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Dividend Policy at FPL Group, Inc. (A)

In the late afternoon of Thursday, May 5, 1994, Kate Stark, the electric utilities analyst at First Equity Securities Corporation, received an investment alert on one of the companies she followed. According to the report, Merrill Lynch's utilities analyst was downgrading FPL Group, Inc., Florida's largest electric utility. The report began:

> "We are [lowering] the investment rating for FPL Group . . . due to our expectation that the Directors will choose not to raise the annual dividend from $2.48 at [the annual meeting on] Monday, May 9. FPL's shareholders face the possibility that the dividend is not entirely secure, as we believe FPL may seriously review its dividend policy at this time . . . Management has suggested that it feels that its dividend payout is inappropriately high (in excess of 90% in 1993) given the increasing risks facing the industry . . . When asked specifically what might be done about the high dividend payout levels, management suggested that there are two ways to address high payout levels: 1) a company can grow out of a high payout; 2) a company can cut its dividend. . . we expect the company to keep the dividend at the $2.48/share level through 1997."[1]

Although this analyst was predicting the dividend would not change, this was the first time Stark had seen one of her peers suggest the possibility of a dividend cut. Only three weeks earlier, Stark herself had issued a report on FPL Group with a "hold" recommendation based on the assumption that FPL would keep its dividend at $2.48 per share or increase it slightly. What concerned her, however, was the fact that FPL's stock price had fallen by more than 6% that day. While she could not be sure the drop was related to the report, she wondered what, if anything, she should say to her clients regarding FPL's stock and whether she should issue an updated report.

Electric Utility Industry

One can trace the history of the US electric utility industry back to Thomas Edison's invention of the incandescent lamp in 1878. Electricity quickly became an important part of every day life because of the ease with which it could be transported from one place to another and converted into other useful forms (mechanical power, light, etc.). Electricity—the flow of electrons—is created by forcing steam or water through a turbine lined with electromagnets which induces electron movement. Once produced, electricity is transmitted through power lines and distributed to end users.

[1]Sanford Cohen and Daniel Ford, "FPL Group: Dividend Policy Review; Lowered Opinion," Merrill Lynch & Co., May 5, 1994, pp. 1, 3.

Research Associate Craig F. Schreiber prepared this case under the supervision of Professor Benjamin C. Esty as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This case was prepared solely on the basis of public information without the participation of FPL Group, Inc.

The concept of a public utility developed in the late nineteenth century to refer to a monopoly supplier of a "vital public service." The vital public service in this case was the generation, transmission, and distribution of electricity. In exchange for the monopoly right to supply electricity, power companies agreed to let government agencies regulate their prices and returns. By 1930, virtually every state had established a regulatory agency. In Florida, the Florida Public Service Commission not only regulated rates, returns, and capacity planning, but also determined what non-utility businesses a utility could enter.

The federal government's involvement in electric power began in earnest with the passage of the Federal Power Act in 1935. This Act gave the Federal Power Commission (renamed the Federal Energy Regulatory Commission (FERC) in 1977) the authority to oversee wholesale electricity transactions (sales of electricity between utilities rather than to consumers). During that same year, Congress also passed the Public Utilities Holding Company Act (PUHCA) which gave the Securities and Exchange Commission (SEC) the authority to regulate utilities with interstate systems or substantial investments in assets not related to the generation, transmission, and distribution of electricity. To avoid direct SEC supervision, the industry had evolved into a large number of intrastate, and relatively undiversified, utility companies operating under extensive federal and state regulation.

Rise of Deregulation

During the 1970s and 1980s, deregulation eliminated or weakened the monopoly service rights and fixed price systems common in such industries as trucking, airlines, banking, natural gas, and telecommunications. While the introduction of competition increased economic efficiency, there were often short term costs in terms of layoffs and business failures. Although the electric utilities industry entered this era of deregulation at roughly the same time as these other industries, deregulation had proceeded at a somewhat slower pace. Nevertheless, regulatory changes had been chipping away at utilities' monopoly franchises in each of the industry's major segments since 1978.

Congress, responding to concerns about US dependence on foreign oil and environmental damage resulting from burning fossil fuels (oil, gas, and coal) to produce electricity, passed the Public Utilities Regulatory Policies Act (PURPA) in 1978. The act encouraged the creation of power plants using renewable or non-traditional fuels such as geothermal, solar, and wind power and authorized FERC to regulate them. As long as these non-utility generators (known as "qualifying facilities" or QFs) met certain efficiency and size standards, the Act required local utilities to buy all of their electrical output (see **Exhibit 1**).

