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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's
2003 Request for Proposals,
August 25, 2003.

Filed: September 4, 2003

OBJECTIONS TO
FLORIDA POWER & LIGHT COMPANY'S
REQUEST FOR PROPOSALS

Pursuant to Rule 25-22.082, Florida Administrative Code (F.A.C.), Florida Partnership for Affordable Competitive Energy ("PACE") and some of its individual member companies[1] hereby file Objections to Florida Power & Light Company's 2003 Request for Proposals, August 25, 2003 (hereafter referred to as "RFP").

Introduction

The Florida Public Service Commission ("PSC" or "Commission") espouses as its mission "to promote the development of competitive markets – as directed by state and federal law – by removing regulatory barriers to competition, and by emphasizing incentive-based approaches, where feasible, to regulate areas that remain subject to rate of return regulation." Florida PSC Website, "Our Mission." Consistent with this mission, the PSC first adopted Rule 25-22-082, F.A.C., commonly referred to as the "Bid Rule," in 1994. The Bid Rule is intended to help ensure that Florida ratepayers receive the benefits of competition in the selection of generation capacity. Since the Bid Rule was adopted, no investor-owned utility ("IOU") sponsored Request for Proposals ("RFP") has resulted in a single MW having been awarded to

[1] PACE represents several independent power producers ("IPPs") that are in the business of developing wholesale electric generation capacity in Florida.

an independent power producer ("IPP"). In June 2003, the PSC substantially amended the Bid Rule. The amendments – which were advocated and supported by PACE, its member companies, and other IPPs – were aimed at addressing shortcomings in the original Bid Rule and fostering the PSC's stated goal of promoting competition in the electricity generation supply market.

Florida Power & Light Company's ("FPL") August 25, 2003 RFP is the first issued under the recently amended Bid Rule. Before the release of this RFP, PACE and its members were hopeful that FPL would issue an RFP that was fair, impartial, free of onerous or commercially infeasible provisions, and that otherwise complied with the letter and spirit of the recent Bid Rule amendments. However, after reviewing the RFP and attending both the August 21, 2003 release meeting and the September 2, 2003 Pre-Proposal Workshop, PACE and its members are disappointed that FPL's most recent RFP again offers terms and conditions that favor only the FPL self-build option to the detriment of competing proposals. Although FPL repeatedly states that it will conduct an "apples to apples" comparison of outside proposals and its self-build option, the terms of this most recent RFP have become even more onerous than previous RFPs, and result in a non-objective process that is not in the consumers' best interests. For the reasons discussed herein, numerous provisions in the RFP violate the Bid Rule. As such, FPL should be required to eliminate or otherwise modify the provisions that do not comply with the Bid Rule.[2]

1. Statement of Interest and Standing to file Objections to FPL's RFP.

Rule 25-22.082(12), F.A.C., provides in pertinent part: "[a] potential participant may file with the Commission objections to the RFP limited to specific allegations of violations of this rule within 10 days of issuance of the RFP." Rule 25-22.082(2)(d) defines "participant" as: "a

[2] PACE and some of its members have suggested modifications to objectionable provisions of the RFP. Obviously, the PSC is free to craft alternative remedies as it sees fit.

potential generation supplier who submits a proposal in compliance with both the schedule and informational requirements of a public utility's RFP. A participant may include, but is not limited to, utility and non-utility generators, Exempt Wholesale Generators (EWGs), Qualifying Facilities (QFs), marketers, and affiliates of public utilities, as well as providers of turnkey offerings, distributed generation, and other utility supply side alternatives." Rule 25-22.082(2)(d), F.A.C. (emphasis supplied).[3]

PACE's individual member companies are "potential participants" because each is an electric capacity generation supplier that may submit a proposal in response to the RFP. As such, these companies are entitled to file objections to FPL's RFP pursuant to Rule 25-22.082(12), F.A.C. PACE also is a "potential participant" within the meaning of Rule 25-22.082(12), F.A.C., entitled to submit Objections to FPL's RFP. PACE is a statewide trade association consisting of IPPs (as explained in footnote 1), all of whom are working together to promote a competitive wholesale electricity marketplace in Florida to benefit all Floridians. To this end, PACE has been determined by the Commission to have standing to intervene[4] to

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3 Prior to the June 2003 Bid Rule amendments, the term "participant" in the Rule was defined as: "a potential generation supplier who submits a proposal in compliance with both the schedule and informational requirements of a public utility's RFP. A participant may include utility and non-utility generators, as well as providers of turnkey offerings and other utility supply side alternatives." This definition, which has been interpreted by this Commission to allow PACE to intervenor on behalf of its member companies (as discussed in footnotes 4 and 6, *infra*) is substantially the same as the definition in the current the Bid Rule. The addition of the clause "but is not limited to" in the current Bid Rule emphasizes the Commission's intent that the term "participant" be interpreted inclusively to encourage participation in the RFP and need determination processes.

4 Order No. PSC-02-1205-PCO-EI (Sept. 4, 2002), *In re: Petition to determine need for an electrical power plant in Martin County by Florida Power & Light Company,* Docket No. 020262-EI, and *In re: Petition to determine need for an electrical power plant in Manatee County by Florida Power & Light Company,* Docket No. 020263-EI; Order No. PSC-02-1650-PHO-EI (Nov. 25, 2002), *In re: Petition to determine need for Hines Unit 3 in Polk County by Florida Power Corporation,* Docket No. 020953-EI.

represent the substantial interests of its member companies in need determination proceedings[5] conducted pursuant to Rule 25-22.082, F.S., and Section 403.519, Florida Statutes.[6] As in those proceedings, PACE seeks to participate in this RFP Objection process[7] to represent the interests of its members. In keeping with the express provisions and intent of the revised Bid Rule to encourage and accommodate participation by substantially interested entities in the RFP process, PACE should be permitted to file these Objections. On these grounds, PACE and some of its members hereby file these Objections to FPL's August 25, 2003, RFP.

2. Objections to FPL's RFP.

Rule 25-22.082(5) states: "No term of the RFP shall be unfair, unduly discriminatory, onerous, or commercially infeasible." As set forth below, PACE and its member companies

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[5] Rule 25-22.082(16), F.A.C., provides: "[t]he Commission shall not allow potential suppliers of capacity who were not "participants" to contest the outcome of the selection process in a power plant need determination proceeding." This provision previously was codified in Rule 25-22.082(8), F.A.C., and has not been changed. The language in current Rule 25-22.082(16) is identical to that previously codified in Rule 25-22.082(8). Thus, it is clear that the Commission, in amending the Bid Rule, did not *contract or reduce* the previously-determined rights of entities such as PACE to participate, pursuant to Rule 25-22.082, F.A.C., in need determination proceedings under section 403.519, F.S.

[6] Importantly, the Commission previously has rejected arguments that PACE lacked standing to intervene in need determination proceedings to represent the interests of its member companies that also had intervened and either were participating as parties in the need determination proceedings or had withdrawn as parties. Order No. PSC-02-1205-PCO-EI (Sept. 4, 2002), issued in *In re: Petition to determine need for an electrical power plant in Martin County by Florida Power & Light Company,* Docket No. 020262-EI, and *In re: Petition to determine need for an electrical power plant in Manatee County by Florida Power & Light Company,* Docket No. 020263-EI. In correctly determining that PACE had standing to intervene even though several of its members also previously had intervened and then subsequently withdrawn, the Prehearing Officer determined that PACE met the associational standing requirements and therefore was entitled to participate as a party to the need determination proceeding, regardless of its members' intervention and participation or withdrawal from the proceeding. *Id.* at pp. 2-3.

[7] PACE notes that the RFP Objection process in Rule 25-22.082(12) was created specifically so that potential participants and their representative organizations (such as PACE) could identify issues with the RFP and have those issues considered and addressed, as appropriate, early in the need determination process, rather than being forced to address RFP issues later in the process, through extraordinary procedural measures.

submit that certain terms of the RFP violate this standard, which constitutes grounds for requiring FPL to revise the offending provisions of the RFP.

A. The RFP's "Geographic Preference" factor is unfair and unduly discriminatory.

One of the most obvious examples of FPL unfairly favoring its self-build proposal is the "Geographic Preference" section of the RFP, beginning on page 3. In this section, FPL states that it will give "preference" to projects located in FPL's Southeast Florida region, which is roughly comprised of Dade, Broward and Palm Beach counties.

FPL acknowledges that there have been no generation capacity additions in the Southeast Florida region since 1993. The ability to develop and permit a new power plant in the Southeast Florida region is severely limited due to zoning and local land use and other issues. The only marginally feasible approach in this region is to expand an existing plant. Knowing this, FPL proposes its self-build unit as an extension to its Turkey Point facility in Dade County. FPL's evaluation will penalize any proposal that is based on a site located outside of the Southeast Florida region. At the September 2, 2003 Pre-Proposal Workshop, FPL indicated that it would not allow outside bidders to propose a project to be located at FPL's existing Turkey Point power plant and that the Turkey Point site, which has been paid for by FPL's ratepayers, is reserved exclusively for FPL's self-build option. Knowing that they are the only company which has the opportunity to add additional generating capacity to an operating power plant, FPL has taken full advantage of already having a site in this region, and, further, has given potential competitors inadequate time to locate a suitable site in the Southeast Florida region. The inherent "non-Southeast Florida Cost Adder" methodology imposed by FPL, by its very nature, gives FPL's Turkey Point facility an unfair advantage over, and unduly discriminates against, any generation asset located anywhere else in the state.

Consumers only benefit if competing bids are solicited on an "apples to apples" comparison basis. To that end, the "Geographic Preference" provisions, which confer a substantial unfair advantage to FPL's self-build option, should be deleted for the reasons set forth above. Alternatively, if these provisions are not deleted, FPL should be directed to consider outside proposals that seek to locate generation facilities at Turkey Point.

B. The RFP's "Regulatory Out" provisions are unfair, unduly discriminatory, and commercially infeasible.

FPL unfairly seeks to impose certain regulatory risks solely and squarely on competing bidders. Specifically, as one of FPL's Minimum Requirements (of which failure to meet is grounds for deeming the bid ineligible to be selected), the RFP sets forth Regulatory Modifications[8] beginning on page 25. It should be noted that such onerous regulatory out provisions have not been included in previous FPL RFPs, or in Progress Energy's (Florida Power Corporation's) most recent RFP, nor are they included in TECO's current RFP.

Concerned about the overreaching nature of the RFP's regulatory out provisions, PACE's members have discussed them with major lending institutions involved in financing power plant projects. These lenders have expressed significant concern about the regulatory out language as proposed by FPL. In particular, lenders have indicated that the regulatory out language would dissuade them from financing any project for which the RFP's regulatory out provisions are required. Simply stated, the RFP's regulatory out language likely will render projects unable to obtain long-term project financing. Allowing such language to remain in the RFP will substantially reduce the number of bidders able or likely to respond to the RFP, to the detriment

[8] Such RFP provisions are commonly referred to as "regulatory out" provisions, because they provide the investor-owned utility an "out" in the event the project is negatively affected by a regulatory event or action, such as changed law or adverse administrative or judicial decision, such that the investor-owned utility is unable to recover its costs.

of Florida ratepayers, and in contravention of the PSC's stated goal to promote competition in Florida's energy supply market. Further, the regulatory out provisions create a means for FPL to escape from a market contract in the future. For example, FPL could seek an exclusion from rates, which would enable it to abrogate the contract without penalty.

Furthermore, it is manifestly unfair and onerous to place *all* risk associated with disallowance of cost recovery on competing outside bidders. FPL, as a regulated entity with a long history of regulation by the PSC and the Legislature, is better able to shoulder the risk it seeks to impose on outside bidders. Imposing this regulatory out language on all outside bidders unfairly discriminates against these bidders compared to FPL's self-build proposal. It cannot be seriously disputed that FPL's imposition of *all* risk associated with future PSC, legislative or judicial action on outside bidders is unfair, onerous, and unduly discriminatory.

In this vein, FPL was asked at the Pre-Proposal workshop to identify any contract it currently has in place which contains the language that it seeks to impose on outside bidders through this RFP. FPL refused to respond, arguing that this issue was irrelevant to this RFP. FPL was informed that the question related to whether the regulatory out terms were commercially infeasible. Specifically, it was noted that if FPL had contracts containing the same or similar regulatory out language, those provisions would tend to indicate that the language in the RFP is commercially feasible. Yet, even with this explanation, FPL refused to answer the question. (See Exhibit 1, pp. 103-106).

PACE and some of its members contend that the regulatory out language FPL is imposing in the RFP is commercially infeasible, onerous, and unfair. The PSC has a long-standing history of treating IOUs fairly with respect to cost-recovery issues, protecting them from unforeseen uncertainties. The same consideration should be afforded to outside bids that are deemed viable. Accordingly, the Regulatory Modification section of the RFP should be eliminated, or at least be left open for subsequent negotiation.

C. <u>The RFP's "Financial Viability and Security Requirements" are unfair, onerous, and unduly discriminatory</u>.

A newly-crafted section of FPL's most recent RFP, which was not contained in the Manatee and Martin facilities RFP, imposes a "minimum rating" that a bidder must possess to even be eligible to submit a proposal. The RFP, page 21, states: "[f]or proposals supported by newly built generation (greenfield, brownfield, turnkey) Proposer or guarantor of Proposer must possess a senior unsecured debt rating of no less than "BBB" from Standard and Poor's or "Baa2" from Moody's Investors Service with a "stable" outlook." FPL clarified at the Pre-Proposal Workshop that offers presented by companies without this minimum rating would not be considered by FPL, other than to reject the proposal and presumably keep $2,500 of the $10,000 submission fee. Tellingly, the minimum debt rating provision was not in the recent FPL Manatee-Martin RFP, was not in the FPC Hines Unit 3 RFP, and was not in the recently-issued TECO RFP. This is strong evidence that the "rating" requirement is unfair and onerous. If the "rating" requirement is strictly applied, many potential generation capacity suppliers who actively participated in FPL's Manatee-Martin RFP will not be able to participate in this RFP process -- again to the detriment of Florida ratepayers. For example, during the Manatee-Martin RFP process, Calpine Energy Services submitted a bid that was actually a lower cost alternative than FPL's self-build proposal. Additionally, Calpine has, to date, successfully installed 22,000 MW of new, clean, efficient generation capacity in the United States, to the benefit of consumers in many states. Yet, Calpine does not currently meet minimum investment ratings being required by FPL in this RFP, and, as such, will not be eligible to bid in the Turkey Point RFP based on the minimum debt rating required by FPL.[9] Ironically, FPL seeks to impose this requirement while admitting during the Martin-Manatee need determination that it does business with companies that have a lower investment grade rating than sought to be imposed in the RFP.

FPL's need to impose minimum debt rating requirements is lessened if the security requirements, amended as proposed, are in place. The security requirements and the step-in rights in the event of a default provide FPL with protection from non-performance, and FPL should not be permitted to winnow the field of potential bidders via a proposed minimum debt rating requirement beyond what it has required in the past or what is currently typical throughout the energy industry. FPL's newly-minted "financial viability" restrictions will almost eliminate the field of potential bidders, contrary to the purpose of the recent amendments to the Bid Rule to foster competition in the RFP process. The onerous and unfair minimum financial viability requirements, as they relate to minimum debt rating, should be eliminated because a reasonable completion security and performance security, combined with step-in rights, adequately protect FPL in the unlikely event of default by the selected bidder.

D. The RFP's "Security Package Requirements" are unfair, unduly discriminatory, and onerous.

The RFP's security requirements are onerous, unreasonable, and duplicative. Beginning on page 15 of the RFP, FPL sets forth "Security Package Requirements" it seeks to impose on bidders. Specifically, the RFP requires a "Completion Security" applicable to outside Proposals at an amount equal to $188,000 per MW of capacity bid of new construction, and a "Performance Security" applicable to outside Proposals at an amount equal to $95,000 per MW of capacity bid for both new construction and capacity bid from existing facilities. However, the draft PPA

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9 Interestingly, not even all *investor-owned* utilities operating in Florida regulated by the PSC would be eligible to bid under FPL's new "minimum rating" standard.

already provides step-in rights which allow FPL to take over a project that runs into trouble. To also require a Completion Security of $188,000 per MW (approximately $207 million for 1100 MWs) and a Performance Security of $95,000 per MW (approximately $105 million for 1100 MW) is extremely onerous and unfair.

That these amounts are extremely excessive becomes even more evident when they are compared to the amounts required by other recently-issued RFPs. Specifically, in FPL's recent RFP in which the PSC approved FPL's self-build options at Manatee and Martin, the completion security was $50,000 per MW.[10] (See Exhibit 2, page 26, excerpt from FPL's 2002 Supplemental RFP.) Similarly, Progress Energy sought, in its November 2001 RFP for the Hines 3 Unit, a completion security of $50,000 per MW and a performance security of $30,000 per MW. (See Exhibit 3). And, Tampa Electric Company's recently-issued RFP has no security requirements. As yet another example of capacity solicitations in Florida, Duke Power Company issued an RFP in January 2003 which does not seek completion security, but instead requires that if construction is not completed on schedule, the bidder must provide firm capacity and energy at the contract price. (See Exhibit 4). These examples stand in stark contrast to the onerous security requirements FPL seeks to impose in this RFP.

In addition to these onerous, unreasonable, and excessive security requirements, FPL has layered on restrictive and punitive requirements regarding the form and substance of the security that must be posted. At page 16 of the RFP, FPL dictates that at least 10 % of the Completion Security must be provided in cash with the remainder in a Letter of Credit. Again, this requirement is unfair, onerous, and has an unduly discriminatory effect on potential bidders. Tellingly, FPL imposes no similar risk on its self-build proposal that would protect consumers

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[10] In just over a year, FPL seeks to *more than triple* the completion security it seeks from bidders.

for any cost overruns, schedule delays, or lack of operating performance. PACE and some of its members challenge FPL to identify any other investor-owned utility RFP issued anywhere in the country which imposed this level of cash or Letter of Credit security to support its completion or performance security. The sum sought in cash as security requirement is unreasonable, unfair, onerous, unduly discriminatory, and commercially infeasible, and, as such, violates the Bid Rule and should be deleted from the RFP.

Consistent with an apples-to-apples comparison methodology, FPL should eliminate the excessive security requirements and rely upon step-in rights to remedy completion or performance concerns. Similarly, whatever requirements governing the form and substance of the completion and performance security should apply to both outside bidders and the FPL self-build option, thereby guaranteeing that consumers are held neutral with respect to both completion and performance risks, regardless of the selected capacity source.

E. **The RFP's site certification application submittal schedule is unfair, onerous, and commercially infeasible.**

FPL's requirement, on page 24 of the RFP, that short-listed bidders must file an application for site certification under the Electric Power Plant Siting Act on or before April 1, 2004 – approximately 6 weeks *before* contract negotiations are even scheduled to be concluded (presently scheduled for May 13, 2004) – is onerous, unfair, unreasonable, and commercially infeasible. Even with suitable land already secured, preparing a site certification application is an expensive process typically requiring between six and nine months. FPL's milestone schedule requires submittal of the site certification application by April 1, 2004, so that with a nine-month preparation period, the effort to prepare the site certification application should have commenced in July 2003 – *before FPL even issued the RFP.* This requirement is completely unrealistic, unfair, and onerous, since the RFP was only issued in late August 2003. The practical effect of this schedule is that potential bidders who do not currently own a suitable site in the FPL-preferred Southeast Florida region are effectively precluded from offering a Southeast Florida option. As such, even if such a site could be located – and that is a very substantial contingency -- the Proposer would face the near-impossible task of demonstrating, to FPL's satisfaction, that the project faces "no significant barriers to obtaining the necessary regulatory and governmental permits and authorizations to execute or implement the proposed project on a schedule that meets the June 1, 2007 date." (RFP, page 22, Permit and Authorization Feasibility).

In addition to the prejudicial milestone schedule, it is commercially infeasible, onerous, and unfair for FPL to require bidders to file an application for site certification under the Electric Power Plant Siting Act before contract negotiations have been concluded. Preparation of a site certification application costs nearly a million dollars, requires at least six to nine months, and includes a detailed environmental assessment. It is not prudent for a commercial enterprise to expend the capital required to prepare the site certification application without knowing that it will be selected as a "winner" under the RFP. Consequently, forcing bidders to spend nearly a million dollars to prepare a site certification application before a PPA is executed is unreasonable, unfair, and commercially infeasible. The Project Milestone Schedule should be modified so that adequate time is allotted between the completion of contract negotiations and the milestone requirement for filing the site certification application. PACE and some of its members argue that this period should be no less than three months. Three months would provide a sharing of risk between the IPP and FPL, with the IPP having the incentive to expedite negotiations in order to limit site certification application cost exposure, and FPL having the incentive to conclude negotiations because delay harms their schedule.

In sum, the milestone schedule provisions of FPL's RFP are unfair, onerous, commercially infeasible, and unduly discriminatory, and should be modified as suggested so that a Proposer is not required to file a site certification application before it has been selected to negotiate, and to provide sufficient time to prepare the site certification application.

F. **FPL's attempt to impose a Power Purchase Agreement on bidders, without the benefit of negotiation, is unfair, onerous, and commercially infeasible.**

FPL seeks to impose the terms of a Purchase Power Agreement ("PPA") -- which it has drafted and attached as Appendix A to the RFP – without providing bidders any opportunity to meaningfully negotiate key power purchase terms and conditions. The PPA is an eighty-page, single-spaced contract having sixteen separate appendices. FPL's attempt to force bidders to "take it or leave it" with respect to the PPA is unfair, onerous, and commercially infeasible in violation of the Bid Rule

A review of the RFP reveals that FPL wishes to "have it both ways." On one hand, FPL goes to great length to proclaim that "[t]his RFP is not an offer to enter into a contract" and that "[n]othing in this RFP or any communication associated with this RFP shall be taken as constituting an offer or representation between FPL and any other party." RFP, p. 1. FPL further states that the RFP is "a solicitation of exclusive firm offers of fixed duration from Proposers." On the other hand, FPL then ignores its "no offer" position and seeks to have bidders certify that they *accept* -- with no prior opportunity to negotiate – "the terms, conditions, and other facets of the RFP and/or PPA". (See Form 11, Proposal Certification, D-39). The RFP states: "[f]ailure to state exceptions and pose alternative language shall constitute *acceptance* of the terms and conditions set forth in the RFP and/or the PPA." RFP, p. 26, (emphasis supplied). In this regard, FPL's RFP is internally inconsistent. More important, to the extent FPL purports to bind bidders as having *accepted* the *unnegotiated* terms and conditions of the PPA in order to be eligible to supply generation capacity pursuant to the RFP, the RFP is unfair, unduly discriminatory, onerous, and commercially infeasible.

FPL will undoubtedly argue that a bidder is free to note any term of the PPA to which it does not agree.[11] However, other than ominously noting that exceptions will be taken into account in the non-economic evaluation, FPL does not clearly inform bidders of the effect that objecting or taking exception to terms of the RFP may have on evaluating the bidder's proposal – a tact that is plainly unfair. If a bidder seeks to protect its interests by proposing alternative terms and conditions, FPL may evaluate the exceptions in a manner such that the bidder is severely disadvantaged in, or even disqualified from, the selection process. (See Exhibit 1, page 25, in which FPL affirms that exceptions taken to the PPA will be penalized during the non-economic evaluation process.) FPL's efforts in this regard are so overreaching that if the Commission does not require FPL to alter the RFP, there will be little left to negotiate, since almost all significant terms and conditions will already have been unilaterally determined and dictated by FPL.

