	53.8%	54.9%	30.3%

Source: S & P Financial Statistics, Global Utilities Rating Service, March 31, 1998

Attachment No. 5

Weighted Cost of Capital: Pre-Tax

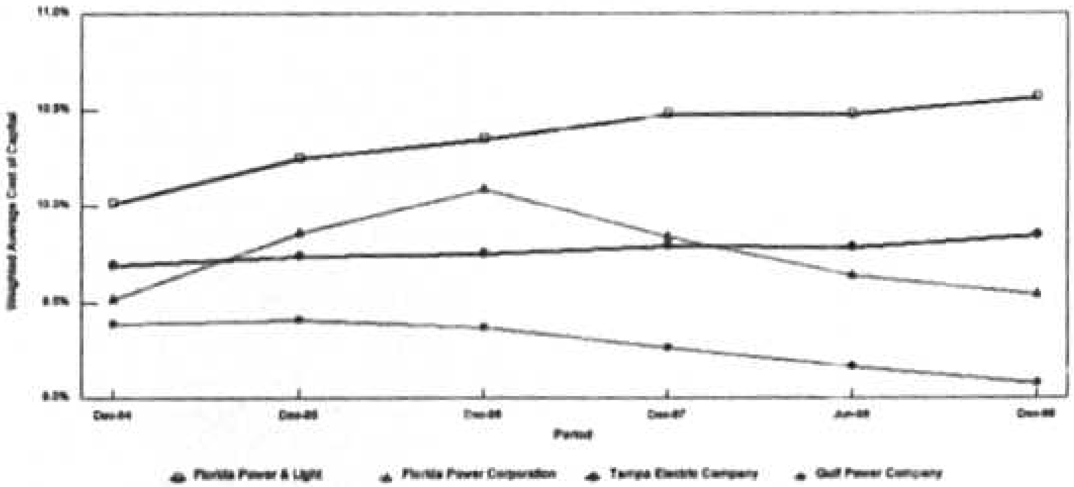
Using an Equity Cost Rate of 12% Grossed up by 1.628 (FPC Unwound up)



Source: Utility Provided Surveillance Reports, 13 months Average
Attachment # 5, page 1 of 2

Weighted Average Cost of Capital

Using an Equity Cost Rate of 12% After Tax



Source: Utility Provided Surveillance Reports, 13 months Average
Attachment 5, page 2 of 2

Attachment No. 6

Equity Ratio[1]	Adjusted Equity Ratio	Approximate Revenue Effect[2] (in millions)	Notes:
Adjusted From 65.68% to:			
51.40%	44.02%	$125.5	7/95 Bond rating upgraded.
57.13%	48.93%	$73.9	Average for peer group.
58.20%	49.84%	$64.2	FPL Group's equity ratio
60.00%	51.39%	$48.0	

[1] March 31, 1998, Standard & Poor's financial information.

[2] Based on FP&L's 1998 forecasted Earning Surveillance Report and a 12.50% return on equity.