Fourteen years later, Congress introduced competition into the second segment of the industry—transmission—with the passage of the National Energy Policy Act of 1992 (NEPA). This act required utilities to make their transmission systems available to third party users at the same level of quality and cost enjoyed by the utilities themselves (see **Exhibit 1**). Prior to NEPA, a generator could sell power into another territory only if another utility agreed to transmit the power; after NEPA, a utility could demand access to another utility's transmission system. Shortly after NEPA took effect, legal disputes arose over transmission access. One of the first cases involved FPL (which controlled over 50% of Florida's transmission lines) and the Florida Municipal Power Agency. The municipal agency sued FPL for charging excessive rates and denying fair access to its transmission system. In October, 1993, FERC interceded and ordered the two parties to negotiate a settlement—the negotiations were still going on as of May 1994.

One of the major concerns about the implementation of NEPA was whether there would be sufficient transmission capacity. Analysts generally agreed that existing capacity combined with construction plans for new transmission lines would be sufficient through the year 2002. But there was some doubt whether certain planned transmission line additions could be constructed due to health concerns regarding the exposure to high voltage electromagnetic radiation and the opposition to clear-cutting of large swaths of land.

Deregulation of the final segment of the industry—distribution—was just beginning in early 1994. Certain states, including California and Michigan, were either considering or experimenting with competition in the distribution of electricity. For example, on April 20, the California Public Utilities Commission released a proposal (the "blue book") to phase-in "retail wheeling" beginning in 1996. California's commissioner said:

> "If we ignore. . . the rapid change that is already upon us, we place California utilities and the state's economy at considerable risk . . . Change isn't coming, it is not on the horizon, it is not around the corner, it is here before you now. . . [The proposal will be a] godsend, compared to the slow death that utilities surely face if we ignore the change before us."[2]

Under retail wheeling, customers would be allowed to buy power from utilities other than the local monopoly supplier. The local utility would be required to open its transmission and distribution network to outside utilities wishing to sell power in that market (see **Exhibit 1**). At first, large industrial customers (primarily manufacturing plants) would get the right to choose their electricity suppliers from a range of competitive bids. Over time, the other major customer segments—commercial users (office buildings, retail shops, universities, etc.) and eventually residential users (households)—would also get the right to pick their electricity suppliers. According to the blue book, full retail wheeling would be in place by the year 2002.

In the week following the release of the blue book proposal, California's three largest utilities, Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric together lost over $1.8 billion of market value—an average of 8% each from the day of the announcement. This loss in market value occurred during a week when both the stock market and the S&P Electric Utilities index were relatively flat.

Responding to the California proposal, a utility executive from Arizona commented:

> "What happens in California will create a domino effect across the country . . . [Utility managers will] have to be prepared for competition from new as well as existing players in the market."[3]

While regulators in California were proposing a retail wheeling system, regulators in Michigan were ready to experiment with such a system. In April 1994, they proposed a plan which would immediately allow several of the state's largest power users including General Motors and Dow Chemical to shop for power.[4] In the beginning, utilities with excess generating capacity would compete to serve the largest industrial and commercial customers. Eventually, utilities, or investors, might actually build new, dedicated generating plants to serve these customers.

Company Background

FPL Group's major subsidiary, Florida Power & Light Company (FP&L), was formed in 1925 through the consolidation of numerous electric and gas companies. The company enjoyed steady growth until the 1970s when rising fuel costs and construction cost over-runs—FPL spent almost $1 billion rebuilding a faulty nuclear plant—reduced its profitability. At the same time, FPL began experiencing operating problems which manifested themselves through frequent power outages and increasing customer complaints about service.

To improve the company's profitability, then Chairman Marshall McDonald decided to diversify into higher growth businesses and to establish a holding company structure to manage the new businesses. Over the next several years, FPL made four major acquisitions: Colonial Penn Life Insurance Company (an insurance company purchased for $566 million in 1985), Telesat Cablevision, Inc. (a cable television system purchased for $3.6 million in 1985), CBR Information Group Inc. (an information services company purchased for $54 million in 1986), and Turner Foods Corporation (a Florida citrus producer purchased for $47 million in 1988).[5] Besides the acquisitions, FPL Group established a real estate development subsidiary called Alandco, and an alternative energy development subsidiary called ESI Energy.