To the extent the RFP and PPA leave *any* room for negotiation of key terms and conditions, FPL's timeline provides that such negotiations are to begin on January 26, 2004. It is unfair for Proposers to be forced to expend substantial financial and other resources to extensively review and respond to FPL's voluminous PPA in order to be able to submit a proposal. Allowing FPL to force the PPA's terms and conditions on bidders without the benefit of prior negotiation is inconsistent with established contract law, contrary to the notion of arms-length contract negotiations, and thus is unfair, onerous, and commercially infeasible.

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[11] FPL apparently does not expect many exceptions to its PPA, since page 26 of its RFP states: [i]f a proposer identifies exceptions, the exceptions must be explained in writing as part of the proposal, using Form # 10 (in Appendix D). Form #10 provides approximately 5 inches of space to object to the terms of the PPA.

The PSC should direct FPL to revise the terms of its RFP so that the draft PPA reflects FPL's starting point in contract negotiations, but does not obligate a bidder to all the terms of the eighty-page PPA and the sixteen appendixes.

G. **The RFP's Transmission Loss Factor and Power Flow Cost Adder provisions are onerous and unduly discriminatory.**

Related to the objection concerning locating a facility in Southeast Florida, is the "transmission loss" factor and power flow cost adder, delineated on pages 3 through 6 and in Appendix E to the RFP. It is noteworthy that FPL did not include transmission losses in the RFP issued for the Manatee and Martin self-build options recently approved by this Commission. According to the map on page 5 of the RFP and Table E-7, a 7% reduction due to transmission losses (and a $40 million NPV cost adder due to operating Port Everglades and Ft. Lauderdale combustion turbines to limit power flows into Southeast Florida) in the "value of capacity" of Martin, and a 14% reduction due to transmission losses (and a $40 million NPV cost adder due to operating Port Everglades and Ft. Lauderdale combustion turbines to limit power flows into Southeast Florida) in capacity value of Manatee certainly would have altered the outcome of the bid evaluation concluded just six months ago.

Now, after deciding that its next planned generating unit will be located in Southeast Florida (a part of the state in which siting a new power plant is extremely difficult) FPL's RFP raises the bar on competing proposals even higher by imposing a "transmission loss calculation" 1/3 – 3/8 1/3 power flow cost adder calculation to be considered as part of the economic evaluation of proposals outside of Southeast Florida. Neither the recent RFP issued by Tampa Electric Company, nor the most recent RFP issued by Progress Energy Florida, imposed these unduly discriminatory and restrictive provisions.

The 1100 MW "need" is not merely a Southeast Florida need, but is an FPL *system* need, which extends approximately 300 miles north of the three counties in Southeast Florida. In fact, FPL stated at the September 2, 2003 Pre-Proposal Workshop and the pre-release meeting that the load centroid was indeed moving *north, not south or southeast* as indicated by this RFP and this specific evaluation criterion. (See Exhibit 1, page 137). If indeed an imbalance does exist, given that FPL cannot refute the historical reality that its load center is moving north and that the "Southeast Florida zone" does not need all 1066 MWs in 2007, FPL should be forced to consider an alternative option of perhaps 600 MW in Southeast Florida to meet the imbalance and a separate 600 MW plant outside the congestion zone to serve the remainder of FPL system needs. FPL agreed in response to questions at the Pre-Proposal Workshop that a balanced expansion of two 600-MW facilities would have no adverse effect on the transmission system. Also, the load versus generation disparity in Southeast Florida did not just develop since the issuance of FPL's previous RFP. If the disparity between load and generation does indeed exist, then it existed six months ago when 1900 MWs (costing consumers $1.1 billion dollars) was approved for FPL facilities in Manatee and Martin counties. To now "devalue" competing bids, when six months ago FPL did not devalue its own units, is anti-competitive at its very core. The RFP's transmission loss factor and power cost adder should be removed.

H. The RFP provisions addressing "Reservation of Transmission Capacity" are unfair and unduly discriminatory.

Related to FPL's "preference" to locate its next planned generating unit in Southeast Florida, FPL asserts a desire to reserve transmission import capacity into Southeast Florida for future generation not identified in its RFP. This is one more way that FPL's evaluation process confers a great advantage to projects located in Southeast Florida, and penalizes projects that are unable to locate in this area.

Part of FPL's rationale for the Southeast Florida preference, described on page 6 of the RFP, is so that FPL can reserve transmission capacity for the future. Specifically, the RFP states:

> An additional factor involves the option of adding future solid fuel alternatives, and the impact planning choices made today could have on this future desired alternative. Specifically, the most likely site for a future solid fuel facility in Florida would be outside the Southeast area. If generation is not sited in Southeast Florida for the 2007 need, generation that is added in 2007 will consume available transmission capacity into the Southeast region, and future solid fuel generation would have to carry a larger burden of transmission costs to deliver generation into the Southeast region.

Through these provisions, FPL unduly discriminates against projects located outside of Southeast Florida based on a *future* event – location of a solid fuel plant outside of Southeast Florida – *that may well not ever occur.* In the April, 2003 10-Year Site Plan, FPL does not identify any solid fuel plants it plans to develop in the next ten years. In fact, all future sites are designated as unnamed "Unsited Combined Cycle Plants." Further, FPL provides no evidence or indication that it has considered or investigated transmission upgrade costs which could be incurred to reduce the need to site FPL's next planned generating unit in Southeast Florida and to provide the required transmission import capacity to support a future solid fuel facility outside of Dade, Broward, and Palm Beach counties. To penalize sites outside the three-county Southeast Florida area on the basis of a speculative occurrence – the development of a solid fuel facility that is not even planned within the next ten years – is anticompetitive and onerous.

Not only is such reservation of transmission capacity for the future anticompetitive and onerous, it is also contrary to FPL's publicly-stated position with regard to "Participant Funding," that the generator who causes the transmission system to need to be expanded should pay for such expansion.[12] Freeing up transmission import capacity for the benefit of an unidentified future solid fuel facility on the backs of the bidders to this RFP is the antithesis of the cost causation/cost allocation principle advanced by "Participant Funding."

If indeed transmission congestion exists that will need to be overcome in order to site a future solid fuel facility in Florida, then FPL should be required to evaluate the costs of upgrading the transmission infrastructure to eliminate that congestion, and should assign that cost to the future solid fuel facility. Relief of future congestion for the benefit of a future generator is not a legitimate criterion for forcing new generation capacity into the Southeast Florida three-county area under this RFP.

FPL should not be allowed to unduly and unduly discriminate against projects located outside Southeast Florida based on some hypothetical need to reserve transmission capacity for a solid fuel plant that *may or may not* be constructed at some unspecified point in the future. For these reasons, this aspect of the RFP should be revised or eliminated.

I. <u>**The RFP's Equity Penalty provisions are unfair, onerous, and unduly discriminatory**</u>.

The RFP seeks to impose an equity penalty, euphemistically renamed an "equity adjustment," on outside bidders who propose a contract term of more than three years. (Page 29 of the RFP, Section D, and Appendix C) This is unfair, onerous, and unduly discriminatory to outside bidders, in violation of the Bid Rule. Additionally, FPL fails to recognize and value numerous factors that inure to FPL's benefit by entering into a long term PPA. As set forth below, the equity penalty ("adjustment") should be deleted from the RFP.

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[12] See pages 12-16 of the Initial Comments of Florida Power & Light Company to the Federal Energy Regulatory Commission, dated November 15, 2002, in Docket No. RM01-12-000.

FPL places great faith in Standard and Poor's and its equity penalty "adjustment" calculation. However, FPL misconstrues and incorrectly applies the equity penalty concept in the RFP. As was testified to last year by a PSC staff witness, FPL is, in this instance, taking a portion of Standard & Poor's consolidated credit assessment methodology and using it for a purpose for which it was never intended. Further, the notion of an equity penalty was not accepted and, indeed, was viewed warily in Docket No. 910759-EI when it was first raised. In that case, certain pertinent findings were made:

> I found that increased reliance on this source of power does not portend lower credit ratings. (Ex. 7, p. 5) Just because a utility increases its reliance on purchased power does not mean that debt protection measures will deteriorate and a downgrade is imminent. In many cases, various qualitative factors may outweigh the quantitative factors. (Tr. 236-7; Ex. 12, p. 7) . . .
>
> I recognize that purchased power is not without risks, just as constructing one's own power plant contains risks. However, I also recognize that it is generally not possible to point to an increased reliance on purchase power as the sole reason for a change in credit ratings.

Order No. 25805, Feb. 25, 1992, Docket No. 910759-EI. Pp. 42-43

These findings remain valid and support the position that an equity penalty should not be imposed.

FPL offers nothing to suggest that its corporate credit rating will be downgraded in the future a result of entering into a pre-approved, cost-effective purchased power contract. Capitalization and coverage ratios may fluctuate within a given range without adversely affecting the credit quality of a company. Furthermore, FPL's reliance on purchased power is on a declining trend line, with a total Summer 2002 level of 2403 MW, dropping to 1757 MW in Summer 2005, to 1310 MW by Summer 2007, and to 382 MW by summer 2010. Thus, the decreasing use of purchased power contracts will work to counteract any negative effect of accepting a purchase power contract resulting from FPL's 2003 RFP.

Importantly, as Exhibit 5 shows, sworn testimony offered before the Commission just last year indicated that no other state regulatory commission has recognized the equity penalty concept advocated by FPL, and no evidence was adduced that the equity penalty concept is applied when FPL or its affiliated companies participate in RFPs to sell power to other investor-owned utilities in other states. The lack of acceptance or endorsement of the equity penalty concept evidences the unfairness and commercial infeasibility of its inclusion in this RFP.

FPL fails to account for the many positive effects a purchased power agreement may have on FPL and its ratepayers, by shifting certain risks to others. The risks associated with self-building a power plant were detailed when FPL recently reported its second quarter earnings. These risks include construction cost overruns, permitting risks, equipment failure risks, and risk of equipment performance below certain output or efficiency levels. FPL does not consider these mitigating factors that a purchased power agreement represents, to offset impact on debt to equity ratios. (A copy of FPL Group 2003 second quarter earnings report, which lists numerous risks associated with the operation of electric generating facilities, is attached as Exhibit 6).

Finally, if an equity penalty is imposed (and for the reasons stated above, PACE and its members posit that it should not be imposed), it should reflect the extremely fair treatment that the Florida PSC has given IOUs in rate recovery. In light of this extreme fairness, the PSC should not allow FPL to impose the 30% equity penalty, and a risk factor of 10% should instead be required. This is commensurate with the real risk the IOU faces from potential lack of recovery, and also is in line with the risk factor used in QF contracts in Florida. If the equity penalty is allowed at any risk factor -- and it should not be, since FPL has failed to adequately quantify the risks imposed by the equity penalty – then the IOU self-build option also should be forced to quantify the risks the equity penalty imposes.

J. The RFP's dual fuel requirements are unfair and onerous.

The gas supply into southern Dade County, the location of FPL's Turkey Point site, is very limited. In order for FPL to cover the risk associated with this limited gas supply, FPL has added dual fuel capability (#2 oil firing capability as the alternate fuel) to the proposed self build unit at Turkey Point. Gas supply further north in the state is more available. It is onerous and unreasonable for FPL to require dual fuel in locations in the state where both FGT and Gulfstream gas are available, only because FPL must have dual fuel at Turkey Point. The locational risk associated with gas deliveries is evidenced in FPL's recent decision to add significant generation capacity at Martin and Manatee as gas only facilities with no dual fuel capability. The dual fuel requirement in the RFP is onerous and unfair and should be eliminated from the RFP.

K. The PPA's requirement that cash deposits be held in accounts that accrue interest for FPL's benefit is onerous, unfair, and unduly discriminatory.

Section 4.3, page 20, of the draft PPA attached to the RFP provides that cash deposits shall be held in an account designated by FPL for the benefit of FPL. Pursuant to this provision, interest monies earned on cash deposits made by bidders into the Security Account would inure to the benefit of FPL. It is unfair for FPL to require bidders to deposit their funds into a Security Account upon which *FPL* will earn interest. Not only is the bidder deprived of the use of its cash while it is held in the Security Account, but FPL earns interest on the bidder's cash! Furthermore, the interest earned could be considerable, given the exceedingly high Completion Security and Performance Security amounts being demanded by FPL. The PSC should order this term revised to require FPL to deposit cash security deposits received from bidders in an interest bearing account, with any interest earned on the deposits inuring *to the entity that deposited the money*, not to FPL.

L. **The RFP's Schedule of Milestones cutoff date for submitting questions regarding the RFP is unfair**.

The Schedule of Milestones on page 14 of the RFP provides that the "cutoff date for RFP questions" is September 23, 2003. The RFP states on page 9 that FPL will evaluate the economics of each proposal based on the current "most likely" FPL Fossil Fuel Price and Natural Gas Availability Forecast to be issued in September 2003. FPL decided to use the September 2003 forecast after receiving comments at its August 21, 2003 RFP Pre-Release Meeting. Since the September 2003 Fossil Fuel Price and Natural Gas Availability Forecast has not been issued and is likely to be available for the first time in the middle of September. It is unfair, and, thus, a violation of the Bid Rule, for questions related to fuel, as set forth in section D of FPL's RFP, to be ineligible to be submitted after the September 23, 2003 cutoff date. The PSC should order that the cutoff deadline for fuel-related questions be extended to 14 days from the date of issuance of FPL's September Fossil Fuel Price and Natural Gas Availability Forecast.

M. **The RFP's evaluation fee provisions are unfair, onerous, and unduly discriminatory.**

The RFP evaluation fee provision in FPL's RFP, on page 18, are unfair and onerous, in violation of Rule 25-22.082(5), F.A.C., and are not cost-based, in violation of Rule 25-22.082(5)(f), F.A.C.

Section 25-22.082(5)(f) of the Bid Rule requires any application fee to be cost-based. PACE and its represented members do not presently contest the $10,000 proposal fee for the evaluation of an initial Proposal. However, PACE and its members object to FPL's position, affirmed at the September 2, 2003 Pre-Proposal Workshop, that *any* variation in a key term constitutes a separate and distinct proposal for which another $10,000 evaluation fee is due. Slight variations in the proposal – for example, changing the proposal from 10 years to 11 years – simply do not warrant the submittal of another $10,000 fee, particularly since the application fee must be "cost-based" according to the Bid Rule. FPL could easily have allowed a bidder to slightly alter one key term in its proposal as part of $10,000 application fee, or, alternatively, FPL could have provided that slight variations of proposals would be subject to a lower fee than the $10,000 initial proposal fee. If a key goal of the Bid Rule is to encourage competitive proposals to determine the most cost-effective alternative for ratepayers, FPL's effort to discourage variations of proposals by charging an exorbitant and unjustified $10,000 fee per variation should not be permitted to stand. Since there is no indication that variations of proposals are as expensive to evaluate as the original proposal, the PSC should require FPL to revise the RFP to allow at least two variations to the original proposal without imposing on the bidder the requirement to pay another $10,000 evaluation fee.

The manner in which Florida Power Corporation addressed proposal variations in its November 26, 2001 RFP is instructive and should be adopted by FPL or ordered by the PSC. As seen from the attached excerpt of FPC's RFP addressing this issue, bidders were required to pay an initial $10,000 application fee, and were then allowed to propose up to two variations in project term and/or pricing, at no additional cost. (See Exhibit 3). Any more than two variations were charged a $1,000 evaluation fee per variation. This approach is fair and reasonable, and should be adopted by FPL. If FPL fails to adopt this approach in its Response to PACE's objections, the PSC should ordered FPL to revise the evaluation fee provisions in the RFP in the manner set forth in FPC's November 26, 2001 RFP.

Additionally, the PSC should also not allow FPL to keep 25% of an application fee if a proposal is deemed non-responsive or ineligible after an initial review. If a bidder submitted a proposal with four price variations, it would have to pay application fees totaling $50,000. If an Officer of the bidder did not certify the proposal and four variations as required at page 23 of the RFP (something that could probably be determined within 15 minutes of reviewing the bids), FPL would deem the proposal and its variations not eligible. It would then keep $12,500 of the bidder's $50,000. An initial screening to make sure the bids were timely received, certified by a corporate officer, contained all the required forms and things of that nature surely does not cost upwards of $2,500 and is not cost-based. The unfair, onerous provision found on page 18 of the RFP that allows FPL to keep 25% of the application fee for bids determined to be non-responsive or ineligible should be removed from the RFP as a violation of Rule 25-22.082(5) and Rule 25-22.082(5)(f), F.A.C.

N. **The RFP's Developer Experience requirements are unfair, onerous, and unduly discriminatory**.

FPL's 2003 RFP contains certain Minimum Requirements which start on page 19. The RFP provides that "[f]ailure of a proposal to satisfy the Minimum Number of Requirements will be grounds for determining a proposal ineligible." The 2003 RFP sets forth sixteen Minimum Requirements, compared to only nine minimum requirements in FPL's 2002 Supplemental RFP. Among the newly crafted Minimum Requirements in the 2003 RFP, which were not included in the 2002 RFP, is the Minimum Experience of the Proposer.

FPL refused to answer questions at the Pre-Proposal Workshop about its rationale for adding provisions to the RFP, forcing one to speculate regarding the reason for the addition of this new, unfair, and onerous requirement. A minimum requirement that a Proposer must have over five years of demonstrated experience in the successful and reliable operation of facilities employing the technology similar to that proposed is unfair and discriminatory.

Many investor-owned utilities have, within the last 5 years, created wholly-owned subsidiaries to compete in unregulated wholesale markets. For example, the Southern Company was involved in creating a subsidiary corporation within the past 5 years, Mirant Energy, that competes in wholesale markets. FPL's RFP already seeks to protect FPL ratepayers with Completion Security and Performance Security Provisions, Step-in Rights, and Financial Viability Requirements. It is unnecessary, unfair, and unduly burdensome for FPL to automatically disqualify bidders that have not been in existence for at least 5 years, even if these bidders have developed numerous power plants. This is the first time such a minimum experience requirement has appeared in an RFP that is subject to Commission review. The effect of this provision is to reduce the number of bidders participating in the RFP process, a process designed to ensure that ratepayers enjoy the most cost-effective alternative available.

This requirement runs afoul of the PSC's espoused public policy purpose to promote and foster competition in Florida's energy markets. This is especially so, in light of the fact that FPL stated that it would not impute an individual's experience (and, presumably, the experience of another corporate entity) to a business entity that has been in existence less than 5 years.

The PSC should strike the RFP's Minimum Experience of Proposer provisions, or, alternatively, order FPL to eliminate the Minimum Experience of the Proposer provision from the Minimum Requirements portion of the RFP and instead allow developer experience to be evaluated as a non-economic factor, but not as a disqualifying factor.

Conclusion

For the reasons set forth above, numerous provisions in FPL's RFP are unfair, onerous, unduly discriminatory, and commercially infeasible. As discussed herein, these offending provisions should be eliminated from the RFP or required to be revised so that they comport with the Bid Rule's express provisions and are consistent with the Rule's intent to foster competition in Florida's electric generation supply market.

Submitted this 4th day of September, 2003.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was served by hand delivery to Charles Guyton, Esq., Steel Hector & Davis, LLP, 215 South Monroe St., Suite 600, Tallahassee, FL 32301, on this 4th day of September, 2003.

Jon C. Moyle, Jr.

EXHIBIT 1 – Transcript of Pre-Proposal Workshop on 9/2/03

FLORIDA POWER & LIGHT COMPANY'S

2003 REQUEST FOR PROPOSAL

September 2nd, 2003

PRE-PROPOSAL WORKSHOP

Airport Hilton
5101 Blue Lagoon Drive
Miami, Florida

9:00 o'clock a.m.

Transcript of Proceedings beginning at 9:00 a.m. and concluding at 12:50 p.m., on September 2nd, 2003, taken at the Airport Hilton, Miami, Florida, before the FPL Panel. Reported by RONNI M. KOEBEL-IMMERMAN, Certified Shorthand Reporter, Notary Public.

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customers, and maintain the reliability standards of the system. So you know, you could consider those three objectives as a proxy definition for greater value if you so desire.

MR. SYMS: For those of you writing down questions on cards, if you just hold them up, Sharon is trying to spot them. She'll come by and pick them up for you. Hold them up, she'll get them. Thank-you.

MS. PEREZ-ALONSO: Question, will a proposal be penalized if exceptions to the draft PPA are noted?

The proposal will not be specifically penalized, for example, in the economic evaluation. The exceptions noted will give us a sense of the assessment of risk of achieving entering into successful PPA with a bidder.

MR. MOYLE: Follow up on that. So then in the non-economic analysis, will they be penalized?

MS. PEREZ-ALONSO: There will be a risk assessment associated with the exceptions noted by the bidder, yes, sir.

MR. MOYLE: And that will be before negotiations?

MS. PEREZ-ALONSO: Yes.

to losses and integration costs that reflect the true cost to the FPL system customers.

MR. GREEN: Follow-up question?

MR. SCRUGGS: Sure.

MR. GREEN: Did FPL then prior to

deciding to put what is 1144 megawatts, whatever the next generating unit is, at Turkey Point, did FPL consider the option of putting perhaps two separate sites, 2500 megawatt plants, perhaps, one in Southeast Florida and one somewhere else, to recognize the transmission constraint or congestion that exists?

MR. SCRUGGS: The next planned generating units identified in the RFP is, you know, our best answer to Florida's needs, FPL's needs. Okay?

So that hopefully that will answer your question with respect to what is our best considered option for meeting FPL system needs. It's the next planned generating unit that's identified in the RFP.

MR. GREEN: I guess you didn't answer my question.

MR. SCRUGGS: I'm not going to, Mike. That's not necessary for you to put together your best --

MR. GREEN: Okay.

couple places in the RFP where we identified there may be other things that develop to the benefit of proposers and to the concern of FPL's customers based on proposals received that we may be deemed prudent to consider during the evaluation.

This is our best estimate of what we know that we will want to consider during

the non-economic evaluation.

MS. PEREZ-ALONSO: Question, has the regulatory provision of the PPA been used by FPL in any other contract to which it is a party?

I'm not sure that the answer to this question is necessary to respond to the bids.

Is there any follow-up?

MR. SCRUGGS: Yes --

MR. MOYLE: I'll follow-up on that briefly.

I mean, I have folks who are concerned about the regulatory out provision and that it could affect financability of the project. So one of the things to consider is whether it's a commercially feasible term.

So the question was designed to find out whether it's commercially feasible and that if you've used it in other PPAs, you know, from your prospective it's commercially feasible. If you haven't, maybe it's not commercially feasible.

UNIDENTIFIED PHONE SPEAKER: Can you

□

repeat that for us on the phone.

MS. PEREZ-ALONSO: Yeah. The question is -- the follow-up question is, if FPL answers the question whether it has or hasn't been used, the regulatory provision has or hasn't been used in a current PPA, existing PPA, then in Jon Moyle's viewpoint it would answer the question whether it is or isn't commercially feasible.

I guess at this point I'm not sure we need to address that question in order for you all to reply to provide the -- respond to the bid, the request.

MR. SCRUGGS: I've got a few questions here on fuels.

MR. HOWARD: This is Steve Howard on Cornerstone. Follow-up on that, it's not my question, but I think it's a good one.

I think one of the things it goes back to, the very first thing that was asked this morning as to whether the proposals would be compared on an apples to apples basis, the self-build or next planned generation units from FPL, and the answer was yes. The answer we were given was yes, that it would

be compared on the apples to apples basis.

So I think this question is interesting as to how you consider, you know, having the developer take the regulatory out-risk in the proposals, how that compares in an apples to apples comparison with FPL.

Because obviously FPL will be shouldering that regulatory risk in a project that you build for yourself. However, you are not shouldering that risk under the RFP.