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[2]Anonymous, "California PUC Proposes Giving Ratepayers Access to Competitive Electric Market," *Electric Utility Week*, April 25, 1994, p. 6.

[3]Brad Altman, "Ratings Climate Just Turned Chillier for Electric Utilities, Agency Raters Say," *The Bond Buyer*, April 26, 1994, p. 5.

[4] Agis Salpukas, "Electric Utilities Brace for an End to Monopolies," *New York Times*, August 8. 1994, pp. A1, D5.

[5]Moody's Public Utilities Manual, vol. 1, 1993, p. 2709.

To address the problems in operations, McDonald instituted a program of Japanese-inspired quality control. Before long, there were 1,700 quality control teams examining every aspect of the business for ways to improve operations. As a result, unscheduled downtime fell from 18% to 4% and customer complaints fell by 60%.[6] Because of FPL's achievements, the Union of Japanese Scientists and Engineers awarded the company the prestigious Deming Prize for quality in 1989 making it the first non-Japanese company to receive that award. At the time, FPL was viewed as "one of the best-managed US corporations."[7]

Despite the notoriety, the company still had some underlying problems. In 1986, the Nuclear Regulatory Commission (the federal regulator of nuclear power plants) put FP&L's Turkey Point nuclear plant on its watch list for safety concerns.[8] Second, demand was growing faster in the late 1980s than expected and was projected to outstrip existing generating capacity in the near future. Third, Colonial Penn had lost more than $250 million since being acquired.[9] And finally, a 1988 survey indicated low employee morale largely due to burdens imposed by the quality management program.[10] As one manager later confided, "we definitely went overboard [with the quality program]."[11]

The Broadhead Era

These problems combined with the growing prospect of competition led FPL's board to select an industry outsider, James Broadhead, to succeed McDonald when he retired in 1989. Broadhead came to FPL from GTE where he had been in charge of the telephone business—another industry which had recently been deregulated. Having seen one industry through deregulation, Broadhead's vision for the electric utility industry was one of full and open competition.

As soon as he arrived, Broadhead began developing a long-range strategic plan. The first step in the process was an "environmental scan." He formed employee teams and asked them to speculate about the industry's future in terms of technological requirements, regulation, and customer needs. From the "scan," Broadhead concluded that FPL would need to have a commitment to quality and customer service, increase its focus on the utilities industry, expand capacity, and improve its cost position.

Although he determined that a commitment to quality was essential, he believed the quality program needed to be scaled back. Paperwork had grown exponentially and managers were spending too much time collecting and analyzing quality reports. Broadhead streamlined the quality process by cutting the number of quality teams, meetings, and reports.

Second, Broadhead wanted to renew FPL's focus on its core business. He said:

> "Our long-term success is based on our core utility business . . . We know a lot about generating, transmitting, distributing, selling, and conserving energy. Why venture away from that with the opportunities for growth that we face today?[12]

To reverse FPL's diversification program, Broadhead made plans to sell several of the non-utility businesses. After writing off $752 million (after-tax) in 1990 for losses at Colonial Penn (the bulk of the losses), Telesat Cablevision, and Alandco, Broadhead sold Colonial Penn in 1991 for an additional after-tax loss of $136 million. By 1994, FPL had written off and was trying to sell both Telesat Cablevision and Alandco.[13] However, FPL still owned three non-utility subsidiaries—ESI Energy, Turner Foods, and Qualtec Quality Services—which contributed 2% of total revenues.

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[6]Robert Chapman Wood, "A Hero Without a Company," *Forbes*, March 18 1991, p. 113.
[7]International Directory of Company Histories, (Detroit: St. James Press, 1992) p. 624.
[8]Robert Chapman Wood, "A Hero Without a Company," *Forbes*, March 18, 1991, p. 114.
[9]Holt Hackney, "One Turkey Too Many," *Financial World*, May 1, 1990, p. 102.
[10]Robert Chapman Wood, "A Hero Without a Company" *Forbes*, March 18, 1991,p. 114.
[11]Betsy Wiesendanger, "Deming's Luster Dims at Florida Power & Light." *Journal of Business Strategy*, September/October 1993, p. 61.
[12] Holt Hackney, "One Turkey Too Many," *Financial World*, May 1, 1990, p. 102.
[13]M.D. Luftig et al., FPL Group, Inc. - Company Report, Kemper Securities Group, Inc., February 2, 1994, p.3.

At the same time, Broadhead commenced an aggressive capital expenditure program designed to meet projected demand into the next decade. FPL budgeted $6.6 billion, spread over five years, for the expansion. The various projects included building a new transmission line, refurbishing the oldest generating plant, improving operating efficiency at all plants, and buying a majority share in a coal burning plant owned by The Southern Company (a utility based in Georgia). By 1994, operating efficiency had improved dramatically: nuclear plant availability had risen to 83% (compared to the industry average of 70%) and fossil fuel plant availability had risen to 89% (compared to 83% for the industry).[14] FPL funded this expansion through internal profits, and by issuing $3.7 billion of long-term debt and $1.9 billion of common stock (see **Exhibit 5**).

To reduce costs, Broadhead re-engineered the firm's budgeting and procurement procedures, flattened the organization, and reduced headcount by 30%: FPL eliminated 2,300 positions in 1991 (at an after-tax cost of $56 million) and another 1,700 positions in 1993 (at an after-tax cost of $85 million). These efficiency gains lowered operating and maintenance expense from 1.82¢ per kilowatt-hour (KWH) to 1.61¢ between 1990 and 1993[15].

By early 1994, Broadhead's strategic redirection was showing signs of success. FPL was the largest utility in Florida (and the fourth largest in the country), provided power to 3.4 million customer accounts, and had a service territory covering almost 28,000 square miles (see **Exhibit 2**). Financially, 1993 had been a record year for FPL: not counting a one-time charge for layoffs related to the cost reduction program, net income was $514 million or $2.75 per share. **Exhibits 3, 4,** and **5** present historical income statements, balance sheets, and cash flow statements for FPL Group.

While 1993 had been a good year, FPL expected 1994 to be even better due to decreasing capital expenditures and increasing sales (see **Exhibit 6**). Whereas capital expenditures had totaled $5.8 billion during the past five years ($800 million under budget), they were expected to decline by 33% to $3.9 billion over the next five years. FPL's sales growth (measured in kilowatt-hours) had exceeded the national average over the past five years (3.4% annual growth vs. 2.0%) and was expected to exceed the national average over the next five years as well (2.7% vs. 1.8%).[16]

Recent Events in the Electric Utilities Industry

Several major events had taken place over the past year which had a large impact on electric utilities industry. Foremost among them was the California proposal on retail wheeling. Although the Florida Public Service Commission was not considering retail wheeling as of May 1994, utility commissions in 23 states were considering various retail wheeling proposals. If and when the Florida regulators authorized retail wheeling, FPL would have many potential competitors. Florida had four major investor-owned utilities (including FPL) accounting for 73% of the state's generating capacity, 20 municipal and rural cooperative generating systems accounting for about 24% of capacity, and 19 independent power producers (including 18 QF's) accounting for 3% of capacity.[17] In addition, there were several other large investor-owned utilities in neighboring states which might compete for Florida customers (see **Exhibit 7**).

Because of the changing competitive landscape, Standard & Poor's Ratings Group (S&P) announced a revision of its guidelines for evaluating investor-owned electric utilities in October 1993. Under the new system, S&P would include an evaluation of a utility's competitive position as part of its financial rating. According to the guidelines, S&P would now consider such factors as the prospects for customer and sales growth, revenue vulnerabilities and dependencies, rates by consumer class relative to competing utilities, adequacy of baseload and peaking capacity, fuel diversity, regulatory environment, and management's financial goals. Based on these criteria, S&P rated FPL's business position above average, placing it in the top 10% of investor-owned utilities.[18]

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[14]Antonio N. Fins, "Feeling the Heat at a Florida Utility." *Business Week*, November 12, 1990, p. 94.

[15]Excludes expenses for fuel, purchased power, and conservation programs (e.g. free residential energy audits).

[16]FPL Group Presentation, EEI Financial Conference, Coronado, California, October 31 - November 2, 1994.

[17]Casewriter's estimates based on: Statistics of the Florida Electric Utility Industry 1992, Division of Research & Regulatory Review, Florida Public Service Commission, September 1993, p. 18.

[18]Curtis Moulton, "Electric Utility Business Positions Detailed," *Standard & Poor's CreditWeek Reprint*, July 4, 1994, p. 2.