MR. SCRUGGS: Well, again, Steve, I respectfully push that question off, because I don't think that's necessary to be addressed in this forum for you to be able to put a proposal together. That goes to the background and the development of the positions that we're expressing in the RFP. I think that's not what is being addressed here.

MR. GREEN: Steve, if I could, you know, once again, make the point that this regulatory out clause, in as much as we can understand about it, is critical to bidders to see if they can put forth a viable bid in this thing. That's why all these questions on regulatory out clauses is so important to us. We solicit as much information as you can give us as possible on that. Thank-you.

MR. SCRUGGS: Thanks, Mike. That was Mike Green.

The question related to fuels, does FPL evaluate fuel switching credit so as to allow arbitrage opportunities in the fuel markets.

The question is, it's in there to appreciate that that is an opportunity that certain aspects or certain facilities may offer. So that's why it's included.

Does FPL self-build contemplate taking advantage of pricing differentials.

Again, I think I answered this earlier. The pricing differential is between residual fuel and natural gas, not distal and natural gas. So no, FPL's self-build unit does not take advantage of the --

MR. MOYLE: It's residual.

MR. SCRUGGS: Pardon me?

MR. MOYLE: Assume it's residual.

MR. SCRUGGS: No. We're using gas

accepted, and I don't know the truth, I'm assuming it's true, that the load center for FPL system is creeping north in the system. And that the question, I think at the time,

from Jack, was are we accommodating that that in our analysis.

The answer was no, that we were kind of freezing the transmission system, and there was no creep associated or explicitly in the evaluation.

That's the answer I gave a week ago.

MR. SANCHEZ: And there isn't. We looked at, for example, 2007 model. And what we would do is look at the different portfolios and say what's the impact of this portfolio versus the impact of that portfolio versus the impact of other portfolios.

There really is no sense of creeping north or creeping anything. It's what do you need for each one of these portfolios in order to integrate it.

MR. REGUENRY: Let me re-state it a little differently. Has the load centroid moved north from Miami and now it's in the point that it's in Northern Broward County?

MR. SANCHEZ: To be honest with you, I don't keep track of the load center.

My best guess from an engineering

judgment is it's probably somewhere around there. It's been creeping north over the past 10, 20 years, I don't know. Whatever it's been.

MR. SCRUGGS: Let me answer some other card questions.

Will the FPL self-build at Turkey Point need to prepare an environmental impact statement?

I'll get you a direct answer posted to this on the website from our environmental people who aren't here. But obviously if it's required, we're going to do it.

Let's see, couple of questions that we have -- we've had asked about the terms, minimum term requirement states -- Let me read it. Minimally termed for proposals offering system sales or existing new or assets that do not require a need determination is one year. Okay?

Then we get into a hypothetical kind of about a project that has steam capacity limited to 74.9 and other factors.

You know, again, then it asks would that be a view by FPL as not requiring a

EXHIBIT 2 – Excerpt from Florida Power & Light Company's 2002 Supplemental Request for Proposals (RFP) Resource Needs for: 2005 - 2006

2002 Supplemental Request for Proposals (RFP)
Resource Needs For: 2005 - 2006

FPL

2) **Completion Security Agreement**

The Capacity Delivery Date (CDD) listed on Form #7 will be the subject of a Completion Security provision in any purchased power contract entered into between FPL and a Bidder. At a minimum the Bidder must agree to the Completion Security arrangement set forth in Section I.D. #8. FPL prefers the following Completion Security provision.

> To protect FPL from the Bidder failing to achieve its scheduled Capacity Delivery Date (CDD) the Bidder will pay FPL a deposit or provide some other form of security acceptable to FPL in an amount equal to Fifty Thousand Dollars ($50,000) per MW of guaranteed firm capacity (Completion Security). For each day the Bidder fails to reliably deliver the guaranteed firm capacity, FPL shall be entitled to draw down the Completion Security by Three Hundred and Thirty Dollars ($330) per MW of guaranteed firm capacity. Upon FPL's draw down of the entire Completion Security, if the Bidder is not able to reliably deliver the guaranteed firm capacity, FPL may terminate the contract. The Parties acknowledge that the injury that FPL will suffer as a result of delayed availability of Firm Capacity of the Proposal and associated energy is difficult to ascertain and that FPL may have to accept the above deposit as liquidated damages or resort to any other remedies which may be available to it under law or in equity.

Successful bidders should be prepared to address these issues in contract negotiations. For instance, FPL will seek contract terms that would allow it to terminate if the seller or its parent/affiliate guarantor enters, voluntarily or involuntarily, bankruptcy proceedings, or if the seller or its parent/affiliate guarantor's financial position deteriorates below the standards presented in Section IV. D.

Part 2) of this form requests the Bidder to indicate agreement or disagreement with the Completion Security provision language above. If the Bidder indicates disagreement, the Bidder is instructed to present revised language concerning a Completion Security Agreement that is acceptable to the Bidder.

EXHIBIT 3 – Excerpt from Florida Power's Request for Proposals for Power Supply Resources dated November 26, 2001

REQUEST FOR PROPOSALS FOR POWER SUPPLY RESOURCES

Florida Power

NOVEMBER 26, 2001

Resources. The package should also note the confidentiality status of information contained in the document. For each proposal, Bidders must submit three (3) bound copies and one (1) electronic version (on diskette or CD-ROM) with all text portions of the responses in Microsoft Word 97 (or earlier) or Adobe Acrobat and schedules in Microsoft Excel 97 (or earlier). Each proposal is to be bound separately. Bidders should ensure that the proposals are delivered on time. Delivery by services which cannot guarantee delivery by the time required are discouraged. **Failure to submit a proposal by the deadline will be grounds for disqualification.**

Bidders should carefully read all sections of this RFP Document and the Response Package. The Response Package contains directions regarding the type and form of information Bidders are required to provide.

C. Proposal Fees/ Proposal Variations

Bidders may submit as many proposals as they desire. To help defray the cost of performing the proposal evaluations, Bidders are required to submit with each proposal a non-refundable proposal submittal fee of $10,000. The fee should be in the form of a check payable to "Florida Power."

A proposal is defined according to the site, technology, fuel, and infrastructure identified by the Bidder. Thus, a proposal which contains a different site, technology, fuel (excluding secondary fuel), or infrastructure will be classified as a separate proposal and requires a separate proposal submittal fee. Bidders are allowed to propose up to two variations in project term and/or pricing at no additional cost. Variations in excess of two must be accompanied by a $1,000 per variation fee to be considered for evaluation. **Bidders must submit a <u>complete electronic version of the Response Package</u> for each variation**. (The hard copy version of the primary Bid should contain a section discussing any variations and identifying the name(s) of the file(s) in which they are contained.)

D. Proposal Size, In-Service Date, and Term

As discussed above, Florida Power is seeking proposals to be in-service by December 1, 2005. Since the Company's "next planned generating unit is approximately 500 MW in size, the maximum size of the proposals should be approximately 500 MW. Unless the bid is a Qualifying Facility (QF), proposals should be greater than or equal to 100 MW. The minimum term for the delivery of capacity and energy to Florida Power is five (5) years. The maximum term is 25 years. To ensure compliance with Florida's siting and merchant plant rules, Bidders of Greenfield projects must propose long term agreements.

E. Contract Flexibility Provisions

Florida Power is seeking proposals that offer the Company the opportunity to minimize its exposure to long-term, fixed-price commitments by providing the Company the option to buy out the contract if it becomes economical to do so. Consistent with this objective, Florida Power is allowing Bidders to provide prices at which the Bidder would be willing to allow Florida Power,

f. Development Security is security required from Seller during the development phase of the project. It must be posted according to the schedule found below and is based on the average Seasonal Contract Capacity of the Facility. All remaining Development Security will be returned to the Seller when the conditions of Section 3.2 are accomplished.

DEVELOPMENT SECURITY SCHEDULE
($50/kW Total)

Timing	Amount (Cash Equivalent Value)	Cumulative (Cash Equivalent Value)
30 days after contract signing	$20/kW	$20/kW
18 months before Scheduled Com. Oper. Date	$20/kW	$40/kW
12 months before Scheduled Com. Oper. Date	$10/kW	$50/kW

g. Operational Security is required from Seller during the operational phase (i.e., commercial operations date to contract end) of the project. It must be posted according to the schedule below and is based on the average Seasonal Contract Capacity of the Facility. All remaining Operational Security will be returned to the Seller when the conditions of Section 3.2 are accomplished.

OPERATIONAL SECURITY SCHEDULE
($30/kW Total)

Timing	Amount (Cash Equivalent Value)	Cumulative (Cash Equivalent Value)
Within 30 days after Commercial Operation Date	$10/kW	$10/kW
5 Years After Commercial Operation Date	$10/kW	$20/kW
10 Years After Commercial Operation Date	$10/kW	$30/kW

EXHIBIT 4 – Duke Power's Request for Proposals dated January 28, 2003

Duke Power
A Duke Energy Company

Request for Proposals

INTRODUCTION

Purpose

Duke Power, a division of Duke Energy Corporation offers this Request for Proposals (RFP) No. 2003-01 for the purpose of acquiring supply-side capacity resources for 2005 and beyond.

Duke Power seeks bid proposals that provide the greatest value to Duke Power and its customers. Value, for the purposes of this solicitation, is the combination of price, reliability, and flexibility. Flexibility includes, but is not limited to, bid proposal structure and physical resource characteristics (delivery scheduling requirements, dispatch capability, etc.). The bid proposals that have greater value to Duke Power may not necessarily be the lowest price proposals. Duke Power reserves the right to modify, suspend, or cancel this RFP.

Eligible Bid Proposals

Duke Power is interested in reliable sources of electric power which provide value to Duke Power and its customers. In that context, Duke Power will consider bid proposals from:

- *Existing Resources:* Existing resources are facilities or systems which are generating electricity as of the date of the bid proposal, except as set forth under Ineligible Bid Proposals below.
- *New Resources:* New resources are facilities which will be completed and meet Duke Power's minimum requirements for reliable capacity prior to proposed delivery of capacity. Bid proposals for New Resources that become part of the short list will be required to submit additional information describing the facility's construction plan and schedule and pre-operation plan.
- *Green/Renewable Resources:* Duke Power is interested in receiving bid proposals for a limited quantity of energy, or capacity and energy, from "green" and/or "renewable" resources. For the purpose of this RFP, eligible green/renewable resources are: Solar (thermal or photovoltaic),

wind, biomass, geothermal, landfill gas, hog waste, and hydroelectric generation.

- *Alternate/Surrogate Resources*: In the event a respondent's proposed resource will not be available by a given start date, an alternate or surrogate resource may be declared during the initial period provided that the bid proposal includes detailed information regarding such alternate or surrogate resource.
- *Sale of Resource*: Duke Power will consider offers to sell generating facilities or units at generating facilities if such proposals offer more value than offers to sell capacity.

Ineligible Proposals

- The Company reserves the right, without qualification and in its sole discretion, to reject any, all, or portions of the bid proposals received for failure to meet any criteria, and further reserves the right without qualification and at its sole discretion to decline to enter into a power sales arrangement with any bidder. In the event a bidder submits a bid proposal offering non-firm capacity or energy; a demand-side bid proposal; a bid which involves capacity from generating facilities on the Duke Power system, whether owned by Duke Power, its customers, or others, which currently meet native load requirements or will meet native load requirements not in conjunction with this RFP; or an incomplete or non-specific bid proposal; such bid proposal will be classified as ineligible and will not be considered or evaluated.
- Bidders who submit bid proposals do so without recourse against the Company, its parent company, its affiliates or subsidiaries for either rejection of their bid proposal(s) or for failure to execute a power sales agreement for any reason.

Schedule

Milestone	Date	Comments
Release RFP	01/28/2003	
Proposals Due	03/14/2003	Proposals must be postmarked or hand-delivered (in person or by courier) to the RFP Bidder Contact
Short List	About 05/01/2003	All respondents will be notified.
Award Announcement	As determined	Short-listed bidders will be notified.

RFP BIDDING GUIDELINES

Provided below is a list of bidding guidelines that will help Duke Power to evaluate each respondent's proposal. Alternatives other than those listed below will be considered if they create more value for Duke Power and its customers. Each proposal should include at least one choice under each of the main headings. The preferred proposal outline and Duke Power's preference in each category is noted.

Source:
- Facility(s) located in the Duke Control Area (preferred)
- Facility(s) located adjacent to the Duke Control Area
- Portfolio or system

Size:
- Duke Power expects to contract for as much as 500 MW for 2005 and up to 1500 MW for 2009 and beyond.
- The minimum bid size is 50 MW.

Product Firmness (for unit contingent products, please specify the expected reliability in DPF terms. See "Model" Power Sales Agreement and Collateral Annex):
- Unit Contingent capacity and energy (preferred)
- Portfolio/system

Performance Standards:
- Delivery Performance Measure (required; for unit contingent capacity and energy see "Model" Power Sales Agreement and Collateral Annex)

Scheduling:
- Dispatchable anytime within the capabilities of the unit (preferred)
- Day Ahead

Constraints:
- None (preferred)
- Maximum number of hours and/or days of run time
- Emissions, limited by regulatory body
- Minimum/Maximum run time when dispatched

Term:
- Set number of years starting as soon as 01/01/2005 (preferred) but no later than 2007
- Duke is interested in short term (1-5 years) and long term (5+ years) bids.

Pricing (for variable prices please specify market index if required):
- Fuel: Actual price (preferred) or fixed using an actual or fixed (preferred) heat rate
- O&M: fixed or variable $/MWh charge for energy delivered (can be indexed to inflation)
- Start Up Costs: None (preferred) Fixed value when applicable as set forth in the "Model" Power Sales Agreement

Fuel Reliability:
- Non firm gas transportation with enough backup fuel for multiple days of run time (preferred for CT)
- Firm gas transportation

Electric Transmission:
- Seller provides firm transmission into Duke Control Area.

Flexibility:
- Extension of Term/Early Termination at Duke Power's Option
- Duke Power may elect use of secondary fuel on economic basis
- Duke Power reserves right to acquire any fuel.

Force Majeure:
- Uses Duke Power's Force Majeure provisions (preferred; see "Model" Power Sales Agreement and Collateral Annex)
- Alternate Force Majeure proposals will be considered but the bidder must show that Duke Power receives protection equivalent to the provisions listed in "Model" Power Sales Agreement and Collateral Annex.

Damages Due to Delay (new construction):
- Seller provides firm capacity and energy (and firm transmission if source is outside the Duke Control Area) at the contract price during the delay period (preferred)
- Seller financially compensates Duke Power for the delay (see "Model" Power Sales Agreement and Collateral Annex)

Financial Resources:

- An equivalent corporate bond rating of BBB- or above from at least two rating agencies, one of which should be Moody's or Standard & Poor's. (preferred)
- A commercial paper rating of 1 or 2 from at least two rating agencies, one of which should be Moody's or Standard & Poor's.
- A Dun & Bradstreet credit appraisal rating of 1 or 2.

Additional Proposal Characteristics

Terms and Conditions

Duke Power has included certain Terms and Conditions in the "Model" Power Sales Agreement (PSA) and Collateral Annex of this RFP. By submitting a bid proposal, the respondent agrees that these Terms and Conditions will become part of any agreement reached between Duke Power and the bidder. Should the respondent wish to take exception to any of these Terms and Conditions, the exception must be explained in writing as part of the proposal.

Permits, Licenses, and Approvals

The bidder will be completely and solely responsible for acquiring all licenses, permits, and other regulatory approvals, environmental or otherwise, required by federal, state, or local government laws, regulations, or ordinances for the bid proposal. The bidder will also be completely and solely responsible for ensuring that any implementation of any part of the bid proposal is carried out in full compliance with any changes, modifications, or additions to environmental or other laws, regulations, and ordinances affecting the proposal. Duke Power shall have no responsibility for identifying or securing any license, permits, or regulatory approvals required for the proposal, nor will Duke Power accept any responsibility for securing, locating, or guaranteeing any emissions allowances which may be required by the Title IV Clean Air Act Amendments to allow the implementation of the "Model" transaction or the continuation of the transaction as set forth in the bid proposal.

PROPOSAL DEVELOPMENT

Bidder Contact

All inquiries or contact about the RFP should be directed to:

Richard Knight
RFP Bidder Contact, EC01X
Duke Power, a division of Duke Energy Corporation
P. O. Box 1006
Charlotte, North Carolina 28201-1006
Tel: (704) 373-6921
Fax: (704) 382-4014
E-mail: rknight@duke-energy.com

Note: Unsolicited contact with other Duke Energy personnel about this RFP may result in disqualification of the respondent from this RFP. Notwithstanding the previous sentence, respondents are permitted to utilize affiliates of Duke Energy as contractors associated with the respondent's proposal, in which case respondents may contact such affiliates in regard to the affiliates contracting role only.

Completing the Bid Proposal

Respondents are required to meet all of the terms and conditions of this RFP to be eligible to compete in the solicitation process. Respondents are required to follow all instructions and guidelines contained in the RFP. Respondents must answer all applicable questions in the Bid Response Package and provide supporting documentation as necessary. Respondents may make reasonable adjustments during negotiations to market sensitive components only (i.e. capacity payments, fuel prices) but all other components are required to be fixed (i.e. variable O&M, startup costs). Clearly indicate the components which are market sensitive.

Submitting the Proposal

All proposals must be postmarked or hand-delivered (in person or by courier) to the RFP Bidder Contact on or before 03/14/2003. Respondents should submit one unbound copy and 5 bound copies of their proposal.

Confidentiality of Proposal Information

Duke Power intends that information regarding any properly delivered proposal will not be disclosed to any third party. However, it is possible that regulatory circumstances may compel Duke Power to disclose portions of the proposals, or information regarding proposals, on a limited basis. Duke Power will make a good faith effort to limit such disclosure as much as possible, including disclosure only on a "no-name" basis (i.e., the content of the proposals will not be identified by bidder name), and securing appropriate protective agreements. Should it become necessary to disclose any material portion of the proposals in a manner exceeding that contemplated by this paragraph, Duke Power will notify the respondents.

Proposal Evaluations

Bid proposals submitted pursuant to this RFP (including any submitted by the Company's affiliates) will be considered and evaluated together. Such evaluation will include a review of transmission and ancillary service requirements, as appropriate, to determine the total cost impacts. At the conclusion of such evaluation, the Company will identify a competitive tier of bid proposals. Such competitive tier bidders will be given an opportunity to revise their bid proposals to take into account their estimated interconnection cost responsibility. The Company will then conduct an evaluation of the final bid proposals and successful bidders will be contacted for negotiations that may lead to a mutually agreeable power sales agreement. Please note that the Company may revise its capacity needs forecast to reduce, eliminate, or increase the amount of power sought at any point during the RFP process or negotiations.

RFP Response Package

INSTRUCTIONS

Respondents should develop proposals following the guidelines that begin on page 3 of the RFP.

Each proposal must include:

1. Executive Summary (page 9)
2. Proposal Characteristics (page 10)
3. Bidder Financial Information Form (page 13)

Duke Power has included certain Terms and Conditions in the "Model" Power Sales (PSA) Agreement and Collateral Annex of this RFP. By submitting a proposal, the respondent agrees that these Terms and Conditions will become part of any agreement reached between Duke Power and the respondent. Should the respondent wish to take exception to any of these Terms and Conditions, the exception must be explained in writing as part of the proposal.

The respondent must state how each exception changes pricing of the proposal.

Seller should submit a term sheet that contains the terms and conditions of their offer. At a minimum, it should cover all of the guidelines that are listed beginning on page 3.

EXECUTIVE SUMMARY

Respondent Name	
General Description of Proposal	
Respondent Contact Name	
Respondent Contact Phone Number	
Respondent Contact Fax Number	
Respondent e-mail address	
Wheeling Utilities (proposed)	
Other	

PROPOSAL CHARACTERISTICS

SOURCE	[Should include description of technology, age of unit(s), interconnection point, and location.]
PRODUCT FIRMNESS (SEE "MODEL" PSA FOR DEFINITION OF THE DPF PERFORMANCE MEASURE)	[Indicate if unit contingent, system firm, etc, and the historical and anticipated future reliability of such capacity.]
SCHEDULING	
CONSTRAINT(S)	[Operational and environmental]

TERM	
PRICING	[Provide in sufficient detail to allow for detailed understanding of all payment components over the term of contract.]
FUEL RELIABILITY	[For example, discuss firmness of primary fuel supply in terms consistent with the "Model" PSA, and if applicable, secondary fuel arrangement details such as hours of full load burn supported by on-site storage.]
TRANSMISSION	[Indicate the transmission path that will be utilized, the transmission service that will be purchased and each transmitting party.]
CONTRACT CAPACITY	[State in terms consistent with the definition of Contract Capacity under Article 1 of the "Model" PSA.]

SCHEDULED MAINTAINTENCE HOURS REQUIRED	[Discuss the resource maintenance requirements in terms of annual requirements for routine maintenance/inspections, requirements for major maintenance/inspections, and frequency of major maintenance/inspections.]
DAMAGES DUE TO DELAY	[If a new capacity resource that could realize delay in its ability to support the contract capacity, provide details of the source of capacity to be supplied during the period of delay, including discussion of damages to be paid to Duke Power in the event replacement of capacity is not made available.]

RESPONDENT FINANCIAL INFORMATION

Respondent's legal name ______________________________

Physical address ______________________________

____

Federal tax identification number ______________________________

Respondent is a (check all that apply):

__________ Corporation

__________ Partnership

__________ Joint venture

__________ Sole proprietorship

__________ In what state?

__________ Other (attach description)

Entity supporting the credit-worthiness of the Respondent ______________________

Credit Rating Senior Debt __________ Sources __________ Moody's

__________ Standard & Poor's

__________ Fitch's

__________ Duff & Phelps'

Credit Rating Commercial Paper __________ Sources __________ Moody's

__________ Standard & Poor's

__________ Fitch's

__________ Duff & Phelps'

Dun & Bradstreet Identification Number ______________________________

Also;

- Please provide the latest annual report or Form 10K for the Entity supporting the creditworthiness of the Respondent , and
- Please provide a description of the Respondent, such as a company brochure.

EXHIBIT 5 – Transcript of Direct Testimony of Andrew L. Maurey in PSC Docket Nos. 020262-EI and 020263-EI

DOCKET NO. 020262-EI - Petition to Determine the Need for an Electrical Power Plant in Martin County by Florida Power & Light Company

DOCKET NO. 020263-EI - Petition to Determine the Need for an Electrical Power Plant in Manatee County by Florida Power & Light Company

WITNESS: Direct Testimony of Andrew L. Maurey, Appearing on Behalf of Staff

DATE FILED: September 3, 2002

DIRECT TESTIMONY OF ANDREW L. MAUREY

Q. Please state your name, occupation, and business address.

A. My name is Andrew L. Maurey. I am employed by the Florida Public Service Commission (FPSC or Commission) as the Public Utilities Supervisor of the Finance and Tax Section in the Division of Economic Regulation. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850.

Q. Please summarize your educational background.

A. I graduated Magna Cum Laude from Florida State University in 1983 with a Bachelor of Science degree in Finance. I was elected a member of the Beta Gamma Sigma honor society. While with the First National Bank and Trust Company of Naples, I completed course work for and received American Institute of Banking diplomas in Foundations of Banking and Commercial Banking. In 1988, I received a Master of Business Administration degree from Florida State University.

Q. Please summarize your business experience.

A. After receiving my Bachelor's degree in 1983, I accepted a position as a credit analyst and commercial loan representative in the commercial loan department of the First National Bank and Trust Company of Naples. Upon successfully completing the holding company management training program, my responsibilities included performing credit analysis, loan review, and other assigned duties in the commercial loan department.

In 1986, I accepted a position as a regulatory analyst with the Hospital Cost Containment Board. In this position, my duties included analyzing and evaluating financial statements and operating budgets of investor-owned and not-for-profit hospitals for regulatory compliance.

Upon receiving my Master's degree in 1988, I accepted a regulatory analyst position with the Florida Public Service Commission. My duties included analyzing financial and economic market information regarding the cost of capital and other finance-related issues.

In 1991, I was promoted to Regulatory Analyst Supervisor of the Finance Section. I was promoted to Public Utilities Supervisor of the Finance Section in 1994. As part of the agency reorganization in 2000, I assumed responsibility for the expanded Finance and Tax Section. In my current position, my primary responsibilities are advising the Commission on financial and economic matters regarding utility cost of capital and other finance-related issues.

Q. Are you a member of any professional organizations?

A. Yes. I am a member of the Society of Utility and Regulatory Financial Analysts (SURFA). I have served on the Board of Directors and as the Vice President of the organization. My current term as President of SURFA runs through April 2004. I was awarded the professional designation Certified Rate of Return Analyst (CRRA) by SURFA in 1992. This designation is awarded based upon education, experience, and the successful completion of a written examination.

Q. Have you previously testified before the Commission?

A. Yes. I have testified on the appropriate return on equity as well as other cost of capital related issues before this Commission. In addition, as a member of Commission staff, I have participated in a wide range of regulatory proceedings.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present an independent analysis of the reasonableness of the financial assumptions used in the determination of the total cost of the Florida Power & Light Company (FPL or the Company) self-build options and the equity penalty adjustment proposed by FPL in the evaluation of proposals submitted in response to the Company's Request for Proposals (RFP).

Q. Please summarize your conclusions regarding the issues you have addressed in your testimony in this proceeding.

A. I have reviewed FPL's financial assumptions reported in Appendix I of FPL's revised need determination filing as well as the supporting documentation the Company has provided in response to discovery requests regarding these assumptions. Based upon this analysis, I recommend that the financial assumptions proffered by FPL are reasonable for purposes of this proceeding.

I have also reviewed information relating to the equity penalty adjustment FPL has proposed be recognized for purposes of evaluating non-FPL proposals submitted in response to the Company's RFP. Included among this information is Company and intervener testimony and supporting documentation, credit rating agency and investment banking reports, and regulatory orders issued by this Commission. Based upon this analysis, I disagree with the imputation of an equity penalty as proposed by FPL for purposes of this proceeding. As I discuss in more detail later in my testimony, I believe the relative risk faced by FPL with respect to purchased power is exaggerated. I believe FPL is attempting to take a portion of Standard & Poor's (S&P) consolidated credit assessment methodology and use it for a purpose it was never intended. In addition, since FPL has not made any similar adjustments to insulate its ratepayers from the effects of other factors identified by the investment community as having as much if not a more significant impact on the Company's financial position, I believe that this adjustment is discretionary on FPL's part and not compelled by the Company's current financial position.

FINANCIAL ASSUMPTIONS

Q. **What cost of capital inputs does FPL assume in the determination of the total cost of the Company's self-build option?**

A. As reported in Appendix I of its revised need determination filing, FPL has assumed that the incremental capital expenditures associated with the generation projects for the 2005-6 capacity need will be financed with debt and equity to maintain "adjusted" capitalization ratios of 45% debt and 55% equity. The Company is assuming a 7.4% cost of debt and an 11.7% cost of equity.

Q. **What actual equity ratio corresponds to the "adjusted" equity ratio of 55% referenced in the Company's filing?**

A. Presently, an adjusted equity ratio of 55% equates to an actual equity ratio of approximately 63% for this Company.

Q. **What is the difference between an actual equity ratio and an adjusted equity ratio?**

A. The actual equity ratio is the level of equity capitalization that actually exists on a company's books. This is the level of equity that is reported in the financial statements filed with the Securities and Exchange Commission (SEC), in the Annual Report to Shareholders provided to investors, and in the monthly surveillance reports filed with the Commission. With respect to the Commission, all capital costs that are prudently incurred by a company and ultimately recovered from ratepayers are based upon calculations that recognize the actual level of equity.

The adjusted equity ratio is a factor developed by S&P for use in it's consolidated credit assessment methodology. S&P converts the actual equity ratio to an adjusted equity ratio to use as a measure, along with several other factors, to assess the relative level of bondholder protection. The adjusted equity ratio does not appear in SEC filings or in the Annual Report to Shareholders. The adjusted equity ratio is not used by the investment community or regulators to determine actual costs.

Q. How do FPL's financial assumptions for purposes of its need determination compare with the financial assumptions reported in the filings in its recently settled rate case?

A. While not exactly the same, the Company's financial assumptions for purposes of its need determination are reasonably comparable to the financial assumptions reported in the filings for purposes of its rate case, which was resolved by Order No. PSC-02-0501-AS-EI, issued April 11, 2002.

Q. Are FPL's financial assumptions reasonable?

A. Based upon a review of FPL's financial assumptions and the supporting documentation the Company has provided, it appears that the assumptions reported in Appendix I of the Company's revised need determination filing are reasonable.

<u>THE FPL EQUITY PENALTY PROPOSAL</u>

Q. What is an "equity penalty"?

A. As proposed by FPL for purposes of this proceeding, an equity penalty is the term used to identify the adjustment the Company has made to the total cost of each non-FPL proposal submitted in response to the Company's RFP.

Q. What is FPL's rationale for incorporating an equity penalty in the evaluation process of outside proposals?

A. According to FPL witness Avera, the equity penalty adjustment is necessary to account for the impact additional purchased power contracts would have on FPL's financial position. Witness Avera testifies that, because the investment community regards purchased power contracts as off-balance sheet obligations that increase the financial leverage of the purchaser, utilities must offset purchased power obligations with increased equity to maintain bond ratings and financial flexibility. The equity penalty adjustment is "the method FPL has used to account for these impacts in its economic evaluation of capacity alternatives submitted in response to its Supplemental Request for Proposals (Supplemental RFP)." [FPL Witness Avera Testimony, p. 4]

Q. Has the concept of an equity penalty been previously considered by the FPSC?

A. Yes. The equity penalty concept was first raised in the need determination filing of Florida Power Corporation (FPC) in Docket No. 910759-EI. In that case, the hearing officer found:

> Florida Power's contention that further purchased power will have a negative effect upon its planning and operating flexibility did not impact my decision regarding the "buy vs. build" issues in this case. I am also not persuaded by the contention that further purchased power creates a substantial risk of a negative impact on Florida Power's credit rating. Florida Power has not demonstrated that it will experience a downgrade in its credit rating if it purchases more power. ...
>
> I find that increased reliance on this source of power does not have to portend lower credit ratings. (Ex. 7, p. 5) Just because a utility increases its reliance on purchased power does not mean that debt protection measures will deteriorate and a downgrade is imminent. In many cases, various qualitative factors may outweigh the quantitative factors. (Tr. 236-7; Ex. 12, p. 7) ...
>
> I recognize that purchased power is not without risks, just as constructing one's own power plant contains risks. However, I also recognize that it is

> generally not possible to point to an increased reliance on purchased power as the sole reason for a change in credit rating. (Tr. 176) ...
>
> In light of the fact that Florida Power has steadily improved its financial protection measures since its last growth cycle, I find Florida Power's claim that additional purchased power commitments would result in a credit downgrade to be exaggerated.

[Order No. 25805, February 25, 1992, Docket No. 910759-EI, pp. 42-43]

The equity penalty concept was next raised in the need determination petition filed jointly by FPL and Cypress Energy Partners in Docket No. 920520-EQ. While the equity penalty concept was discussed in the testimony and exhibits sponsored by certain FPL witnesses in that case, an equity penalty adjustment was not made to the cost of the Cypress Project during the evaluation process. [Exhibit ALM-9]

The equity penalty concept was raised again in Docket No. 990249-EG involving FPL's petition for approval of a standard offer contract. In that case the Commission found:

> We recognize the effect that purchased power contracts have on the utility's financial ratios as calculated by S&P. To be consistent with the terms of the Stipulation approved in Order No. PSC-99-0519-AS-EI which allows for the recovery of the "equity adjustment" through base rates, we approve FPL's

> adjustment to its standard offer contract to recognize the effect of purchased power contracts and to avoid possible double recovery. However, while we are approving FPL's request in the instant case due to the unique circumstances surrounding FPL's Stipulation, the broader policy issue of who should bear the incremental cost of additional equity to compensate for purchased power contracts has not been addressed.

[Order No. PSC-1713-TRG-EG, September 2, 1999, Docket No. 990249-EG, pp. 9-10]

Finally, the equity penalty concept was raised by FPC in its need determination filing in Docket No. 001064-EI. While the Commission recognized FPC's consideration of the equity penalty concept with the same qualifying language from Order No. PSC-1713-TRF-EG cited above, it was noted in Order No. PSC-01-0029-FOF-EI that the equity penalty was not a significant issue for the Panda proposal because the cumulative present worth revenue requirement (CPWRR) of the FPC-proposed unit was less than the CPWRR of the Panda-proposed unit without recognition of an equity penalty. [Order No. PSC-01-0029-FOF-EI, January 5, 2001, Docket No. 001064-EI, pp. 10-11]

Q. **Are any of these cases directly on point with the instant case?**

A. No. In none of these previous cases has the equity penalty concept been relied upon to the extent it has been in the instant case to justify the cost-effectiveness of the utility's self-build option. In Docket No.

910759-EI, FPC did not propose the Commission recognize an actual adjustment for purposes of evaluating alternative proposals. Instead FPC offered the equity penalty concept as an argument to support its position that, because of its existing level of purchased power, it was simply not possible for additional purchased power to be more cost effective than the utility's proposed self-build options due to credit rating concerns.

In Docket No. 920520-EQ, FPL admitted that it did not recognize an equity penalty adjustment for purposes of the evaluation process. The final order disposing of that docket made no mention of the equity penalty concept. [Order No. PSC-92-1355-FOF-EQ, November 23, 1992, Docket No. 920520-EQ]

In Docket No. 990249-EG, the issue was not whether it was appropriate to recognize an equity penalty adjustment in the evaluation of capacity alternatives from outside parties, but rather, whether it was appropriate to reduce the standard offer price FPL paid QFs and other small cogeneration power producers for power. Instead of an adjustment designed to increase the cost of non-FPL proposals, the equity penalty concept was used to reduce the price FPL paid for power under the standard offer contract approved in that docket.

Finally, while in Docket No. 001064-EI FPC did propose that the equity penalty be recognized in a manner similar to the way FPL is proposing it be used in this case, FPC's proposal to recognize the equity penalty was not subject to careful financial analysis because it was not a material issue in that case.

Q. **What precedence do you believe these decisions hold for the instant case?**

A. The Commission Orders speak for themselves. I believe these decisions indicate the Commission has taken a case-by-case approach regarding the applicability of the equity penalty concept. Consequently, I believe the Commission should consider the reasonableness of FPL's decision to make an equity penalty adjustment in this proceeding based upon the evidence presented in this record.

STANDARD & POOR'S APPROACH

Q. **Please explain how S&P incorporates off-balance sheet (OBS) obligations into its analysis of electric utility capitalization ratios.**

A. The primary OBS obligations for electric utilities are purchased power contracts. Because the benefits and risks of purchased power contracts depend on a range of factors, S&P conducts both a qualitative and quantitative analysis of these contracts for purposes of assessing the level of debt protection measures available to bond holders.

The qualitative analysis focuses on the nature of the contracts. These features include whether the contract is a take-or-pay obligation or a take-and-pay obligation; whether the power is economical and needed; whether there are performance standards; how much discretion the utility has over maintenance and dispatch; whether the contract was preapproved by regulators; and whether there is a recovery clause for capacity and fuel payments. An assessment of these factors results in the assignment of a risk factor which is later used in the quantitative analysis.

Company in response to staff's production of documents request make any mention of the equity penalty concept. [See Staff Second Set of PODs, Request No. 10]

It is also important to recognize that S&P's constituents are bond holders. The interests of ratepayers and shareholders are not of specific concern to S&P. While at times the interests of bond holders, shareholders, and utility ratepayers are in line, there are other times when their interests are mutually exclusive. S&P does not judge what companies or the state regulatory commissions do. S&P simply analyzes what has occurred along with a prospective view of what it expects to occur and renders a decision regarding how these actions impact the consolidated entity's financial measures in terms of bond holder protection.

Q. **Please discuss your understanding of how S&P assigns corporate credit ratings for utility holding companies and their respective operating companies (electric utilities).**

A. S&P assigns a corporate credit rating based on the risk of default of the consolidated entity. In the absence of structural or proscriptive measures to insulate the individual business units, all subsidiaries are assigned the same corporate credit rating as the holding company. On September 26, 2001, S&P lowered its rating on FPL from double A minus (AA-) to A. In discussing the rationale for the downgrade, S&P stated that:

> Driving factors in the current ratings determination include increasing business risk for the consolidated

> enterprise attributable to the growing non-regulated independent power producer (IPP) portfolio, regulatory challenges in Florida, and an aggressive financing plan and declining credit protection measures. ... Furthermore, as FPL Group's earnings mix and capital expenditure requirements shift toward non-regulated businesses, the consolidated business profile becomes riskier, requiring greater cash flows and credit protection measures.

[Exhibit ALM-10]

Q. **Isn't it true that in the report cited above S&P also referenced FPL's reliance on nuclear facilities and purchased power agreements for certain percentages of its load and the uncertainty over the outcome of its rate case settled earlier this year as factors which challenged FPL's credit profile?**

A. Yes. S&P noted that FPL's credit profile reflects an above average business position that is supported by competitive residential and commercial rates, operational efficiency, increasing energy sales due to additional customers and increased usage, and well-run generating facilities. It also noted that these positive attributes are partially offset by the utility's reliance on nuclear facilities and purchased power for certain percentages of its load and the uncertainty over the outcome of its rate case.

But I believe a distinction should be made between costs that are appropriately borne by ratepayers and costs that more appropriately should be borne by shareholders. The cost of maintaining a relatively high equity ratio to compensate for risk factors that are relevant to the provision of regulated electric service, such as the risk associated with a company's generating mix, are appropriately recovered from ratepayers. The cost of maintaining a relatively high equity ratio to compensate for risk factors that are irrelevant to regulated operations, such as the additional cash flow requirements placed on the holding company to compensate for the increasing risk profile of the consolidated entity related to its increasing investment in higher-risk, non-regulated operations, should not be recovered from ratepayers but rather should be borne by the shareholders.

FPL is adamant that this adjustment is a necessary response to address S&P's concern regarding purchased power to protect ratepayers from higher total revenue requirements over the long run. I believe it is revealing that the Company does not assign the same degree of significance to the concerns expressed by S&P regarding the risk to the utility, and therefore by extension to its ratepayers, arising from the non-regulated activities of the holding company.

Q. **How does S&P characterize the Florida Commission's regulation with respect to the issue of purchased power contracts?**

A. S&P views the Commission's regulation of electric utilities in Florida as supportive. S&P recognizes that the Commission allows full recovery of capacity payments associated with these contracts through the capacity cost recovery clause as well as full recovery of energy payments through the fuel cost recovery clause. In addition, S&P

specifically acknowledges the Commission's approval of the recovery of buy-out costs associated with the termination of select purchased power contracts as supportive regulation.

Q. **Will FPL's corporate credit rating be downgraded if the Company enters additional purchased power contracts?**

A. If FPL's corporate credit rating is downgraded at some future date, it will not be as a direct result of the Company entering into pre-approved, cost-effective purchased power contracts. Purchased power obligations are only one factor in the rating agency's evaluation, and to a degree these obligations can be absorbed in the credit quality assessment. It is generally recognized that coverage and capitalization ratios may move somewhat within ranges without impacting the credit quality of the company. While ratios are helpful in broadly defining a company's position relative to rating categories, S&P is careful to point out that ratios are not intended to be hurdles or prerequisites that must be achieved to attain a specific debt rating. In its 2001 Corporate Credit Rating Criteria, S&P noted that risk-adjusted ratio

> (G)uidelines are not meant to be precise. Rather, they are intended to convey ranges that characterize levels of credit quality as represented by the rating categories. Obviously, strengths evidenced in one financial measure can offset, or balance, weakness in another.

[Exhibit ALM-11]

Moreover, as shown on Table II.B.4.1 on page 14 of its revised need determination filing, FPL's reliance on purchased power will significantly decline over the next eight years. From a total Summer 2002 level of 2403 MW, the amount of purchased power drops to 1757 MW in Summer 2005, to 1310 MW by Summer 2007, and to 382 MW by Summer 2010. To a certain extent two years out, and definitely five years out, from the expected completion date for this identified capacity need, new cost-effective purchased power agreements would be replacing existing contracts that would have ended.

In addition, as part of its ongoing construction program, FPL is in the process of adding approximately 2,000 MW of net new utility-owned capacity in 2002 and 2003 at its Fort Myers and Sanford sites. [See Staff Second Set of PODs, Request No. 17, Salomon Smith Barney, April 23, 2002, bates p. 00114544]

Finally, it is well documented that FPL has one of the highest equity ratios in the country. In its rate case, the Company characterized this level of equity as necessary to compensate for its reliance on purchased power, among other factors. This actual level of equity equates to an adjusted equity ratio that is in the upper quartile of electric utilities [Exhibit ALM-1] and is above the top of the implied target range for an A rating. [Exhibit ALM-2]

The combination of a relatively high equity ratio, the addition of new utility-owned capacity, and the expiration of existing purchased power contracts puts the Company in a strong position to balance the incremental risk associated with adding the capacity contemplated in this proceeding, regardless of whether the most cost-effective option is to build or buy.

However, it is important to note that, while a utility may have ratios on a stand-alone basis that would support a particular rating, S&P looks at the company's financial position on a consolidated basis. When S&P downgraded FPL from AA- to A in the fall of 2001, it specifically noted that FPL Group's stated intention to expand its non-regulated generation business will require the firm to strengthen its consolidated credit protection measures to maintain the A rating. In an investment banking report dated July 2, 2001 provided in response to Staff First Set of Production of Documents Request No. 1, analysts at Merrill Lynch noted, **begin confidential**

end confidential

[Confidential Document No. 15004, Docket No. 001148-EI, Staff First Set of PODs, Request No. 1, Docket Nos. 020262-EI and 020263-EI]

The important point to take from this discussion is that no single factor can be looked at in isolation. As noted earlier in my testimony, there is no S&P mandate that Florida or any other state regulatory commission incorporate its credit rating criteria in their decisions. Moreover, it would be inappropriate to make an adjustment to compensate for one factor, such as the equity penalty adjustment proposed by the Company in this proceeding, while at the same time completely ignoring other factors identified by the investment community as placing even greater stress on the Company's financial position, such as the significant degree of debt leverage used to finance non-regulated growth by other affiliates of the utility.

Q. **Can the impact of these other factors on a company's corporate credit rating be observed?**

A. Yes. In order to test the relevance of the position that purchased power has a significant impact on a utility's corporate credit rating, I requested a statistical analysis be performed on a group of companies determined to be comparable in risk to FPL. This analysis revealed that other factors, such as the actual equity ratio at the holding company level and the relative level of holding company revenue derived from non-regulated operations, are *both significant determinants* of a utility's corporate credit rating. In fact, this analysis demonstrates that the degree of financial leverage at the holding company level statistically has a greater impact on a utility's corporate credit rating than the utility-specific equity ratio adjusted for the impact of purchased power contracts. Exhibit ALM-4 shows the results of this statistical analysis.

Q. Has S&P commented on the credit rating impact on FPL resulting from the level of risk associated with FPL Group's growing portfolio of higher-risk, non-regulated investments?

A. Yes. In an S&P report dated September 27, 2001, S&P noted,

> Credit quality for Florida Power & Light Co., the utility operating company of FPL Group, Inc., reflects the unit's steady and reliable cash flow attributes, tempered by the parent's growing portfolio of higher-risk, non-regulated investments, principally in independent power projects.

[ALM-12]

In addition, in an S&P report issued January 18, 2002, titled "U.S. Utilities' Credit Quality Displayed Steep Decline in 2001: Negative Trend Likely to Continue," S&P categorized its September 2001 downgrade of FPL under the heading,

> The following downgrades can be traced to investments in higher-risk non-regulated businesses and weakening credit

fundamentals.

[ALM-13]

Finally, in an S&P report issued June 20, 2002, S&P noted,

> Credit quality for FPL Group is characterized by the activities of its operating utility, Florida Power and Light and its growing portfolio of higher-risk, non-regulated investments, mainly in independent power projects. Ratings for FPL Group and its affiliates incorporate increasing business risk for the consolidated enterprise, attributable to the growing non-regulated, independent power producer portfolio, an aggressive financing plan, and the decline in credit protection measures.
>
> Standard and Poor's expects to review FPL's strategy and financial plans for its regulated and non-regulated segments with a focus on its rapidly growing and aggressive strategy in the competitive energy business. The review's outcome could result in a ratings affirmation or a downgrade.

[ALM-14]

Q. Have any other credit rating agencies commented on the link between the credit rating of the utility and the activities of the holding company?

A. Yes. In a Moody's Investors Service (Moody's) report dated April 16, 2002, Moody's stated,

> Because parent FPL Group guarantees the obligations of FPL Group Capital, increased leverage at the subsidiary puts pressure on all the rated entities within the FPL Group, including Florida Power and Light, its operating utility subsidiary.

[ALM-15]

Q. **Has FPL made any adjustments to compensate for the impact the higher-risk, non-regulated investments and the greater reliance on debt leverage at the FPL Group level places on the Utility's corporate credit rating and financial flexibility?**

A. Other than maintaining an equity ratio well above the average for the industry, I'm not aware of any specific adjustments FPL has made to insulate its ratepayers from the pressure higher-risk investments and increased leverage at the holding company have placed on the financial position of the utility.

<u>REBUTTAL OF FPL WITNESSES AVERA AND DEWHURST</u>

Q. **Have you reviewed FPL witness Avera's testimony filed in this proceeding?**

A. Yes.

Q. **Have you reviewed FPL witness Dewhurst's testimony filed in this proceeding?**

A. Yes.

Q. **Do you agree with their recommendations regarding the need to assign an equity penalty to the cost of non-FPL proposals for purposes of comparing these proposals to FPL's self-build option?**

A. No.

Q. What are the factors these witnesses offer as justification for FPL's proposed equity penalty adjustment?

A. Witnesses Avera and Dewhurst both cite the implied financial impact of imputed debt associated with purchased power contracts as justification for making this adjustment.

Q. Do you disagree that S&P considers a utility's reliance on purchased power contracts when it evaluates its financial position?

A. Not at all. My testimony is that, with ratepayers already bearing the cost of supporting one of the highest equity ratios in the country, the Company already has the equity cushion to balance the incremental risk associated with this factor. In addition, as I have discussed earlier in my testimony, there are other factors identified by S&P that have a significant impact on FPL's financial flexibility and corporate credit rating that are not being specifically addressed by the Company.

Q. How does FPL's actual equity ratio compare with the equity ratios of other electric utilities which rely on purchased power?

A. Exhibit ALM-1 shows the equity ratios for a group of utilities comparable in risk with FPL. These ratios are based upon financial statements filed with the SEC for the period ended December 31, 2001.