Because of its competitive position and its improving financial performance, S&P had recently upgraded FPL's senior secured debt to "A-plus" and its senior unsecured debt to "single-A."[19]

Despite the improvement in its debt ratings, there was some concern about the company's interest expense given the 140 basis point increase in long term interest rates since September 1993 (see **Exhibit 8**). Historically, bond yields and utility stock prices moved in opposite directions in part because investors viewed utility stocks with their high dividend yields as bond surrogates and in part because utilities had relatively high levels of debt and could not pass through all increases in interest expense to consumers. During this period of rising interest rates and increasing competition (from September 1993 to May 1994), FPL's stock price had fallen by 19.6% while the Standard & Poor's Electric Utilities Index had fallen by 22.1%. Compared to the market as a whole, FPL, like most utilities, was a low beta stock. Over the prior year, its beta was 0.60.

Investment Recommendation on FPL

As Stark sat in her office reviewing her file on FPL and the investment alert from Merrill Lynch, she wondered why FPL might want to cut its dividend. FPL management had stated that the company's payout ratio was too high particularly given an uncertain and more competitive business environment. While it was true that FPL's payout ratio was at the high end for electric utilities, the industry was known for high payout ratios (see **Exhibit 9**). More importantly, Stark wondered why FPL would want to break its 47 year streak of dividend increases—a record that placed it first among all utilities and third among all publicly traded companies.

Dividend cuts were not common for utilities except in situations of financial trouble, and even then, they were not well-received. She thought back to 1974 when Consolidated Edison Company of New York (Con Ed) surprisingly eliminated its dividend in the face of a hostile regulatory and macroeconomic environment. On the day after the announcement, Con Ed's stock price fell from $18 to $12 per share. More recently, in July 1992, Sierra Pacific Resources, a financially healthy utility in Nevada, cut its dividend by 39% in order to bring its payout ratio below 100%. The cut came during what turned out to be a record year in terms of profitability not counting certain asset write-downs. The next day, its stock price fell by 23%. Within weeks of the announcement, shareholders filed a class action suit against the firm for false and misleading financial statements, a suit that was finally settled in April 1994.[20] Given this series of events, Stark looked at the list of FPL's shareholders (see **Exhibit 10**) and wondered how they would respond to a dividend cut under somewhat similar circumstances. Would they react by suing the company or would some of them actually prefer a lower dividend?

Because of the negative market reaction that normally accompanied dividend cuts and management's desire not to have to cut the dividend twice, dividend cuts tended to be large when they occurred. One benefit of a large cut, however, was that FPL could show strong dividend growth in the coming years. For example, if FPL was to cut its dividend payout ratio by as much as 30%, thereby putting it at the lower end of the industry in terms of payout ratios (see **Exhibit 9**), it could increase its dividend in future years faster than without the cut. The issue that puzzled Stark, however, was what FPL would do with the cash it was not paying out as dividends, a sum that might total as much as $150 million per year.

While a dividend cut was possible and would certainly lower the payout ratio quickly, she knew that FPL also had the option of growing out of its high payout ratio. As long as earnings increased at a faster rate than dividends, the payout ratio would fall. According to her numbers, if FPL slowed its dividend growth rate to 1.0% or so, the payout ratio would fall below 80% by 1998. If FPL kept its dividend at $2.48 per share, the payout ratio would fall below 80% a little sooner, perhaps by 1997.

As she flipped through her FPL file, Stark removed the proxy statement, dated March 22, 1994, for the upcoming annual meeting. At the meeting, shareholders would be asked to vote for directors, to ratify Deloitte and Touche as auditors, and to approve new annual and long term

[19]Steven Stoll and Judith Waite, "Rating Update," *Standard & Poor's CreditWeek*, April 18, 1994, p. 66.

[20]Anonymous, "Sierra Pacific Resources Settles Class-Action Shareholder Lawsuit," *Electric Utility Week*, April 25, 1994, p. 4.

incentive compensation plans. If approved, incentive compensation would be "based on achieving specific net income goals" rather than a range of financial and operating measures; the maximum bonus payout would be expanded from 100% of an officer's targeted bonus to 160% of the targeted bonus; and bonuses would be paid out in stock and cash in the ratio of 60/40 down from a ratio of 70/30. In addition, shareholders would vote on a proposal to change the voting rules for directors.