Exhibit ALM-5 shows the relative percentage of fuel mix for each of the companies in FPL's peer group. For the period ended December 31, 2001, FPL relied upon purchased power for 20% of its capacity. For the same period, ten of the companies in the index relied on purchased power for a greater percentage of their supply. Pinnacle West supported its

30% purchased power level with a 49% equity ratio. NSTAR, which sold all of its fossil plants in 1998 and all of its nuclear plants in 1999, and DQE, Inc., which sold all of its generating assets in 2000, rely on purchased power for 100% of their supply. NSTAR has an equity ratio of 40%. DQE has an equity ratio of 32%. Relative to these companies, a 64% equity ratio compares very favorably and demonstrates that FPL already has more than enough equity capitalization to compensate for the level of risk perceived to be associated with reliance on purchased power. The fact that FPL's existing reliance on purchased power will decline significantly over the next eight years combined with the continuous addition of new utility-owned capacity erodes the credibility of the Company's argument that it needs an equity penalty adjustment for purposes of this proceeding.

Q. **On page 14 of his testimony, witness Avera refers to an article from the Wall Street Journal which he asserts indicates that credit rating agencies are closely scrutinizing the debt levels on power company balance sheets. Do you agree with his assertion?**

A. Yes, but only in the most broadest of interpretations of the article. While the title, *Rating Agencies Crack Down on Utilities*, sounds alarming, a careful reading reveals the actual subjects of the article are companies in the energy marketing, trading, and IPP business. [Exhibit ALM-16] The article is off point with respect to public utilities. Several of the companies mentioned by name in this article are also listed as genco (generating company) competitors of FPL Energy in the July 3, 2001, Salomon Smith Barney report cited earlier. Four of the companies, Allegheny Energy Supply, Calpine, Dynegy, and NRG, have below investment grade credit ratings.

The call for improved balance sheets relates to unregulated energy companies with 30-35% equity ratios, not regulated utilities with equity ratios in the mid to high 50s. Rather than confirm the reasonableness of FPL's capital structure policies, this article implies that FPL Group is ignoring the message from the capital markets and rating agencies that it needs to use a greater relative level of equity to fund its non-regulated operations, currently at 20%. [Exhibit ALM-6] It is also further indication that responding to these types of comments from the investment community is discretionary on the part of the Company.

Q. **Witness Avera offers several quotes from S&P articles intended to support his position regarding the risks associated with purchased power. Do these same articles address the risk associated with the building of new capacity?**

A. Yes. On page 7 of his direct testimony, witness Avera offers a quote from the May 24, 1993 issue of S&P CreditWeek. In that same article, S&P states:

> Buying power may be the best choice for a utility that faces increasing demand. Moreover, purchasing may be the least risky course. The benefits of purchasing can be quite compelling. For example, utilities that purchase avoid the risks of significant construction cost overruns or that the plant might never be finished at all. They also may

> avoid the associated financial stress caused by regulatory lag typical in building programs.
>
> In addition, utilities that purchase power avoid risking substantial capital. There are many examples of utilities that have failed to earn a full return on and of capital employed to build a plant. Furthermore, purchased power may contribute to fuel supply diversity and flexibility, and may be cheaper, at least over the short run. Utilities that meet demand expectations with a portfolio of supply-side options also may be better able to adapt to future demand uncertainty, given the specter of retail transmission access.

[Exhibit ALM-17]

The point of this discussion is to rebut the Company's presumption that purchasing power is risky and building new capacity is not. S&P makes it clear that regardless of whether a utility builds or buys, adding capacity means incurring risk.

Q. **The implication of the Company witnesses' testimony appears to be that if the equity penalty adjustment is not recognized in this proceeding, it will send a signal to the capital markets that the Commission has become less supportive of the financial integrity of the companies subject to its jurisdiction. Do you agree?**

A. No. As I mentioned earlier, the investment community and the rating agencies both view the regulation in Florida as fair and supportive. It is the Commission's statutory responsibility to balance the interests of ratepayers and shareholders. When a situation warrants, this Commission will make adjustments to the Company's filing. A Commission decision to hold the utility to a balanced approach in the RFP process will not undermine the investment community and rating agencies' view that the Florida Commission is supportive of the financial integrity of the companies under its jurisdiction.

An example of this continuing support can be found in the level of financial stability this Commission provides companies through the use of various recovery clauses. Exhibit ALM-7 shows the relative percentages of expenses and revenues recovered through the various clauses for each of the four investor-owned electric utilities in the state. As this exhibit shows, this Commission allowed for the recovery of 43%, 46%, and 54% of FPL's expenses in 1999, 2000, and 2001, respectively. This exhibit also shows that 38%, 40%, and 48% of FPL's revenues in 1999, 2000, and 2001, respectively, were recovered through various clauses. For 2001, this means that only 52% of FPL's revenues were subject to recovery through base rates. When nearly half a company's revenues and more than half its expenses are recovered dollar for dollar through clauses, its variability in earnings is significantly reduced relative to companies without such recovery mechanisms. Lower variability in earnings reduces FPL's risk and is further evidence that this Commission supports the financial integrity of Florida utilities.

Q. **Please summarize your conclusions regarding the equity penalty testimony**

proffered by witnesses Avera and Dewhurst in this proceeding.

A. For the reasons outlined above, I believe these witnesses are taking a portion of S&P's consolidated credit assessment methodology out of context and are attempting to use it for a purpose it was never intended.

SUMMARY

Q. Please summarize your recommendation regarding the financial assumptions.

A. Based upon my analysis of FPL's financial assumptions reported in Appendix I of FPL's revised need determination filing, I recommend that these assumptions are reasonable for purposes of this proceeding.

Q. Please summarize your recommendation regarding the recognition of an equity penalty adjustment for purposes of this proceeding.

A. Based upon my analysis of the information relating to the equity penalty adjustment FPL has proposed be recognized for purposes of evaluating non-FPL proposals submitted in response to the Company's RFP, I disagree with the imputation of an equity penalty for purposes of this proceeding.

Q. Does this conclude your testimony?

A. Yes.

Florida Power & Light
Electric Utility Index - Quartiles
For the 12 months ended Dec. 31, 2001

Utilities

Quartiles-Equity Ratio		Quartiles- Adjusted Equity Ratio	
Top:		***Top:***	
Florida Power & Light Co.	64.19%	Dayton Power & Light Co.	62.41%
Union Light Heat & Power Co.	63.02%	Mississippi Power Co.	57.59%
Dayton Power & Light Co.	62.41%	Union Light Heat & Power Co.	56.86%
Mississippi Power Co.	57.63%	Florida Power & Light Co.	56.16%
Tampa Electric Co.	55.78%	Tampa Electric Co.	54.66%
Florida Power Corporation	54.67%	Northern State Power Wisconsin	54.08%
Northern State Power Wisconsin	54.08%	Cleco Corporate & Power LLC	50.88%
Georgia Power Co.	52.15%	South Carolina Electric & Gas Co.	50.42%
Cleco Corporate & Power LLC	50.88%	Central Power & light Co.	49.94%
Southwestern Public Service Co.	50.62%	Southwestern Public Service Co.	49.72%
South Carolina Electric & Gas Co.	50.42%	Columbus Southern Power Co.	49.44%
Middle-top:		***Middle-top:***	
Hawaiian Electric Co. Inc.	50.26%	Georgia Power Co.	49.39%
Central Power & light Co.	50.07%	TXU Electric Co.	48.86%
TXU Electric Co.	50.00%	West Texas Utilities Co.	48.71%
Columbus Southern Power Co.	49.68%	Florida Power Corporation	48.62%
Ohio Power Co.	49.08%	Southwestern Electric Power Co.	47.57%
Arizona Public Service Co.	48.92%	Public Service Co. of Oklahoma	47.47%
West Texas Utilities Co.	48.71%	Gulf Power Co.	47.44%
Cincinnati Gas & Electric Co.	48.20%	Hawaiian Electric Co. Inc.	46.76%
Southwestern Electric Power Co.	47.57%	Cincinnati Gas & Electric Co.	45.74%
Public Service Co. of Oklahoma	47.47%	Potomac Edison Co.	44.74%
Gulf Power Co.	47.44%	Arizona Public Service Co.	44.32%
Middle-bottom:		***Middle-bottom:***	
Public Service Co. of Colorado	46.74%	Carolina Power & Light	44.28%
Boston Edison Co.	46.33%	Alabama Power Co.	44.23%
Carolina Power & Light	46.11%	Southern Indiana Gas & Electric Co.	44.10%
Alabama Power Co.	44.83%	Northern Indiana Public Service Co.	43.26%
Potomac Edison Co.	44.74%	Public Service Co. of Colorado	42.99%
Southern Indiana Gas & Electric Co.	44.10%	Savannah Electric & Power Co.	42.69%
Northern Indiana Public Service Co.	43.91%	Kentucky Power Co.	42.52%
Virginia Electric & Power Co.	43.38%	Appalachian Power Co.	41.50%
Savannah Electric & Power Co.	43.05%	Ohio Power Co.	41.99%
Kentucky Power Co.	42.53%	Monogahela Power Co.	39.94%
Appalachian Power Co.	41.55%	Virginia Electric & Power Co.	39.15%
Bottom:		***Bottom:***	
Monogahela Power Co.	41.08%	Idaho Power Co.	38.21%
PSI Energy Inc.	39.78%	PSI Energy Inc.	38.14%
Idaho Power Co.	38.64%	West Penn Power Co.	37.34%
West Penn Power Co.	38.42%	Boston Edison Co.	36.51%
Kansas City Power & Light Co.	37.92%	Kansas City Power & Light Co.	35.97%
Consumers Energy Co.	33.28%	Detroit Edison Co.	32.65%
Indiana Michigan Power Co.	33.27%	Duquesne Light Co.	31.23%
Detroit Edison Co.	32.90%	Consumers Energy Co.	28.93%
Duquesne Light Co.	31.68%	Public Service Electric & Gas Co.	28.73%
Public Service Electric & Gas Co.	28.73%	Indiana Michigan Power Co.	25.27%

Florida Power & Light Company
ELECTRIC UTILITY INDEX
For 12 months ended Dec. 31, 2001
($millions)

	Company Name	(1) Bond	(2) STD	(2) LTD	(2) Pref. Stock	(2) Common Equity	(3) OBS DEBT	(4) Equity Ratio	(5) Adj. Equity Ratio
1	Appalachian Power Co.	A-	$80.0	$1,476.6	$28.7	$1,126.7	$3.1	41.55%	41.50%
2	Central Power & light Co.	A-	$265.0	$988.8	$142.2	$1,400.1	$7.5	50.07%	49.94%
3	Columbus Southern Power Co.	A-	$220.5	$571.3	$10.0	$791.5	$7.5	49.68%	49.44%
4	Indiana Michigan Power Co.	A-	$340.0	$1,312.1	$73.7	$860.6	$818.6	33.27%	25.27%
5	Kentucky Power Co.	A-	$95.0	$251.1	$0.0	$256.1	$0.2	42.53%	42.52%
6	Ohio Power Co.	A-	$0.0	$1,203.8	$25.5	$1,184.8	$407.8	49.08%	41.99%
7	Public Service Co. of Oklahoma	A-	$106.0	$345.1	$80.3	$480.2	$0.0	47.47%	47.47%
8	Southwestern Electric Power Co.	A-	$150.6	$494.7	$114.7	$689.6	$0.0	47.57%	47.57%
9	West Texas Utilities Co	A-	$35.0	$221.0	$2.5	$245.4	$0.0	48.71%	48.71%
10	Cleco Corporate & Power LLC	BBB+	$88.7	$310.5	$0.0	$413.5	$0.0	50.88%	50.88%
11	Dayton Power & Light Co.	BBB+	$0.0	$666.6	$22.9	$1,144.9	$0.0	62.41%	62.41%
12	Duquesne Light Co.	BBB+	$0.0	$1,061.1	$74.5	$526.7	$23.9	31.68%	31.23%
13	Detroit Edison Co.	BBB+	$215.0	$4,798.0	$0.0	$2,458.0	$57.0	32.90%	32.65%
14	Florida Power & Light Co.	A	$232.0	$2,579.0	$226.0	$5,444.0	$1,213.3	64.19%	56.16%
15	Idaho Power Co.	A+	$309.1	$802.2	$104.4	$765.6	$22.4	38.64%	38.21%
16	Boston Edison Co.	A	$0.0	$1,065.7	$43.0	$956.9	$555.6	46.33%	36.51%
17	Arizona Public Service Co.	BBB+	$296 6	$1,949.1	$0.0	$2,150.7	$456.4	48.92%	44.32%
18	Alabama Power Co.	A	$15 4	$3,742.3	$317.5	$3,310.9	$100.0	44.83%	44.23%
19	Georgia Power Co.	A	$1,059.2	$2,961.7	$14.6	$4,397.5	$470.9	52.15%	49.39%
20	Gulf Power Co.	A	$87.3	$467.8	$4.2	$504.9	$0.0	47.44%	47.44%
21	Mississippi Power Co.	A	$96.0	$233.8	$31.8	$491.7	$0.5	57.63%	57.59%
22	Savannah Electric & Power Co.	A	$33.3	$160.7	$40.0	$176.9	$3.5	43.05%	42.69%
23	Tampa Electric Co.	A	$405.1	$880.9	$0.0	$1,622.4	$59.5	55.78%	54.66%
24	Florida Power Corporation	BBB+	$32.0	$1,619.3	$33.5	$2,031.6	$462.4	54.67%	48.62%
25	Carolina Power & Light	BBB+	$600.0	$2,958.9	$59.3	$3,095.5	$276.8	46.11%	44.28%
26	Monogahela Power Co.	A+	$44.8	$784.3	$74.0	$629.6	$43.9	41.08%	39.94%
27	Potomac Edison Co.	A+	$57.6	$415.8	$0.0	$383.3	$0.0	44.74%	44.74%
28	West Penn Power Co.	A+	$103.8	$574.6	$0.0	$423.3	$31.9	38.42%	37.34%
29	Northern State Power Wisconsin	A	$34.6	$313.1	$0.0	$409.5	$0.0	54.08%	54.08%
30	Public Service Co. of Colorado	A-	$608.6	$1,465.1	$194.0	$1,990.1	$371.8	46.74%	42.99%
31	Southwestern Public Service Co.	A-	$0.0	$725.4	$100.0	$846.0	$30.2	50.62%	49.72%
32	PSI Energy Inc.	A-	$593.9	$1,325.1	$42.3	$1,295 5	$140.0	39.78%	38.14%
33	Union Light Heat & Power Co.	A-	$26.4	$74.6	$0.0	$172.2	$29.6	63.02%	56.86%
34	Cincinnati Gas & Electric Co.	A-	$740.9	$1,105.3	$20.5	$1,737.1	$194.1	48.20%	45.74%
35	Consumers Energy Co.	BBB-	$673.0	$2,472.0	$564.0	$1,850.0	$836.0	33.28%	28.93%
36	Virginia Electric & Power Co.	A	$970.9	$3,704.4	$384.0	$3,876.4	$965.3	43.38%	39.15%
37	Northern Indiana Public Service Co.	BBB	$394.4	$843.1	$86.1	$1,036.3	$35.6	43.91%	43.26%
38	TXU Electric Co.	BBB+	$899.0	$5,586.0	$136.0	$6,622.0	$311.0	50.00%	48.86%
39	Hawaiian Electric Co. Inc.	BBB+	$49.0	$685.0	$134.0	$877.0	$130.4	50.26%	46.76%
40	Kansas City Power & Light Co.	A-	$309.8	$758.9	$150.0	$744.4	$106.5	37.92%	35.97%
41	Public Service Electric & Gas Co.	A-	$668.0	$4,977.0	$235.0	$2,370.0	$0.0	28.73%	28.73%
42	South Carolina Electric & Gas Co.	A	$193.0	$1,412.0	$116.0	$1,750.0	$0.0	50.42%	50.42%
43	Southern Indiana Gas & Electric Co.	A-	$81.5	$341.2	$0.5	$333.8	$0.0	44.10%	44.10%
							Simple Average	46.42%	44.45%
							Weighted Average	45.80%	43.35%

(1) Standard & Poor's Ratings Direct (online: www.standardandpoors.com/ratingsdirect)
(2) SEC 10-K
(3) Standard & Poor's Balance Sheet Statistics for Electric Utilities for 2000
(4) E/R = CE / CE+PS+LTD+STD
(5) Adjusted E/R = CE / CE+PS+LTD+STD+OBS

Exhibit ALM-2

Florida Power & Light Company
S&P Risk-Adjusted Financial Targets

	A	BBB
Total Debt / Total Capital (%)	46-50	53-57
Implied Equity Ratio (%)	50-54	43-47

Source: S&P Corporate Rating Criteria 2001, page 58 (S&P Ratings Direct, www.standardandpoors.com/ratingsdirect)

Exhibit ALM-3
Confidential

Florida Power & Light Company
Capital Expenditures

FP&L Predominately Funds Capex with Operating Cash Flow (1)

($ in millions)	2001	2002	2003	2004	2005
Uses					
FP&L Capital Expenditures					
Dividend to FPL Group					
Total Uses					
Sources					
FP&L Cash Flow					
FP&L Debt Issuances					
Excess Funds from Previous Years					
Total Sources					
Cash Flow as a % of Capital Expenditures					

FPL Energy Predominately Funds Capex with External Funding (2)

($ in millions)	2001	2002	2003	2004	2005
FPL Energy Capital Spending*					
Internal Cash Flow					
External Funding					
Cash Flow as a % of Capital Expenditures					

* Excludes synthetic lease expenditures and funding.

Sources:
(1) FPL response to Staff First Set of PODs Request #1, Lehman Brothers Report, July 3, 2001, p. 22.
(2) FPL response to Staff First Set of PODs Request #1, Salomon Smith Barney Report, July 3, 2001, p. 11.

Florida Power & Light Company
Summary
For 12 months ended Dec. 31, 2000

Exhibit ALM-4

Company Name	Holding Co. Name	Utility Bond Rating	Num. Bond Rating	Actual Equity Ratio	Adj. Equity Ratio	Holding Co. Equity Ratio	Holding Co. Rev. from Non-Reg
Florida Power & Light Co.	FPL Group	AA-	3	59.94%	52.37%	50.76%	10.18%
Idaho Power Co.	IDACORP	A+	4	43.26%	42.72%	42.08%	72.06%
South Carolina Electric & Gas Co.	SCANA	A	5	50.89%	50.89%	37.03%	31.78%
Alabama Power Co.	Southern Co.	A	5	39.63%	39.14%	46.69%	5.38%
Georgia Power Co.	Southern Co.	A	5	53.04%	50.10%	46.69%	5.38%
Gulf Power Co.	Southern Co.	A	5	50.84%	50.84%	46.69%	5.38%
Mississippi Power Co.	Southern Co.	A	5	45.84%	45.82%	46.69%	5.38%
Savannah Electric & Power Co.	Southern Co.	A	5	42.89%	42.53%	46.69%	5.38%
Tampa Electric Co.	TECO Energy	A	5	57.36%	56.04%	34.05%	33.88%
Southern Indiana Gas & Electric Co.	Vectren Corp.	A	5	49.16%	49.16%	33.34%	29.93%
Public Service Co. of Colorado	Xcel Energy	A-	6	47.78%	43.74%	35.15%	19.01%
Southwestern Public Service Co.	Xcel Energy	A-	6	42.88%	42.16%	35.15%	19.01%

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.883551832233011
R Square	0.78066384024231
Adjusted R Square	0.698412780333177
Standard Error	0.435470306822217
Observations	12

ANOVA

	df	*SS*	*MS*
Regression	3	5.39959156167598	1.79986385389199
Residual	8	1.51707510499069	0.189634388123836
Total	11	6.91666666666667	

	Coefficients	*Standard Error*	*t Stat*
Intercept	13.1948958187889	1.70964199818338	7.71792915289248
X Variable 1	-6.30532418271881	2.57323214459797	-2.45035186427143
X Variable 2	-11.481658422656	2.37662308128308	-4.83108092026831
X Variable 3	-2.53657770680474	0.757807793051563	-3.34725735214516

where: Y = Bond Rating
X! = Equity Penalty Adjusted Equity Ratio
X2 = Utility Holding Company Equity Ratio
X3 = % of Holding Company Revenues derived from non-regulated operations.

Florida Power & Light Company

Exhibit ALM-5

Fuel Mix for Holding Companies

Year 2001

2001

Company		Coal	Gas	Oil	Nuclear	Purchased	Hydro	Other
Allegheny Energy	**(4)**	0%	26%	1%	0%	67%	1%	6%
American Electric Power	**(2)**	68%	22%	0%	8%	**	0%	2%
Cinergy Corp.	**(4)**	93%	0%	0%	0%	**	1%	6%
Cleco Corp.	**(2)**	33%	27%	0%	0%	40%	0%	0%
CMS Energy Corp.	**(2)**	46%	0%	0%	6%	46%	0%	2%
DPL Inc.	**(4)**	68%	0%	0%	0%	**	0%	32%
DQE	**(3)**	0%	0%	0%	0%	100%	0%	0%
DTE	**(4)**	71%	0%	0%	15%	13%	0%	0%
Dominion Resources	**(3)**	40%	0%	5%	31%	21%	0%	3%
FPL Group	**(3)**	6%	24%	26%	24%	20%	0%	0%
Hawaiian Elec.	**(1)**	0%	0%	76%	0%	24%	0%	0%
IDACORP Inc.	**(1)**	(b)	(b)	(b)	(b)	(c)	34%	(c)
Great Plains (KC Power & Light)	**(2)**	65%	0%	0%	26%	6%	0%	0%
MDU Resources Group, Inc.	**(1)**	75%	(g)	(g)	0%	24%	0%	0%
NiSource Inc.	**(2)**	92%	0%	0%	0%	7%	0%	1%
NSTAR	**(3)**	0%	0%	0%	0%	100%	0%	0%
Pinnacle West Capital	**(1)**	36%	10%	0%	24%	30%	0%	0%
Progress Energy	**(4)**	0%	0%	0%	28%	15%	0%	57% (d)
Public Serv. Enterprise Group	**(3)**	24%	9%	1%	60%	0%	0%	6%
SCANA	**(3)**	71%	0%	0%	21%	4%	4%	0%
Southern Co.	**(3)**	68%	(e)	(e)	15%	6%	3%	0%
TECO Energy	**(3)**	100%	0%	0%	0%	0%	0%	0%
TXU Corp.	**(2)**	37%	(a)	(a)	17%	13%	0%	0%
Vectren Corp.	**(2)**	0%	73%	0%	0%	**	0%	27%
Xcel Energy Inc.	**(1)**	50%	(f)	(f)	11%	27%	0%	2%
Simple Average		43%	7%	5%	11%	22%	2%	13%

(1) Value Line edition 11, May 17, 2002
(2) Value Line edition 5, April 5, 2002
(3) Value Line edition 1, June 7, 2002
(4) Company's 2001 Annual Report

** No purchased power reported in fuel mix but incurred purchased power costs

(a) gas & oil 33%
(b) thermal 46%
(c) purchased power & other 20%
(d) steam 50%; combustion turbines 6.8%
(e) gas & oil 8%
(f) gas & oil 10%
(g) gas & oil 1%

Exhibit ALM-6

Florida Power & Light Company
Capitalization Ratios

	Ratios					
	December 31, 1999		December 31, 2000		December 31, 2001	
FPL	Amount	% age	Amount	% age	Amount	% age
Short-term Debt	94,000	1.3%	560,000	6.6%	232,000	2.7%
Long-term Debt	2,203,885	30.1%	2,641,252	31.2%	2,578,238	30.4%
Preferred Stock	226,250	3.1%	226,250	2.7%	226,250	2.7%
Common Equity	4,792,763	65.5%	5,032,430	59.5%	5,444,139	64.2%
Total Capitalization	7,316,898	100.00%	8,459,932	100.00%	8,480,627	100.00%

	Ratios					
	December 31, 1999		December 31, 2000		December 31, 2001	
FPL Group Capital, Inc.	Amount	% age	Amount	% age	Amount	% age
Short-term Debt	245,200	9.2%	598,413	20.4%	1,750,406	34.3%
Long-term Debt	1,399,463	52.7%	1,399,592	47.7%	2,311,436	45.3%
Preferred Stock	0	0.0%	0	0.0%	0	0.0%
Common Equity	1,012,540	38.1%	935,036	31.9%	1,040,405	20.4%
Total Capitalization	2,657,203	100.00%	2,933,041	100.00%	5,102,247	100.00%

	Ratios					
	December 31, 1999		December 31, 2000		December 31, 2001	
FPL Group, Inc.	Amount	% age	Amount	% age	Amount	% age
Short-term Debt	339,200	3.6%	1,158,413	10.5%	1,982,406	15.1%
Long-term Debt	3,603,348	37.8%	4,040,844	36.7%	4,889,675	37.3%
Preferred Stock	226,250	2.4%	226,250	2.1%	226,250	1.7%
Common Equity	5,370,142	56.3%	5,593,408	50.8%	6,015,069	45.9%
Total Capitalization	9,538,940	100.00%	11,018,915	100.00%	13,113,400	100.00%

Sources: Staff First Set of Interrogatories No. 1

Florida Power & Light Company
Percentage of Revenues and Expenses
Passed Through Recovery Clauses

Revenues

	Florida Power & Light Company	Florida Power Corporation	Tampa Electric Company	Gulf Power Company
2001	48%	45%	41%	39%
2000	40%	45%	39%	35%
1999	38%	43%	34%	33%

Expenses

	Florida Power & Light Company	Florida Power Corporation	Tampa Electric Company	Gulf Power Company
2001	54%	52%	47%	27%
2000	46%	50%	45%	24%
1999	43%	49%	40%	37%

Sources: December Rate of Return Surveillance Reports, percentage of revenues and expenses recovered through PSC approved recovery clauses.