Deeper in the file, she came across several research reports put out by other utility analysts including one that had been issued that day by Prudential Securities:

> "We are lowering our rating on . . . FPL Group from a Buy to a Hold . . . We believe that dividend growth . . . will be limited by [FPL's] very high dividend payout ratio . . . We think that the answer for most companies will be to freeze the dividend for the next several years and hope that earnings grow."
>
> — Prudential Securities report, May 5, 1994

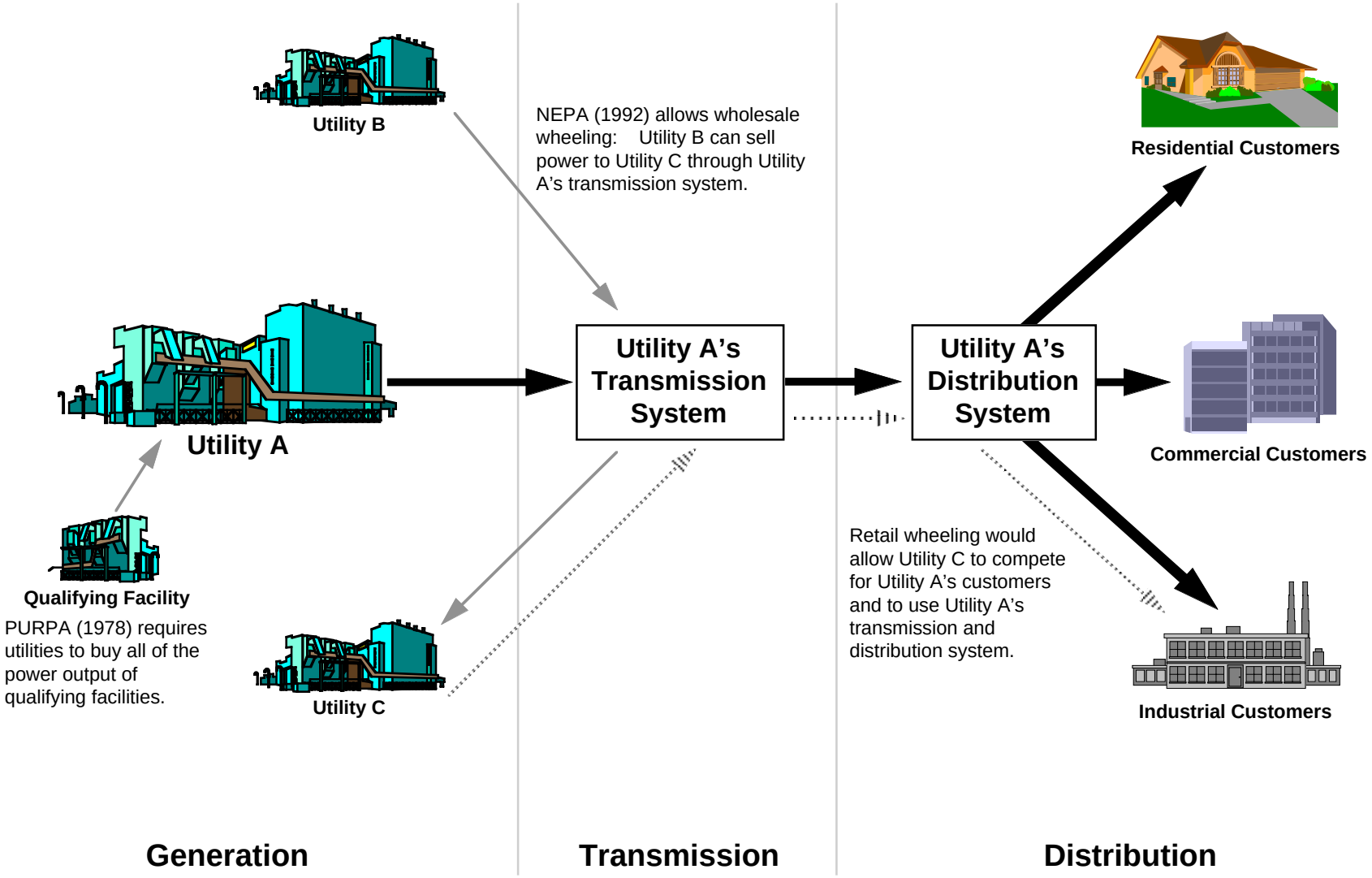
> " . . . a high dividend payout ratio and increasing competitive forces in the electric utility industry may make it difficult [for FPL] to increase the common dividend . . . Management's comments increase our confidence in our flat dividend expectation."
>
> — Donaldson, Lufkin & Jenrette report, March 24, 1994

> "We are upgrading our investment recommendation on the share of FPL Group, Inc. to Buy from Hold . . . The improved outlook for earnings and declining financial pressures would appear to assure continuation of (dividend increases). However, we would not be surprised to see FPL Group reduce the rate of growth in the common dividend."
>
> — Salomon Brothers report, March 16, 1994

It still appeared that everyone, including Sanford Cohen, the author of today's investment alert, was expecting FPL either to increase its dividend slightly or to hold it at $2.48 per share. That morning, she had felt comfortable with her recommendation along the same lines. But the day's events made her question her assumptions. She had been watching her monitor to see how other analysts were responding to Cohen's report, but had seen little news and no other predictions of a dividend cut.

As Stark sat in her office, she wondered if she should revise her investment recommendation. Given the 6% drop in price, this might be the time to change her recommendation from hold to buy. On the other hand, she might want to change her recommendation to sell if management's concern about the payout ratio stemmed from concerns about future earnings prospects. She knew she had to make a decision quickly—her major clients would likely call her that evening to get her opinion of the day's events in advance of the market's opening the following day.

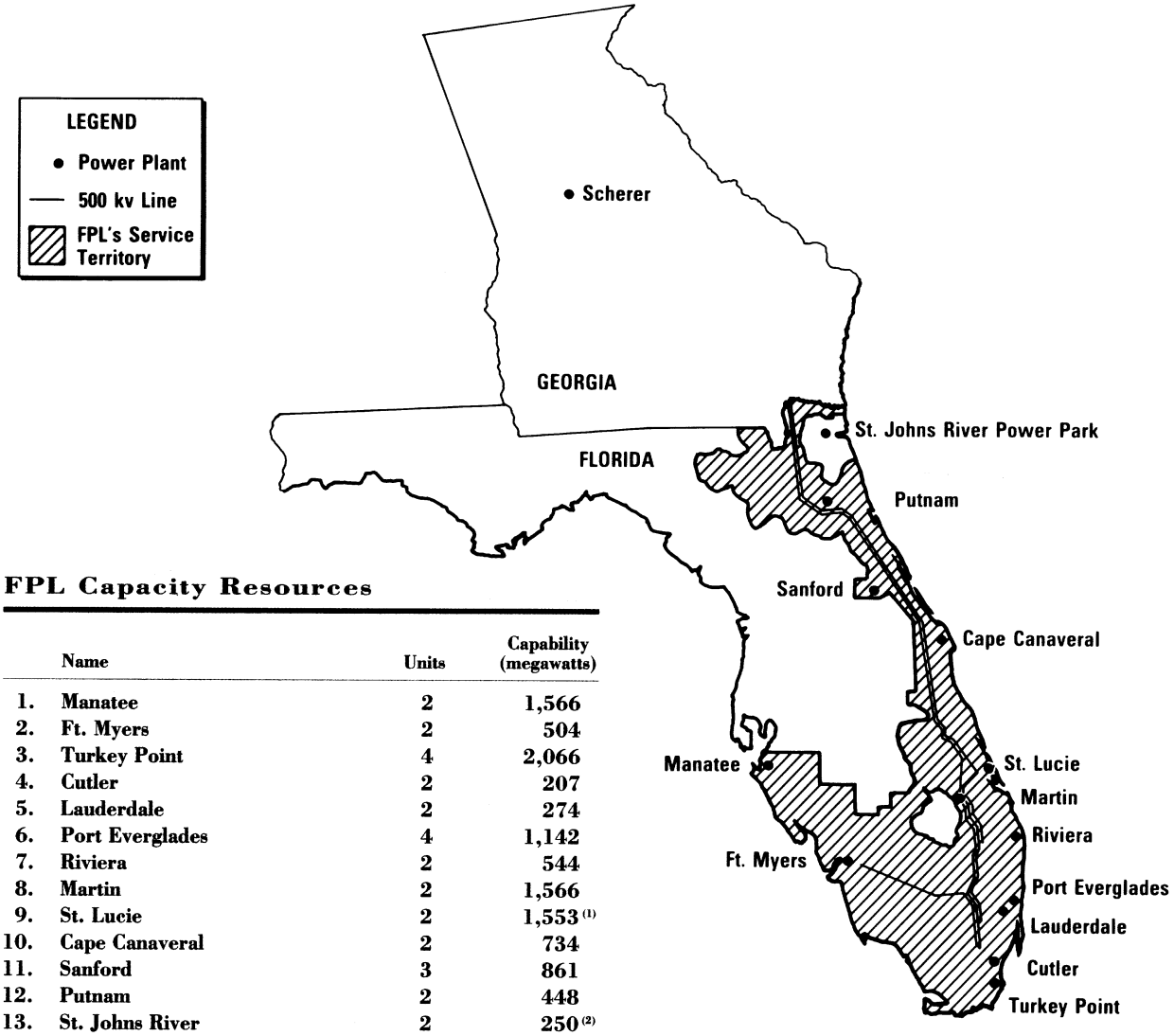
Exhibit 1 The Rise of Deregulation in the US Electric Power Industry