Florida Power & Light Company
Docket No. 020262-EI & 020263-EI
Staff's Second Set of Interrogatories (Amended Petition)
Interrogatory No. 26
Page 1 of 1

Q.

At page 17 of his direct testimony, Alan Taylor states that he has seen the "equity penalty concept" incorporated in other solicitations both inside and outside Florida. Provide a list of all the cases Witness Taylor has participated in where the presiding regulatory commission has recognized the use of an "equity penalty" adjustment in the evaluation process of outside power supply proposals. For purposes of this response, please list the regulatory commission, the company involved, the date and number of the final order, and the amount of the "equity penalty" recognized.

A.

Mr. Taylor has seen equity penalties incorporated into two other solicitations that were reviewed by four state commissions in the following proceedings:

Florida Public Service Commission, Florida Power Corporation, Docket No. 001064-EI (Petition for determination of need for Hines Unit 2 Power Plant by Florida Power Corporation), January 5, 2001, Order NO. PSC-01-0029-FOF-EI, no specific amount of equity penalty was recognized in the order.

Illinois Commerce Commission, MidAmerican Energy Company, Docket 00-0197 (Petition for Determination Pursuant to Section 32(k)(2)(A) of the Public Utility Holding Company Act and Consent to a Contract with an Affiliated Interest pursuant to Section 7-101(3) of the Public Utilties Act), Commission Order dated July 6, 2000, no specific amount of equity penalty was recognized in the order.

Iowa Utilities Board, MidAmerican Energy Company, Docket SPU-00-4 (Petition for Determinations Pursuant to Section 32(k)(2)(A) of the Public Utility Holding Company Act and Approval of an Affiliate Transaction), Final Decision and Order issued June 26, 2000, no specific amount of equity penalty was recognized in the order.

South Dakota Public Utilities Commission, MidAmerican Energy Company, Docket EL00-006 (Application for Determinations Pursuant to Section 32(k)(2)(A) of the Public Utility Holding Company Act), Order Reciting Commission Determinations issued June 28, 2000, no specific amount of equity penalty was recognized in the order.

Florida Power & Light Company
Docket No. 020262-EI & 020263-EI
Staff's Second Set of Interrogatories (Amended Petition)
Interrogatory No. 35
Page 1 of 1

Q.

Provide a list of all contracts entered into by FPL, FPL Energy, or any other FPL Group affiliate to sell power to another utility during the last 3 years. For each contract, cite the name of the purchasing utility, the size of the contract (MW), the term of the contract, and indicate the amount of equity penalty, if any, that was added to the price of FPL's bid in the purchasing utility's evaluation process.

A.

FPL does not have knowledge of the information requested regarding FPL Energy or other FPL Group affiliates. FPL maintains its prior objection to providing such information regarding its affiliates. FPL also objects on the ground that even if FPL had such information regarding its affiliates, it would be highly sensitive, proprietary information which should not be disclosed to its affiliates' competitors, several of which are interveners in this proceeding. As to FPL, the following information is applicable:

Contract	1
Purchasing Utility	Utilities Commission-City of New Smyrna Beach
Contract Quantity	Variable by Month/Year - 0 MW - 38 MW
Contract Term	March 1, 2000 - April 30, 2002
Amount of Equity Penalty N/A *	
Contract	2
Purchasing Utility	FMPA
Contract Quantity	75 MW
Contract Term	June 1, 2002 - October 31, 2007
Amount of Equity Penalty N/A *	

* Note: These contracts were the result of private, bilateral negotiations between FPL and the purchasing utility. Any information about an equity penalty would not have been disclosed by the purchasing utility.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NOS. 920520-EQ AND 920648-EQ

CYPRESS ENERGY PROJECT

FLORIDA POWER & LIGHT COMPANY
JUNE 26, 1992

DIRECT TESTIMONY OF:
S. S. WATERS

Q. What costs of the Cypress Project are included in these analyses?

A. All contractual obligations, including capacity, O&M and energy payments based on the final contract between FPL and Cypress, are included. The capacity costs include interconnection costs while the O&M costs include payments to Cypress for acquisition of SO_2 allowances required by the Clean Air Act. These costs are detailed in Dr. Sim's testimony.

Q. Do these analyses include a cost for the equity penalty associated with FPL's decision to purchase power from the Cypress Project?

A. No. The equity penalty was quantified by FPL after the evaluation process described by Dr. Sim in this testimony and will be applied to future power purchase evaluations. The equity penalty associated with the Cypress Project represents an additional cost to FPL of approximately $73 million, NPV, $1991. This additional cost reduces the savings of the Cypress Project to $71 million versus the pulverized coal plan using base assumptions and $96 million versus the combined cycle plan using the lower oil and gas price sensitivity assumptions. Even with this equity penalty, the Cypress project remains the most cost effective alternative available to FPL.

Q. How did FPL determine the cost of the credit impact (equity penalty) of the Cypress contract?

A. FPL utilized the methodology which Standard & Poors (S&P) has used in adjusting FPL's financial ratios to reflect the credit impact of its purchase

Andrew Maurey

From: SandPUtil@StandardAndPoors.Com
Sent: Wednesday, September 26, 2001 11:50 AM
To: AMAUREY@PSC.STATE.FL.US
Subject: Ratings On FPL Group and Affiliates Are Lowered; Off CreditWatch

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Ratings On FPL Group and Affiliates Are Lowered; Off CreditWatch

John W Whitlock, New York (1) 212-438-7678; Jodi E Hecht, New York (1) 212-438-2019

NEW YORK (Standard & Poor's) Sept. 26, 2001--Standard & Poor's today lowered its ratings on FPL Group Inc. and its affiliates Florida Power & Light Co. and FPL Group Capital Inc. and removed the entities from CreditWatch (see list below), where they were placed with negative implications on July 31, 2000. The rating action reflects Standard & Poor's comprehensive review of FPL Group's strategic direction after the termination of its merger agreement with Entergy Corp., as well as the risk assessment and cash flow potential of FPL Group as a stand-alone entity. Driving factors in the current ratings determination include increasing business risk for the consolidated enterprise attributable to the growing nonregulated independent power producer (IPP) portfolio, regulatory challenges in Florida, and an aggressive financing plan and declining credit protection measures. The potential for ratings stability at current levels is predicated on favorable resolution of regulatory issues at Florida Power & Light, adequate risk mitigation for the IPP activities, and sufficient consolidated cash flow accretion consistent with the financial targets of the single-'A' rating category.

The outlook is negative.

FPL Group's credit quality is supported by the activities of its operating utility, Florida Power & Light. Florida Power & Light's credit profile reflects an above-average business position that is supported by competitive residential and commercial rates (less than the average for Florida), operational efficiency (operations and management expenses at around 1 cent per kWh), increasing energy sales due to additional customers and increased usage, and well-run generating facilities (above 90% availability). These factors are offset by the utility's reliance on nuclear facilities for 26% of load and another 14% from long-term, above-market purchased-power agreements. The utility's revenue-sharing mechanism (instead of traditional ROE regulation) allows Florida Power & Light to receive the benefit of operational efficiencies while providing a refund mechanism to the customer when sales exceed prescribed levels. In addition, the utility's financial profile is strained by intensive capital spending related to increased generation and distribution requirements necessary to meet growing customer demand while maintaining a PSC mandated reserve margin above 20%.

Currently, Florida Power & Light is preparing for a base rate proceeding which will extend into 2002, absent a negotiated settlement. Ultimate resolution of this rate matter may affect consolidated credit quality dependent on the level of allowed revenues, the recovery of costs and the affect on cash flow. Although restructuring momentum has slowed in Florida, the debate over opening Florida's wholesale generation market to competition, which was originally proposed by the Governor, remains under discussion causing additional uncertainty. In addition, contention between the Florida Public Service Commission and the FERC about the formation of a regional transmission organization for Florida creates additional uncertainty for all of the Florida utilities regarding this portion of the business.

FPL Group's business profile reflects the growing portfolio of higher-risk nonregulated investments, principally in independent power projects. Furthermore, as FPL Group's earnings mix and capital expenditure requirements shift further toward nonregulated businesses, the consolidated business profile becomes riskier, requiring greater cash flows and credit protection measures.

The portfolio of nonregulated electric power generation holdings is in several regions, including New England, the Mid-Atlantic, West Coast, and the Southwest. The firm expects to have about 5,000 net MW in operation by year-end 2001 and plans to add an additional 5,000 MW by 2003. The potential for an economic downturn and the possibility of additional capacity coming on line in some of the regions that FPL Group has targeted highlight some of Standard & Poor's concerns has about this high-risk business line. FPL Group has mitigated some of the inherent risk related to volatile prices and demand by selling a majority of its output from its facilities to creditworthy utilities under long-term contracts.

The IPP financing strategy utilizing greater amounts of nonrecourse debt and the continued sales of power under contracts will be important to sustaining current ratings for the FPL family.

This includes prudent and conservative balance-sheet management including an ability and willingness to issue common equity.

On a consolidated basis, cash flow potential will need to be realized to offset the level of risk being undertaken. Specifically, adjusted funds from operations (FFO) interest coverage of about 5. times and FFO to total debt of 35% is targeted. In addition, debt to total capital below 50% is expected.

OUTLOOK: NEGATIVE

The negative outlook for FPL Group and its affiliates reflects the uncertainty tied to the current regulatory proceedings and the potential for decreased revenues and cash flow at Florida Power & Light, which could affect key coverage ratios. In addition, FPL Group's stated intention to expand its nonregulated generation business, will challenge the firm to strengthen consolidated credit-protection measures to maintain the existing ratings profile. Successful resolution of these issues could lead to ratings stability.

RATINGS LOWERED AND REMOVED FROM CREDITWATCH

	TO	FROM
FPL Group Inc.		
Corporate credit rating	A	AA-
Senior unsecured debt	A-	A+
Florida Power & Light Co.		
Corporate credit rating	A/A-1	AA-/A-1+
Commercial paper	A-1	A-1+
Senior secured debt	A	AA-
Preferred stock	BBB+	A
FPL Group Capital Inc.		
Long-term corporate credit rating	A	AA-

RATINGS AFFIRMED

FPL Group Capital Inc.	
Short-term corporate credit rating	A-1
Commercial paper	A-1

Ratio Guidelines

Risk-adjusted ratio guidelines depict the role that financial ratios play in Standard & Poor's rating process, since financial ratios are viewed in the context of a firm's business risk. A company with a stronger competitive position, more favorable business prospects, and more predictable cash flows can afford to undertake added financial risk while maintaining the same credit rating.

The guidelines displayed in the matrices make explicit the linkage between financial ratios and levels of business risk. For example, consider a U.S. industrial—which includes manufacturing, service, and transportation sectors—with an *average* business risk profile. Cash flow coverage of 60% would indicate an 'A' rating. If a company were *below average*, it would need about 85% cash flow coverage to qualify for the same rating. Similarly, for the 'A' category, a firm that has an *above-average* business risk profile could tolerate about 40% leverage and an average firm only 30%. The matrices also show that a company with only an *average* business position could not aspire to an 'AAA' rating, even if its financial ratios were extremely conservative.

Ratio medians that Standard & Poor's has been publishing for more than a decade are merely statistical composites. They are not rating benchmarks, precisely because they gloss over the critical link between a company's financial risk and its business risk. Medians are based on historical performance, while Standard & Poor's risk-adjusted guidelines refer to expected future performance.

Guidelines are not meant to be precise. Rather, they are intended to convey ranges that characterize levels of credit quality as represented by the rating categories. Obviously, strengths evidenced in one financial measure can offset, or balance, relative weakness in another.

U.S. UTILITIES

Funds from Operations/Total Debt Guidelines (%)

Company business risk profile		—Rating category— AAA	AA	A	BBB	BB	B
Well-above-average	1	23	18	15	10	5	—
business position	2	29	23	19	14	9	—
Above average	3	35	29	23	17	12	7
	4	40	34	28	21	15	9
Average	5	46	37	30	24	18	11
	6	53	43	35	27	19	13
Below average	7	63	52	42	31	21	14
	8	75	61	49	35	23	15
Well below average	9	—	—	57	41	27	17
	10	—	—	69	50	34	22

Total Debt/Capitalization (%)

Company business risk profile		—Rating category— AAA	AA	A	BBB	BB	B
Well-above-average	1	47	53	58	64	70	—
business position	2	43	49	54	60	66	—
Above average	3	39	45	50	57	64	70
	4	35	41	46	53	61	68
Average	5	33	39	44	51	59	67
	6	30	36	43	50	57	65
Below average	7	27	34	41	49	56	64
	8	23	31	39	47	55	62
Well below average	9	—	—	35	43	51	58
	10	—	—	29	37	43	50

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Research:

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Summary: Florida Power & Light Co.

Publication date: 27-Sep-2001

Analyst: John W Whitlock, New York (1) 212-438-7678; Jodi E Hecht, New York (1) 212-438-2019

Credit Rating: A/Negative/A-1

Rationale

Credit quality for Florida Power & Light Co., the utility operating company of FPL Group Inc., reflects the unit's steady and reliable cash flow attributes, tempered by the parent's growing portfolio of higher-risk, nonregulated investments, principally in independent power projects.

Current ratings for FPL Group and its affiliates incorporate increasing business risk for the consolidated enterprise attributable to the growing nonregulated independent power producer (IPP) portfolio, regulatory challenges in Florida, an aggressive financing plan, and declining credit protection measures. The potential for ratings stability at current levels is predicated on favorable resolution of regulatory issues at Florida Power & Light, adequate risk mitigation for the IPP activities, and sufficient consolidated cash flow accretion consistent with the financial targets of the 'A' rating category.

Florida Power & Light's credit profile reflects an above-average business position that is supported by competitive residential and commercial rates (less than the average for Florida), operational efficiency (operations and management expenses at around one cent per kWh), increasing energy sales due to additional customers and increased usage, and well-run generating facilities (above 90% availability). These factors are offset by the utility's reliance on nuclear facilities for 26% of load and another 14% from long-term, above-market purchased-power agreements. The utility's revenue-sharing mechanism (instead of traditional ROE regulation) allows Florida Power & Light to receive the benefit of operational efficiencies while providing a refund mechanism to the customer when sales exceed prescribed levels. In addition, the utility's financial profile is strained by intensive capital spending related to increased generation and distribution requirements necessary to meet growing customer demand while maintaining a Florida PSC mandated reserve margin above 20%.

Florida Power & Light is preparing for a base rate proceeding that will extend into 2002, absent a negotiated settlement. Ultimate resolution of this rate matter may affect consolidated credit quality dependent on the level of allowed revenues, the recovery of costs and the affect on cash flow. Although restructuring momentum has slowed in Florida, the debate over opening Florida's wholesale generation market to competition, which was originally proposed by the Governor, remains under discussion causing additional uncertainty. In addition, contention between the Florida Public Service Commission and the FERC about the formation of a regional transmission organization for Florida creates additional uncertainty for all of the Florida utilities regarding this portion of the business.

Parent FPL Group's portfolio of nonregulated electric power generation holdings is in several regions, including New England, the Mid-Atlantic, West Coast, and the Southwest. The firm expects to have about 5,000 net MW in operation by year-end 2001 and plans to add an additional 5,000 MW by 2003. The potential for an economic downturn and the possibility of additional capacity coming on line in some of the regions that FPL Group has targeted highlight some of Standard & Poor's concerns has about this high-risk business line. FPL Group has mitigated some of the inherent risk related to volatile prices and demand by selling a majority of its output from its facilities to creditworthy utilities under long-term contracts.

On a consolidated basis, cash flow potential will need to be realized to offset the level of risk being undertaken. Specifically, adjusted funds from operations (FFO) interest coverage of about 5 times and FFO to total debt of 35% is targeted. In addition, debt to total capital below 50% is expected.

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Outlook

The negative outlook for FPL Group and its affiliates reflects the uncertainty tied to the current regulatory proceedings and the potential for decreased revenues and cash flow at Florida Power & Light, which could affect key coverage ratios. In addition, FPL Group's stated intention to expand its nonregulated generation business, will challenge the firm to strengthen consolidated credit-protection measures to maintain the existing ratings profile. Successful resolution of these issues could lead to ratings stability.

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Andrew Maurey

From: SandPUtil@StandardAndPoors.Com
Sent: Tuesday, January 22, 2002 11:55 AM
To: AMAUREY@PSC.STATE.FL.US
Subject: U.S. Utilities' Credit Quality Displayed Steep Decline in 2001; N egative Trend Likely to Continue

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Research:

U.S. Utilities' Credit Quality Displayed Steep Decline in 2001; Negative Trend Likely to Continue

Publication Date: 18-Jan-2002
Analyst: Barbara A Eiseman, New York (1) 212-438-7666

The U.S. power industry began 2001 under the dark cloud of the near-total credit collapse of California's two largest electric utilities, and ended with the bankruptcy of Enron Corp., the largest such filing in U.S. history. Sandwiched in between, and far outdistancing the negative ratings trend firmly established in 2000, were 81 downgrades of utility holding companies and operating companies, contrasted with only 29 upgrades. In the fourth quarter alone, Standard & Poor's recorded 51 rating actions—44 downgrades and seven upgrades. In addition, Standard & Poor's revised numerous outlooks to negative, and significantly increased its CreditWatch listings. In 2000, there were 85 rating changes (65 downgrades, 20 upgrades), as well as a substantial rise in CreditWatch listings and outlook changes, mostly to negative.

Although many familiar themes dominated the overall credit picture, Enron's fall to noninvestment grade and ultimately to 'D' alone accounted for 15 downgrades in fourth-quarter 2001, while the California energy and liquidity crisis led to several downgrades on PG&E Corp., Edison International, and their affiliates earlier in the year. Pacific Gas & Electric Co.'s and Southern California Edison Co.'s corporate credit ratings were dropped to 'D' when they defaulted on their financial obligations in first-quarter 2001. The negative credit momentum experienced during the year can also be traced to increasing business risk related to investments outside the traditional regulated utility business, eroding bondholder protection fundamentals, mergers and acquisitions, unsympathetic regulatory arenas, and corporate restructuring efforts. These trends, in turn, reflect companies' strategies to deal with an increasingly competitive market, while also seeking to enhance shareholder value in this more uncertain environment.

Co. were cut due to continued weakening in consolidated financial measures resulting from higher debt leverage, disappointing results from nonregulated businesses, and prospectively higher levels of capital spending.

Lower ratings for Black Hills Power Inc. were tied to Standard & Poor's consolidated rating methodology and reflect the heightened business risk profile from the current and anticipated growth of parent Black Hills Corp's nonregulated business activities through increased debt leverage.

The ratings of OGE Energy Corp. and utility subsidiary Oklahoma Gas & Electric Co. were lowered, reflecting the increased business risk that the growing Enogex Inc., OGE's unregulated subsidiary, creates for the consolidated enterprise. Without any structural or regulatory insulation, the utility's corporate credit rating is the same as the consolidated entity's, reflecting the belief that default risk is the same for the entire organization.

Reduced creditworthiness for FPL Group Inc. and its subsidiary Florida Power & Light Co. reflects Standard & Poor's review of FPL Group's strategic direction after the termination of its merger agreement with Entergy Corp., as well as the risk assessment and cash flow potential of FPL Group as a stand-alone entity. Driving factors in the current ratings determination include increasing business risk for the consolidated enterprise attributable to the growing unregulated independent power producer portfolio, regulatory challenges in Florida, and an aggressive financing plan and declining credit protection measures.

□Some Credit Improvement

Rating upgrades during the year were mostly attributable to stronger business profiles, improving financial measures, responsive regulation, and industry consolidation.

The ratings of NSTAR and its operating subsidiaries (Boston Edison Co., Commonwealth Electric Co., NSTAR Gas Co., and Cambridge Electric Light Co.), Kinder Morgan Inc., and Reliant Energy Resources Corp. were raised due to improving business and financial profiles. However, the ratings of Kinder Morgan were subsequently placed on CreditWatch with negative implications following the company's announcement that it had entered into an agreement to buy Tejas Gas for $750 million. The purchase will be initially funded with debt.

Higher ratings for The Williams Cos. Inc. and its subsidiaries, Northwest Pipeline Corp., Texas Gas Transmission Corp., Transcontinental Gas Pipe Line Corp., and Williams Gas Pipelines Central Inc. reflect prospects for financial improvement as the complementary portfolio of energy assets generates a level of earnings and cash flow that will lower debt (excluding nonrecourse debt) to about 50% of capital and maintain cash flow interest coverage in the 4x area--measures that are appropriate for its revised ratings.

The ratings on Northeast Utilities and its affiliates were raised to reflect supportive regulatory decisions that have removed significant uncertainty over the future financial profile of the utilities. Furthermore, corporate restructuring strategies have strengthened the business profile of the individual entities and, accordingly, the consolidated corporation.

Higher ratings for Bangor Hydro-Electric Co. reflect a measure of implicit support from its Canada-based parent company Emera Inc. It is Standard & Poor's opinion that Bangor Hydro stands to benefit from its association with Emera in terms of financial and managerial support. Although Bangor Hydro forms an important part of Emera's assets and revenues, and is viewed by Emera as a core operation, Standard & Poor's expects to see some tangible measure of support before equalizing the ratings of Bangor Hydro with those of Emera.

Mergers with higher-rated entities led to upgrades on FirstEnergy's operating utilities (Cleveland Electric Illuminating Co., Ohio Edison Co., Pennsylvania Power Co., and Toledo Edison Co.), DTE Energy, and Niagara Mohawk. First Energy acquired GPU, DTE acquired MCN Energy Group, and Niagara Mohawk will be acquired by National Grid Group.

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Research:

Print ready LIVE HELP

Summary: FPL Group Inc.

Publication date: 20-Jun-2002
Credit Analyst: Jodi E Hecht, New York (1) 212-438-2019

Credit Rating: A/Watch Neg/--

Rationale

Credit quality for FPL Group is characterized by the activities of its operating utility, Florida Power and Light and its growing portfolio of higher-risk, non-regulated investments, mainly in independent power projects. Ratings for FPL Group and its affiliates incorporate increasing business risk for the consolidated enterprise, attributable to the growing non-regulated, independent power producer portfolio, an aggressive financing plan, and the decline in credit-protection measures.

Juno Beach, Fla.-based FPL Group has about $6.8 billion in outstanding debt. Subsidiaries include Florida Power and Light Co. and FPL Group Capital Inc.

Florida Power and Light serves 3.9 million electric customers along the east coast and southern portions of Florida. The company's credit profile reflects an above-average business position that is supported by competitive residential and commercial rates (less than the average for Florida), operational efficiency (operations and management expenses at around 1 cent per kWh), increasing energy sales due to additional customers and increased usage (customer growth and utilization averaging 2.1% and 3% per year, respectively), and well-run generating facilities (above 90% availability). These factors are offset by the utility's reliance on nuclear facilities for 31% of load and another 12% from long-term, above-market purchased-power agreements. The utility's revenue-sharing mechanism (instead of traditional ROE regulation) allows Florida Power and Light to receive the benefit of operational efficiencies while providing a refund mechanism to the customer when sales exceed prescribed levels. In addition, the utility's financial profile is strained by intensive capital spending related to increased generation and distribution requirements necessary to meet growing customer demand while maintaining a PSC-mandated reserve margin of 20%.

FPL Group Capital is primarily comprised of FPL Energy, the unregulated energy subsidiary, with smaller contributions from FPL Fiber Net. FPL Energy's portfolio of non-regulated electric power generation is located in four regions of the United States, specifically the Northeast, the Mid-Atlantic, West, and Central, which includes Texas. At year-end 2001, the portfolio's primary fuel source was natural gas (46%), followed by wind (28%), oil (15%), hydro (7%), and other (4%). The firm expects to have just under 8,000 net MW in operation by year-end 2002, and plans to increase to just under 12,000 MW by 2003. While all of the wind projects are under long-term contracts, the portfolio remains exposed to volatile prices and demand. Contract coverage drops to below 50% beyond 2003, which is exacerbated by new capacity coming into commercial service.

00115988 ND

The rating was placed on CreditWatch with negative implications on April 18, 2002, following the announcement that the company will purchase an 88% interest in the 1,161 MW Seabrook nuclear power plant. This is the first nuclear plant in FPL's portfolio of non-regulated generating assets. The plant will not have any initial off-take contracts and will be managed as a merchant plant with a series of short-term contracts. FPL Group will thus be exposed to electricity price volatility, although as a low-cost base load plant, high levels of dispatch can be expected. The increased risk is partly balanced by FPL's good track record with operating two nuclear plants in Florida. The Seabrook facility also has a good operating profile.

Standard & Poor's expects to review FPL's strategy and financial plans for its regulated and non-regulated segments with a focus on its rapidly growing and aggressive strategy in the competitive energy business. The review's outcome could result in a ratings affirmation or a downgrade.

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00115989 ND

Moody's Investors Service

Global Credit Research
Rating Action
16 APR 2002

Rating Action: Florida Power & Light Company

MOODY'S INVESTORS SERVICE PLACES THE DEBT RATINGS OF FPL GROUP CAPITAL, INC. AND FLORIDA POWER AND LIGHT COMPANY ON REVIEW FOR POSSIBLE DOWNGRADE

Approximately $7.0 billion of Debt Securities Affected

Moody's Investors Service has placed the debt ratings of FPL Group Capital, Inc. and Florida Power and Light Company on review for possible downgrade. Moody's has taken this action in response to the higher level of debt incurred at FPL Group Capital to finance its growing unregulated generation portfolio. Consolidated debt to capital at FPL Group has increased from 41% at 12/31/99, to 47% at 12/31/00, and again to 52% at 12/31/01. It will likely increase further as a result of yesterday's announcement that FPL Group will purchase 88.2% of the 1,161 MW Seabrook Nuclear Generation Station for $836.6 million. The purchase price includes $516 million for the plant, $233 million for nuclear decommissioning funds, $62 million for nuclear fuel, and $26 million for spare parts. These financial obligations are being undertaken at a time of heightened uncertainty in the merchant generation market overall. Moody's notes that the company did issue $575 million of equity security units during the first quarter of 20 02 and expects to issue approximately $125 million of equity annually through its employee benefit plans, mitigating the increased leverage to some degree.

Under review are FPL Group Capital's A2 senior unsecured and P-1 commercial paper ratings, Florida Power and Light Company's Aa3 first mortgage bond and senior secured medium term note ratings, A1 issuer rating, and A3 preferred stock rating. Also under review are the ratings for the shelf registrations for the issuance of FPL Group Capital senior unsecured debt, (P)A2; and Florida Power and Light Company senior secured debt, (P)Aa3 and preferred stock, (P)A3. Florida Power and Light Company's P-1 commercial paper rating is confirmed.

Over the last several years, FPL Group Capital has issued nearly $2.0 billion of debt to finance the growth of independent power projects at its FPL Energy subsidiary. Before the Seabrook purchase, the company had expected to double its unregulated generation portfolio from the current 5,063 MW's to approximately 10,000 MW's by the end of 2003. The Seabrook acquisition will increase the company's current capacity by over 20% and significantly accelerates and broadens this expansion program. It is the first nuclear plant acquired by the company, although the company does operate two well running nuclear plants at its Florida Power and Light subsidiary. The plant was acquired on a fully merchant basis, with no new power purchase agreements between FPL Group and any of the former owners of Seabrook included as part of the transaction. The company intends to contract approximately 75% of the output of its entire Northeast unregulated generation portfolio into the NEPOOL market by the end of 2002.

Because parent FPL Group guarantees the obligations of FPL Group Capital, increased leverage at the subsidiary puts pressure on all the rated entities within the FPL Group, including Florida Power and Light, its operating utility subsidiary. The utility is engaged in a large capital expenditure program of its own to meet capacity needs in Florida and must also manage a four-year $250 million annual rate reduction approved this month by the Florida Public Service Commission. While the rate settlement reduces regulatory uncertainty and includes incentive-based revenue sharing mechanisms which FP&L can take advantage of, the rate reduction may reduce the utility's traditionally strong coverage ratios going forward.

As part of our review, Moody's plans to meet with senior management and will focus on FPL Group's future independent power project development strategy, its financing plans for both this expansion and for growth needs at Florida Power & Light, and the extent to which the utility can mitigate the negative effects of the rate reduction.

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WEDNESDAY, DECEMBER 19, 2001 C1

Rating Agencies Crack Down on Utilities

Hard Line on Debt Jolts Power Industry

CREDIT MARKETS

By REBECCA SMITH
Staff Reporter of THE WALL STREET JOURNAL

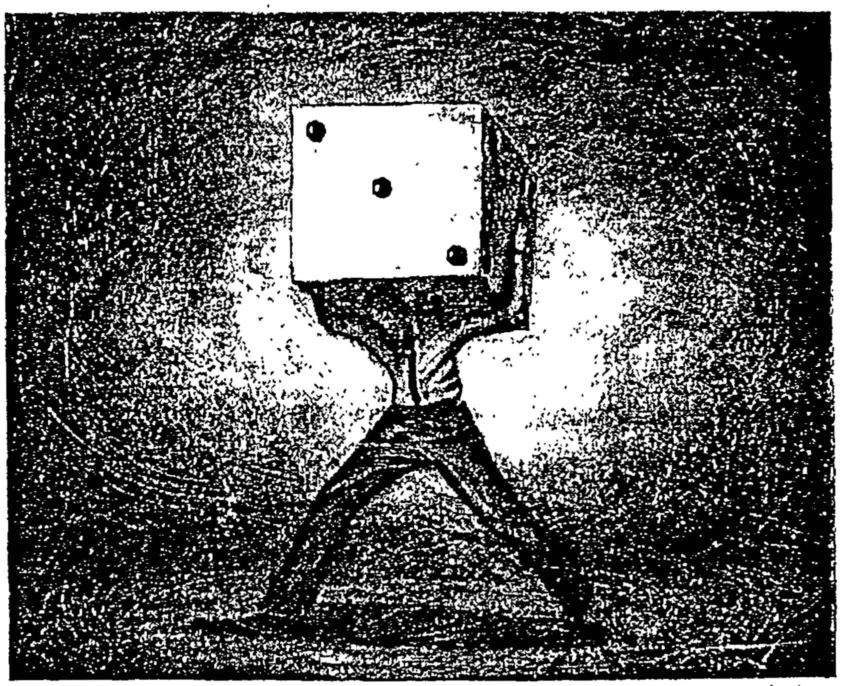
Credit-rating agencies were asleep when California's deregulated energy market imploded. They were slow to act when Enron Corp. plunged, for fear of hastening its demise. Now, they have made an about-face and are being tougher than ever on power companies, telling them to slash debt or else.

Downgrades of Dynegy Inc. and Calpine Corp.—both coming as apparent surprises to the companies' chief executives—function as a shot over the bow of an entire industry that has been borrowing like crazy. Companies involved in energy marketing and trading have to recognize they are in a "confidence-sensitive industry" that can create sudden needs for cash collateral, says John Diaz, energy analyst for Moody's Investors Service Inc.

After Enron's Chapter 11 bankruptcy-court filing early this month, the rating agencies want to see more cash on hand. The message: The market is more worried about risk than it is excited by the prospect of profits from deregulated markets.

Underscoring this new reality, companies on negative credit watch from Standard & Poor's Ratings Group or Moody's include Allegheny Energy Supply, a unit of Allegheny Energy Inc.; Calpine; Duke Energy Trading and Marketing LLC, a unit of Duke Energy Corp.; Dynegy; NRG Energy Inc. and Reliant Resources Inc. Moody's has said it will issue an opinion tomorrow on several of these companies, as well as AES Corp. and Edison Mission Energy, a unit of Edison International.

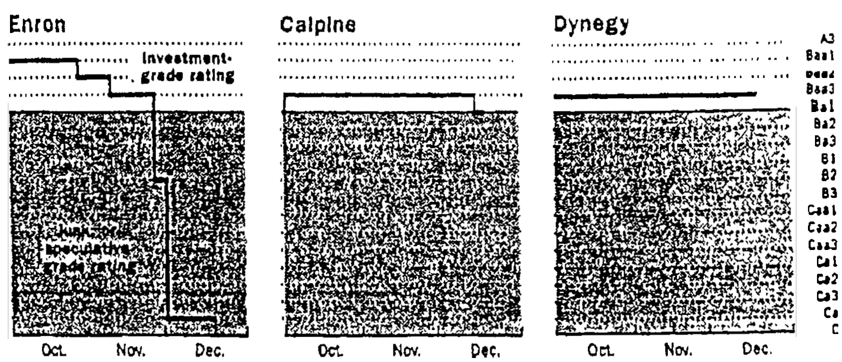
Ratings downgrades make it more difficult and more expensive to borrow money. That is true for all companies. But a low credit rating can be especially troublesome for energy-trading companies because they often operate on slim margins, and a higher borrowing cost can wipe out profits. More important, most energy firms require trading partners to be credit-worthy in order to enter into contracts. A firm that slips can be required to post large amounts of cash collateral that can cause a liquidity "death spiral" such as Enron experienced.



Jon Krause

Slow to Weigh the Risks?

On the heels of its Dec. 3, 2001, downgrade of Enron, Moody's Investors Service has also lowered its ratings on Calpine and Dynegy.



Source: Moody's Investors Service

The speed of Enron's collapse has caused the credit agencies to be more vigilant, reflecting criticism that they have both been slow to sense change and that they have permitted "ratings inflation" during recent years. "I don't know if the problem was grade inflation as much as a willingness to downplay the exposure that was off balance sheet," says Jeffrey Holzschuh, an investment banker for the power industry at Morgan Stanley. "It's not just credit-rating agencies. The whole market was overheated."

At Moody's, Mr. Diaz says his agency now routinely asks companies, "Assume you're downgraded to below investment grade. Do you have sufficient liquidity to run your business?" It is equivalent to asking the average worker, assume you lose your job, do you have enough savings to pay the mortgage? "Companies haven't focused on this possibility at all," he says.

Now, says Alan Spen, a credit analyst at rating agency Fitch Inc., "banks are fearful to put more money into the sector" and it is making credit analysts nervous, as well. The smart companies, he says,

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Raters Spark Energy Industry to Rein in Borrowing

CREDIT MARKETS

Continued From Page C1

are the ones that voluntarily "get their balance sheets in line" and then "let the market know they're in charge of their destiny ... since the market clearly has the heebie-jeebies."

It isn't the message energy companies were getting a few months ago. In fact, the ability to borrow heavily was touted as one of the central advantages of the national push toward deregulated power markets since the mid-1990s. Historically, regulated utilities were permitted to borrow only a dollar for every dollar of equity they invested because ratepayers ultimately bore the risk of any failure. But so-called merchant generators of electricity, often affiliated with utilities, could borrow as much as their credit ratings and banks would permit. Calpine, the fastest-growing power-plant builder in the country, has borrowed two dollars from banks and bondholders for each dollar of equity, for instance.

Capital markets are "very fickle" now, says Mr. Holzschuh of Morgan Stanley. "From week to week, the judgments can be different and it's extremely selective."

Nine months ago, the energy business was promoting itself as a colossal "growth story" that could pick up where the dot-com meltdown left off. The price-to-earnings ratios of the stocks of flashier companies in the sector, such as Enron and Calpine, were huge, signaling investor confidence in ever-rising earnings.

That view started to dim early this year when problems in California's deregulated energy market pushed the state's largest private utility, PG&E Corp.'s Pacific Gas & Electric Co., into bankruptcy court. The jitters turned into panic when Enron collapsed in a shocking six weeks, amid questions over its accounting practices.

Now, there is a heightened sense that "we're the ultimate guardians of financial markets," says Mr. Spen of Fitch. "People are looking to us for a higher degree of guidance since we have special access to inside information about these companies."

Their tougher line is having a big effect. Even companies with stocks trading near their 52-week lows now appear prepared to issue new stock to bolster equity. Dynegy and gas-and-electricity seller El Paso Corp. both say they are willing to take lumps from common shareholders for diluting them rather than risk the wrath of the rating agencies. Executives of Mirant Corp., a recent power-generation spinoff of Atlanta's Southern Co., have been barricaded in their offices preparing to unveil details on the company's capital restructuring later in the week.

All the belt-tightening spells bad news for continued development of the nation's energy infrastructure. Companies that can borrow more money and stretch their dollars, quite simply, can build more plants and equipment. Companies that are increasingly dependent on equity financing—particularly in a bear market—can do less. Already, Dynegy, NRG and others have said they will slow development projects. If enough follow, it could put the nation in a tight spot when the recession ends and energy demand surges.

It was a point made in a recent analyst call by Calpine Chairman Pete Cartwright. "We're building a portfolio of the best plants it's possible to build with a working life of 40 years or more," he said, with evident exasperation at souring investor perceptions of his company's health. "America needs this power."

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STANDARD & POOR'S
CREDITWEEK
REPRINT
THE AUTHORITY ON CREDIT QUALITY
MAY 24, 1993

BUY VERSUS BUILD DEBATE REVISITED

"Regardless of whether a utility buys or builds, adding capacity means incurring risk."

The debate over purchased power, or the "buy versus build" controversy, will likely continue to rage as state utility regulators grapple with the implications of the National Energy Policy Act of 1992. As part of this sweeping legislation, state regulators must consider the potential impact on utilities' cost of capital from purchasing power.

Compared with the last baseload construction cycle, which is universally acknowledged to have been a disaster for investor-owned utilities, buying power from others appears substantially less risky than building new capacity. However, the electric utility industry's entire approach to supply-side resource additions has undergone radical transformation, to the point where it is now impossible to generalize about whether utility bondholders are better off if their utility buys or builds. The important thing is that both resource strategies have inherent risks. S&P employs a methodology for evaluating the benefits and risks of purchased power, and for adjusting a purchasing utility's reported financial statements to allow for more meaningful comparisons with traditional utilities.

Table 1
Determining the risk factor

The risk factor chosen is a function of a subjective (not arbitrary) analysis of qualitative risks.

Market	Need for power Economics
Operating	Performance standards Reliability Dispatchability Control over maintenance Flexibility and diversity
Regulatory	Preapproval Regulatory recovery mechanisms Regulatory out clause

BENEFITS OF PURCHASING POWER

Buying power may be the best choice for a utility that faces increasing demand. Moreover, purchasing may be the least risky course. The benefits of purchasing can be quite compelling. For example, utilities that purchase avoid the risks of significant construction cost overruns or that the plant might never be finished at all. They also may avoid the associated financial stress caused by regulatory lag typical in building programs.

In addition, utilities that purchase power avoid risking substantial capital. There are many examples of utilities that have failed to earn a full return on and of capital employed to build a plant. Furthermore, purchased power may contribute to fuel-supply diversity and flexibility, and may be cheaper, at least over the short run. Utilities that meet demand expectations with a portfolio of supply-side options also may be better able to adapt to future demand uncertainty, given the specter of retail transmission access.

Nevertheless, in the buy-versus-build debate it is important that appropriate comparisons are made. A properly designed building program may avoid many of the risks associated with the unfortunate baseload program of the 1970s and early 1980s. A utility could:

- Build a plant using a fixed-price, turnkey construction contract;
- Construct with a modular approach, adding small units incrementally as demand expectations solidify;
- Obtain regulatory preapproval;
- Receive a cash return on construction work in progress to ease financing stress; and
- Finance the asset with a large portion of equity, providing a cushion for bondholders.

PURCHASES ARE NOT RISK-FREE

Regardless of whether a utility buys or builds, adding capacity means incurring risk. To the extent that there are any risks with purchased power, bondholders are directly threatened because there is no equity layer to protect them. Utilities are not compensated for any risks they assume in purchasing power. At best, purchased power is recovered dollar-for-dollar as an operating expense, so there is no markup to reward equity holders for taking risks.

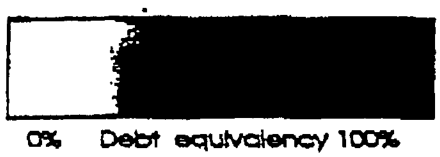
When a utility enters into a long-term purchased power contract with a fixed-cost component, it takes on financial risk. Heavy fixed

CREDIT COMMENT

charges reduce a utility's financial flexibility, and long-term contractual arrangements represent—at least in part—off-balance-sheet debt equivalents. Utilities need to take these "financial externalities" into account so that buy and build options are evaluated on a level playing field.

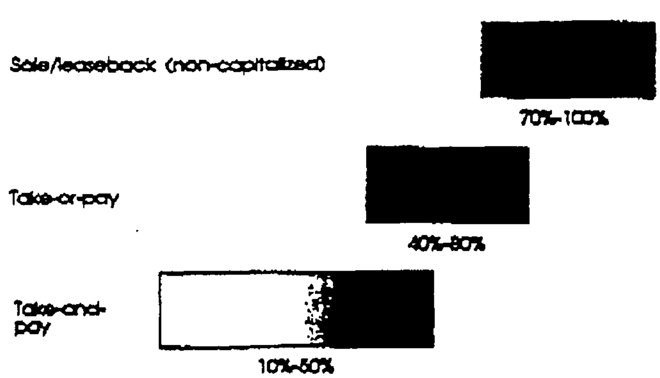
S&P has developed a methodology to quantify this financial risk and adjust financial statements to make traditional utilities and purchasing utilities comparable. S&P's approach is unique because it folds our qualitative analysis into our quantitative methodology. S&P begins by determining the potential off-balance-sheet obligation. This is done by calculating the present value of the capacity payments to be made over the life of the contract, discounted at 10%. The capacity payment is the fixed portion of the purchased power expense. It covers fixed costs, including debt service, depreciation, and a return on equity. S&P is concerned about the total fixed payment, not simply the debt service portion: the utility is obligated to pay the whole amount, not just a part. This means S&P is relatively indifferent to how the nonutility generator is capitalized, except in the extreme case where vast overleveraging threatens the viability of the project.

Chart 1
Risk Spectrum



In virtually all cases, S&P has access to—and utilizes—actual capacity payments. In the rare instance where they are not available or where capacity and energy payments are not broken out—such as in an energy-only contact—S&P will estimate the capacity payment.

Chart 2
Risk factors for various off-balance-sheet obligations



S&P does not stop with the potential debt equivalent. S&P recognizes that not all obligations have the same characteristics. What is true of other off-balance-sheet liabilities also is true of purchased power: some are more firm and therefore more debt-like than others.

This concept of the difference in the relative debt characteristics of purchased power obligations can be illustrated by using the concept of a risk spectrum *(see chart 1)*. A risk spectrum is simply a range from 0% to 100%. Obligations on the low end of the scale would have fewer debt-like characteristics and would be considered less firm than the obligations judged to fall on the high end of the scale. This spectrum is important because the place where an obligation falls on the scale—what S&P calls the risk factor—will determine what portion of the obligation S&P will add to a utility's reported debt. For example, if S&P determines that the risk factor for an obligation is 20%, S&P adds 20% of the potential debt equivalent to reported debt.

Different off-balance-sheet obligations have different risks *(see chart 2, which shows various types of off-balance sheet obligations and where S&P believes they might fall on the risk spectrum scale)*. Sale/leasebacks of major plants are viewed as the virtual equivalent of debt, due to the strategic importance of these major electric generating facilities and the "hell-or-high-water" nature of the lease commitments.

Obligations under take-or-pay contracts, which are unconditional as to both acceptance and availability of power, are considered quite firm. The extreme case would be a unit-specific purchase of expensive nuclear capacity under a firm take-or-pay arrangement. Here, the risk factor might be as high as 70%-80%. Take-and-pay contracts, which require capacity payments only if power is available, are considered the least debt-like of the three types of obligations listed in chart 2 because take-and-pay capacity payments are conditional. In practice, the risk factors for take-and-pay performance contracts are generally in the 10%-20% range, although some may be as high as 50%.

DETERMINING THE RISK FACTOR

How does S&P determine the risk factor or the place where an obligation falls on the risk spectrum? S&P's assessment of the risk factor reflects our analysis of the risks a utility incurs when purchasing power under contract. This depends on a qualitative analysis of market, operating, and regulatory risks. It also depends on S&P's evaluation of the extent to which these risks are borne by the utility. The analysis is subjective, but not arbitrary *(see table 1 for some of the key factors under each broad risk category)*. Depending on circumstances, the utility may bear substantial risks, or it may have successfully shifted risks to either the ratepayers or to the nonutility generator provider of the power.

Lower risk factors would be appropriate if:

- The power is economic and needed,
- True performance standards exist,
- A project has operated reliably,
- The utility has a say in the scheduling of maintenance and retains control over dispatch,
- A contract is preapproved by regulators,
- Capacity payments are recovered through a fuel-clause type mechanism, and
- A regulatory out clause passes disallowance risk to the power seller.

The absence of these qualitative risk mitigators would lead toward the higher end of the risk spectrum and a higher risk factor.

ADJUSTMENTS TO FINANCIAL STATEMENTS

Once S&P has determined what the risk factor is through a qualitative evaluation, S&P then adjusts the utility's financial statements. The procedure to adjust debt is to take the present value of future capacity payments discounted at 10%. The 10% discount factor was chosen to approximate a utility's average cost of capital. The result—the potential debt equivalent—would be multiplied by the risk factor. That result would be added to the utility's reported debt. To adjust the traditional pretax interest coverage ratio, S&P would take 10% of the adjustment to debt. A typical example of the adjustment process is shown below.

ABC POWER CO. EXAMPLE

To illustrate the financial adjustments, consider the hypothetical example of ABC Power Co. buying power from XYZ Cogeneration Venture. Under the terms of the purchased power contract, annual capacity payments made by ABC Power start at $115 million in 1993, rise by $5 million per year to $135 million by 1997, and remain fixed through the expiration of the purchased power contract in 2023. The net present value of these obligations over the life of the contract discounted at 10% is $1.3 billion.

Table 2
ABC Power Co. adjustment to capital structure
(Mil. $ at year-end 1992)

	Original capital structure		Adjusted capital structure		
	$	%	$	%	
Debt	1,400	54	1,400	49	58
Adjustment to debt	—	—	265	9	
Preferred stock	200	8	200	7	
Common equity	1,000	38	1,000	35	

Table 3
ABC Power Co. adjustment to pretax interest coverage
(Mil. $ year-end 1992)

		Orig. pretax int. cov.			Adj. pretax int. cov.
Net income	120			300	
Income taxes	65	300		+27	
Interest expense	115	115	= 2.6x	115	= 2.3x
Pretax available	300			+27	

Interest associated with adjusted debt = $265 million x 10%

In the case of XYZ, S&P chose a 20% risk factor, which, when multiplied by the potential debt equivalent, resulted in a figure of $265 million. The risk factor is chosen based on qualitative analysis of the purchased power contract itself and the extent to which market, operating, and regulatory risks are borne by the utility.

Table 2 shows the adjustment to ABC Power's capital structure. S&P takes $265 million, which is the net present value of the future capacity payments multiplied by a 20% risk factor, and adds it to ABC Power's actual debt of $1.4 billion at year-end 1992. As illustrated in table 2, ABC Power's adjusted debt leverage is 58%, up from 54%.

Table 3 illustrates that ABC Power's pretax interest coverage for 1992, without adjusting for off-balance-sheet obligations, was 2.6 times (x), which is calculated by dividing the sum of net income, income taxes, and interest expense by interest expense. To adjust for the XYZ capacity payments, the $265 million debt adjustment is multiplied by a 10% interest rate to arrive at $27 million. When this is added to both the numerator and denominator, adjusted pretax interest coverage falls to 2.3x.

EFFECT ON RATINGS

The purchased power issue is somewhat complex, but S&P strongly believes that certain purchased power contracts are less risky than others, and that these subtle differences must be factored into the analysis. S&P combines qualitative analysis with the traditional present value approach. The result is an adjustment to debt that is understandable and useful, particularly in the regulatory process, since the adjusted ratios S&P derives are the ones on which S&P ratings are based.

Over the past few years, several ratings have been lowered due to purchased power obligations. In other cases, S&P did not raise ratings. Still others are lower than they might otherwise be owing to purchased power liabilities.

S&P anticipates some rating downgrades of electric utilities over the next couple of years. However, much will depend on how utilities and regulators respond to S&P's analysis.

Utilities can offset purchased power liabilities in several ways, including higher returns on equity or higher equity components in capital structures. Another possibility might be some type of incentive return mechanism.

As competition increases in the electric utility industry, power supply strategies will grow more complex. Consequently, a utility's purchased power obligations must be evaluated in a broader framework than the one this article addresses.

The simple truth is that a utility can build all of its own plants, finance them with a balanced mix of equity and debt, put them into rate base without a disallowance, and still find itself in trouble if its rates are not competitive. Consequently, the buy- ▶

versus-build debate must be viewed within the larger context of a utility's competitive position.

There are many benefits to purchasing power. Indeed, purchasing may be the least risky strategy, but it is not risk-free. S&P's methodology quantifies the risks by explicitly recognizing the key qualitative factors of markets, operations, and regulation. S&P analyzes contracts to determine who is taking the risk: the nonutility generator, the utility, or the ratepayer. S&P recognizes that these adjustments must be viewed within the larger context of a utility's competitive position.

Curtis Moulton
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EXHIBIT 6 – Newspaper Article dated July 25, 2003 Titled "FPL Group Reports 2003 Second Quarter Earnings"

July 25, 2003

FPL Group reports 2003 second quarter earnings

Florida Power & Light | FPL Energy | Corporate and Other | Profile

JUNO BEACH, Fla. (July 25, 2003) - FPL Group, Inc. (NYSE: FPL) today reported 2003 second quarter net income on a GAAP basis of $239 million, or $1.34 per share, compared with $250 million, or $1.46 per share, in the second quarter of 2002.

FPL Group's net income for the second quarter 2003 included a net unrealized loss of $2 million after-tax associated with the mark-to-market effect of non-managed hedges, compared to a net unrealized gain of $1 million after-tax in the prior year quarter. Excluding the mark-to-market effect on non-managed hedges, FPL Group's earnings would have been $241 million, or $1.35 per share for the second quarter of 2003, compared with $249 million, or $1.45 per share, in the second quarter of 2002. Management views results expressed in this fashion as an important indicator of overall operational performance for the period.

"FPL Group's two main businesses produced solid returns, and our overall results were in line with our expectations for the quarter," said Lew Hay, chairman and chief executive officer. "Florida Power & Light continued to enjoy strong customer growth, and FPL Energy posted a record quarter, primarily due to strong contributions from its Seabrook nuclear power plant operations and additions to its wind power portfolio."

"Given our performance for the quarter and year-to-date, we remain comfortable with our full-year earnings outlook of $4.80 to $5.00 per share, excluding the mark-to-market effect of non-managed hedges, which cannot be determined at this time," said Hay.

Florida Power & Light

Second quarter net income for Florida Power & Light, FPL Group's principal subsidiary, was $199 million or $1.12 per share, down from $205 million or $1.20 per share from the prior year quarter. FPL has added 96,000 customer accounts over the last twelve months, an increase of 2.4 percent since the 2002 second quarter.

Electricity usage per customer was up slightly in the quarter. "FPL continues to enjoy strong customer and underlying usage growth; however, our results in the quarter were tempered somewhat by milder weather compared to the prior year quarter. In addition, our results were impacted by higher operations and maintenance expense, including increased health care, insurance and power plant maintenance expenses, as well as higher depreciation associated with our growth in Florida," said Hay.

In April the governor and cabinet approved the company's Manatee and Martin power plant proposals to add generating capacity to serve anticipated customer growth. Expansion at the two sites will add approximately 1,900 megawatts and will supply electricity to an estimated 400,000 customers. Construction of these projects is underway and is expected to be completed in 2005.

FPL Energy

FPL Energy, the unregulated wholesale energy subsidiary of FPL Group, reported second quarter net income on a GAAP basis of $49 million or $0.28 cents per share including a net unrealized loss of $2 million after-tax associated with the mark-to-market effect of non-managed hedges. This compares to $38 million or $0.22 cents per share in the prior year quarter, which included a net unrealized gain of $1 million after-tax associated with the mark-to-market effect of non-managed hedges.

Excluding the mark-to-market effect of non-managed hedges, earnings would have been $51 million or $0.29 cents per share compared to $37 million or $0.21 cents per share in 2002.

More than 340 megawatts of new wind projects and strong performance at the Seabrook nuclear power station significantly contributed to FPL Energy's earnings growth. In addition, FPL Energy also benefited from lower general and administrative expenses and increased contributions from asset optimization versus the prior year. Positive results were somewhat offset by a weaker performance of the subsidiary's existing portfolio. Additionally, FPL Energy's second quarter 2002 results benefited from a favorable insurance settlement.

Earlier this week, FPL Energy announced a new 144-megawatt wind project in Wyoming and a 16-megawatt expansion of its High Winds Energy Center in California. To date, the company has announced wind projects representing approximately 835 megawatts of capacity that will be added to its portfolio by year-end.

"Our disciplined growth strategy coupled with our diverse portfolio, industry leading position in wind generation and moderate risk approach have served us well in these challenging market conditions," Hay said. "Our recently completed $380 million wind financing and $400 million construction financing confirm our access to multiple sources of capital and further demonstrate the financial strength and flexibility of our company."

Corporate and Other

Corporate and Other's contribution to net income was a negative $9 million or $0.06 cents per share. FPL FiberNet, an FPL Group subsidiary that provides fiber-optic networks and related services in Florida, had a net loss of $3 million, compared to a $13 million net income in the prior year's quarter. The company said it expects FPL FiberNet to be at or near break even in 2003 and anticipates higher corporate expenses, resulting in a drag to earnings of 20 to 30 cents per share for the full year.

FPL Group's second quarter earnings conference call is scheduled for 9 a.m. ET on Friday, July 25, 2003. The webcast is available on FPL Group's website by accessing the following link, http://www.fplgroup.com/investor/contents/investor_index.shtml

Profile

FPL Group, with annual revenues of more than $8 billion, is nationally known as a high-quality, efficient, and customer-driven organization focused on energy-related products and services. With a growing presence in 26 states, it is widely recognized as one of the country's premier power companies. Its principal subsidiary, Florida Power & Light Company, serves more than 4 million customer accounts in Florida. FPL Energy, LLC, an FPL Group energy-generating subsidiary, is a leader in producing electricity from clean and renewable fuels. Additional information is available on the Internet at www.fplgroup.com, www.fpl.com and www.fplenergy.com.

CAUTIONARY STATEMENTS AND RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), FPL Group and FPL are hereby filing cautionary statements identifying important factors that could cause FPL Group's or FPL's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of FPL Group and FPL in this press release, in SEC filings, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, projection, target, outlook) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions and uncertainties. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors (in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements) that could cause FPL Group's or FPL's actual results to differ materially from those contained in forward-looking statements made by or on behalf of FPL Group and FPL.

Any forward-looking statement speaks only as of the date on which such statement is made, and FPL Group and FPL undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The following are some important factors that could have a significant impact on FPL Group's and FPL's operations and financial results, and could cause FPL Group's and FPL's actual results or outcomes to differ materially from those discussed in the forward-looking statements:

· FPL Group and FPL are subject to changes in laws or regulations, including the Public Utility Regulatory Policies Act of 1978, as amended, and the Public Utility Holding Company Act of 1935, as amended, changing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission, the Florida Public Service Commission (FPSC) and the utility commissions of other states in which FPL Group has operations, and the U.S. Nuclear Regulatory Commission, with respect to, among other things, allowed rates of return, industry and rate structure, operation of nuclear power facilities, operation and construction of plant facilities, operation and construction of transmission facilities, acquisition, disposal, depreciation and amortization of assets and facilities, recovery of fuel and purchased power costs, decommissioning costs, return on common equity and equity ratio limits, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs). The FPSC has the authority to disallow recovery of costs that it considers excessive or imprudently incurred.

· The regulatory process generally restricts FPL's ability to grow earnings and does not provide any assurance as to achievement of earnings levels.

· FPL Group and FPL are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety that could, among other things, restrict or limit the use of certain fuels required for the production of electricity. There are significant capital, operating and other costs associated with compliance with these environmental statutes, rules and regulations, and those costs could be even more significant in the future.

· FPL Group and FPL operate in a changing market environment influenced by various legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the energy industry, including deregulation of the production and sale of electricity. FPL Group and its subsidiaries will need to adapt to these changes and may face increasing competitive pressure.

· The operation of power generation facilities involves many risks, including start up risks, breakdown or failure of equipment, transmission lines or pipelines, the dependence on a specific fuel source or the impact of unusual or adverse weather conditions (including natural disasters such as hurricanes), as well as the risk of performance below expected levels of output or efficiency. This could result in lost revenues and/or increased expenses. Insurance, warranties or performance guarantees may not cover any or all of the lost revenues or increased expenses, including the cost of replacement power. In addition to these risks, FPL Group's and FPL's nuclear units face certain risks that are unique to the nuclear industry including additional regulatory actions up to and including shut down of the units stemming from public safety concerns, whether at FPL Group's and FPL's plants, or at the plants of other nuclear operators. Breakdown or failure of an FPL Energy operating facility may prevent the facility from performing under applicable power sales agreements which, in certain situations, could result in termination of the agreement or incurring a liability for liquidated damages.

· FPL Group's and FPL's ability to successfully and timely complete their power generation facilities currently under construction, those projects yet to begin construction or capital improvements to existing facilities is contingent upon many variables and subject to substantial risks. Should any such efforts be unsuccessful, FPL Group and FPL could be subject to additional costs, termination payments under committed contracts and/or the write-off of their investment in the project or improvement.

· FPL Group and FPL use derivative instruments, such as swaps, options, futures and forwards to manage their commodity and financial market risks, and to a lesser extent, engage in limited trading activities. FPL Group could recognize financial losses as a result of volatility in the market values of these contracts, or if a counterparty fails to perform. In addition, FPL's use of such instruments could be subject to prudency challenges by the FPSC and if found imprudent, cost disallowance.

· There are other risks associated with FPL Group's nonregulated businesses, particularly FPL Energy. In addition to risks discussed elsewhere, risk factors specifically affecting FPL Energy's success in competitive wholesale markets include the ability to efficiently develop and operate generating assets, the price and supply of fuel, transmission constraints, competition from new sources of generation, excess generation capacity and demand for power. There can be significant volatility in market prices for fuel and electricity, and there are other financial, counterparty and market risks that are beyond the control of FPL Energy. FPL Energy's inability or failure to effectively hedge its assets or positions against changes in commodity prices, interest rates, counterparty credit risk or other risk measures could significantly impair its future financial results. In keeping with industry trends, a portion of FPL Energy's power generation facilities operate wholly or partially without long-term power purchase agreements. As a result, power from these facilities is sold on the spot market or on a short-term contractual basis, which may affect the volatility of FPL Group's financial results. In addition, FPL Energy's business depends upon transmission facilities owned and operated by others; if transmission is disrupted or capacity is inadequate or unavailable FPL Energy's ability to sell and deliver its wholesale power may be limited.

· FPL Group is likely to encounter significant competition for acquisition opportunities that may become available as a result of the consolidation of the power industry. In addition, FPL Group may be unable to identify attractive acquisition opportunities at favorable prices and to successfully and timely complete and integrate them.

· FPL Group and FPL rely on access to capital markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. The inability of FPL Group and FPL to maintain their current credit ratings could affect their ability to raise capital on favorable terms, particularly during times of uncertainty in the capital markets which, in turn, could impact FPL Group's and FPL's ability to grow their businesses and would likely increase interest costs.

· FPL Group's and FPL's results of operations can be affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas and affect the price of energy commodities, and can affect the production of electricity at wind and hydro-powered facilities. In addition, severe weather can be destructive, causing outages and/or property damage, which could require additional costs to be incurred.

· FPL Group and FPL are subject to costs and other effects of legal and administrative proceedings, settlements, investigations and claims; as well as the effect of new, or changes in, tax rates or policies, rates of inflation or accounting standards.

· FPL Group and FPL are subject to direct and indirect effects of terrorist threats and activities. Generation and transmission facilities, in general, have been identified as potential targets. The effects of terrorist threats and activities include, among other things, terrorist actions or responses to such actions or threats, the inability to generate, purchase or transmit power, the risk of a significant slowdown in growth or a decline in the U.S. economy, delay in economic recovery in the U.S., and the increased cost and adequacy of security and insurance.

· FPL Group's and FPL's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be affected by national events as well as company-specific events.

· FPL Group and FPL are subject to employee workforce factors, including loss or retirement of key executives, availability of qualified personnel, collective bargaining agreements with union employees or work stoppage. The issues and associated risks and uncertainties described above are not the only ones FPL Group and FPL may face. Additional issues may arise or become material as the energy industry evolves. The risks and uncertainties associated with these additional issues could impair FPL Group's and FPL's businesses in the future.

FPL Group, Inc.

Financial Summary

(in millions, except per share amounts)

	Three Months Ended June 30, 2003	2002
Operating Revenues	$ 2,459	$ 2,128
Operating Expenses		
Fuel, purchased power and interchange	1,182	969
Other operations and maintenance	391	335
Depreciation and amortization	267	230
Taxes other than income taxes	205	185
Total operating expenses	2,045	1,719
Operating Income	414	409
Other Income (Deductions)		
Interest charges	(84)	(79)
Preferred stock dividends - FPL	(4)	(4)
Equity in earnings of equity method investees	18	24
Other - net	6	23
Total other income (deductions) - net	(64)	(36)
Income From Operations Before Income Taxes	350	373
Income Taxes	111	123
Net Income	**$ 239**	**$ 250**
Reconciliation of Net Income to Earnings Excluding After-tax Effect of Certain Items		
Net Income	$ 239	$ 250
Adjustments		
Net unrealized mark-to-market losses (gains) associated with non-managed hedges, primarily FPL Energy	2	(1)
Earnings excluding after-tax effect of certain items	**$ 241**	**$ 249**
Earnings Per Share (assuming dilution)	**$ 1.34**	**$ 1.46**
Earnings Per Share excluding certain items (assuming dilution)	**$ 1.35**	**$ 1.45**
Weighted-average shares outstanding (assuming dilution)	178	171

FPL Group, Inc.
Financial Summary
(in millions, except per share amounts)

	Six Months Ended June 30, 2003		Six Months Ended June 30, 2002	
Operating Revenues	$	4,632	$	3,899
Operating Expenses				
Fuel, purchased power and interchange		2,204		1,701
Other operations and maintenance		784		681
Depreciation and amortization		526		494
Taxes other than income taxes		397		358
Total operating expenses		3,911		3,234
Operating Income		721		665
Other Income (Deductions)				
Interest charges		(161)		(160)
Preferred stock dividends - FPL		(7)		(7)
Equity in earnings of equity method investees		51		33
Other - net		(1)		27
Total other income (deductions) - net		(118)		(107)
Income From Operations Before Income Taxes		603		558
Income Taxes		189		142
Income Before Cumulative Effect of a Change in Accounting Principle		414		416
Cumulative Effect of Adopting FAS 142, "Goodwill and Other Intangible Assets," Net of Income Taxes of $143		-		(222)
Net Income	$	**414**	$	**194**
Reconciliation of Net Income to Earnings Excluding After-tax Effect of Certain Items				
Net Income	$	414	$	194
Adjustments				
Accounting change (goodwill impairment) - FPL Energy		-		222
Gain on settlement of IRS litigation - Corporate and Other		-		(30)
Net unrealized mark-to-market gains associated with non-managed hedges, primarily FPL Energy		(1)		(2)
Earnings excluding after-tax effect of certain items	$	**413**	$	**384**
Earnings Per Share (assuming dilution)	$	2.33	$	1.14
Earnings Per Share excluding certain items (assuming dilution)	$	2.32	$	2.26
Weighted-average shares outstanding (assuming dilution)		178		170

FPL Group, Inc.
Earnings Per Share Summary
(assuming dilution)

	Three Months Ended June 30,	
	2003	2002
Florida Power & Light Company	$ 1.12	$ 1.20
FPL Energy, LLC	0.28	0.22
Corporate and Other	(0.06)	0.04
Earnings Per Share	**$ 1.34**	**$ 1.46**

Reconciliation of Earnings Per Share to Earnings Per Share Excluding Effect of Certain Items		
Earnings Per Share	$ 1.34	$ 1.46
Adjustments		
Net unrealized mark-to-market losses (gains) associated with non-managed hedges, primarily FPL Energy	0.01	(0.01)
Earnings Per Share excluding effect of certain items	**$ 1.35**	**$ 1.45**

	Six Months Ended June 30,	
	2003	2002
Florida Power & Light Company	$ 1.88	$ 1.90
FPL Energy, LLC	0.52	(0.95)
Corporate and Other	(0.07)	0.19
Earnings Per Share	**$ 2.33**	**$ 1.14**

Reconciliation of Earnings Per Share to Earnings Per Share Excluding Effect of Certain Items		
Earnings Per Share	$ 2.33	$ 1.14
Adjustments		
Accounting change (goodwill impairment) - FPL Energy	-	1.31
Gain on settlement of IRS litigation - Corporate and Other	-	(0.18)
Net unrealized mark-to-market gains associated with non-managed hedges, primarily FPL Energy	(0.01)	(0.01)
Earnings Per Share excluding effect of certain items	**$ 2.32**	**$ 2.26**

FPL Group, Inc.
Earnings Per Share Summary
(assuming dilution)

	Twelve Months Ended June 30,			
	2003		2002	
Florida Power & Light Company	$	4.12	$	4.26
FPL Energy, LLC		0.48		(0.61)
Corporate and Other		(0.68)		0.16
Earnings Per Share	**$**	**3.92**	**$**	**3.81**

Reconciliation of Earnings Per Share to Earnings Per Share Excluding Effect of Certain Items:

	2003		2002	
Earnings Per Share	$	3.92	$	3.81
Adjustments				
Charges due to restructuring of FPL Energy		0.41		-
Accounting change (goodwill impairment) - FPL Energy		-		1.31
Charges due to restructuring of FPL FiberNet - Corporate and Other		0.36		-
Reserve for leveraged leases - Corporate and Other		0.17		-
Gain on settlement of IRS litigation - Corporate and Other		-		(0.18)
Net unrealized mark-to-market gains associated with non-managed hedges, primarily FPL Energy		-		(0.03)
Earnings Per Share excluding effect of certain items	**$**	**4.86**	**$**	**4.91**

FPL Group, Inc.

Earnings Per Share Contributions
(assuming dilution)

	Second Quarter		Year-to-Date	
FPL Group - 2002 Earnings Per Share	**$**	**1.46**	**$**	**1.14**
Florida Power & Light - 2002 Earnings Per Share		**1.20**		**1.90**
Customer growth		0.07		0.14
Usage due to weather		(0.03)		0.07
Usage, mix and other		0.05		0.13
Rate reduction		-		(0.21)
Refund provision		0.01		0.07
O&M expenses		(0.08)		(0.18)
Depreciation expense		(0.06)		0.02
Other, including share dilution and rounding		(0.04)		(0.06)
Florida Power & Light - 2003 Earnings Per Share		**1.12**		**1.88**
FPL Energy - 2002 Earnings Per Share		**0.22**		**(0.95)**
Project additions		0.13		0.29
Existing portfolio		(0.08)		(0.12)
Restructuring activities		-		(0.03)
Other, including share dilution and rounding		0.03		0.02
Goodwill impairment		-		1.31
Non-managed hedges impact		(0.02)		-
FPL Energy - 2003 Earnings Per Share		**0.28**		**0.52**
Corporate and Other - 2002 Earnings Per Share		**0.04**		**0.19**
FPL FiberNet		(0.09)		(0.07)
Favorable settlement with the IRS		-		(0.18)
Other, including share dilution and rounding		(0.01)		(0.01)
Corporate and Other - 2003 Earnings Per Share		**(0.06)**		**(0.07)**
FPL Group - 2003 Earnings Per Share	**$**	**1.34**	**$**	**2.33**

Florida Power & Light Company
Selected Statistics

Operating Data Periods ended June 30	Three Months 2003	Three Months 2002	Six Months 2003	Six Months 2002	Twelve Months 2003	Twelve Months 2002
Energy sales – kWh (millions):						
Residential	**13,021**	12,609	**25,039**	23,232	**52,672**	48,739
Commercial	**10,284**	10,010	**19,641**	19,031	**40,639**	39,143
Industrial	**992**	1,037	**2,016**	2,055	**4,018**	4,110
Other [1]	**1,214**	1,128	**1,063**	808	**846**	254
Total retail [1]	**25,511**	24,784	**47,759**	45,126	**98,175**	92,250
Wholesale	**425**	296	**762**	515	**1,514**	1,014
Interchange	**371**	392	**1,152**	968	**1,979**	1,743
Total	**26,307**	25,472	**49,673**	46,609	**101,668**	95,007
Average customer accounts (thousands)	**4,107**	4,011	**4,096**	4,002	**4,067**	3,975

Return on Equity	FPL	FPL Group, Inc
SEC basis	13.6%	10.7%
Regulatory	13.7% [2]	
Book value per share	$ 30.76	$ 37.61

Notes
1 Includes net change in unbilled sales
2 Estimated for June 30, 2003

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