Source: Casewriter's graphic

Exhibit 2 Florida Power & Light's Service Area, Generating Plants, and Bulk Transmission System

FPL's service area covers 27, 650 square miles and contains a population of 6.5 million people. During 1993, FPL served approximately 3.4 million customer accounts. Florida is the fourth largest state in the United States and continues to experience substantial population growth. This growth is reflected in FPL's service area which includes six of the nation's ten fastest growing metropolitan areas—Naples, Fort Myers, Fort Pierce, Melbourne, Daytona Beach, and West Palm Beach.



FPL Capacity Resources

	Name	Units	Capability (megawatts)
1.	Manatee	2	1,566
2.	Ft. Myers	2	504
3.	Turkey Point	4	2,066
4.	Cutler	2	207
5.	Lauderdale	2	274
6.	Port Everglades	4	1,142
7.	Riviera	2	544
8.	Martin	2	1,566
9.	St. Lucie	2	1,553 (1)
10.	Cape Canaveral	2	734
11.	Sanford	3	861
12.	Putnam	2	448
13.	St. Johns River	2	250 (2)
14.	Scherer	1	150 (3)
	Purchased Power		2,598
	Peaking Units		1,892
	Load Management		347
	Total	32	16,702

(1) Represents FPL's ownership of 100 percent of Unit 1 and 85 percent of Unit 2.
(2) Represents FPL's 20 percent ownership of two 624 MW units.
(3) Represents the first phase of FPL's purchase of a 76 percent ownership interest in the 846 MW Scherer Unit 4.

Source: FPL Group, Inc., 1991 Annual Report, p. 6, (as revised by the casewriter) and FPL Group, Inc. 1992 10K Report, p. 9.

Exhibit 3 FPL Group, Inc. Balance Sheet for the Years 1989 to 1993 (in thousands)

	1993	1992	1991	1990	1989
ASSETS					
Property, Plant and Equipment					
Electric utility plant	$14,838,160	$13,534,791	$12,918,817	$12,184,176	$11,488,396
Construction work in progress	781,435	1,158,688	597,401	476,279	299,705
Other property	261,125	278,887	255,035	243,185	378,424
Less Depreciation/amort.	5,591,265	5,106,066	4,690,403	4,481,736	4,087,780
	$10,289,455	$9,866,300	$9,080,850	$8,421,904	$8,078,745
Investments					
Utility special use funds	$378,774	$318,798	$291,632	$252,098	$201,217
Partnerships and joint ventures	368,724	296,593	236,090	168,571	0
Leveraged leases	155,449	144,398	139,008	134,174	0
Insurance/Banking Assets	0	0	0	0	1,878,555
Other	82,045	62,952	61,222	19,060	287,678
	$984,992	$822,741	$727,952	$573,903	$2,367,450
Current Assets					
Cash and cash equivalents	$152,014	$78,156	$170,211	$214,164	$61,220
Marketable securities	171,988	75,437	0	0	0
Receivables:	504,597	516,585	513,937	492,503	573,171
Materials, supplies and fossil fuel stc	329,599	382,080	374,630	438,957	299,567
Recoverable storm costs	44,945	72,500	0	197,112	0
Other	48,214	58,418	45,419	43,818	118,284
	$1,251,357	$1,183,176	$1,104,197	$1,386,554	$1,052,242
Deferred Debits and Other Assets					
Unamort. debt reacquisition costs	$302,561	$175,320	$150,601	$146,841	$0
Deferred litigation items of FPL	110,859	110,859	115,202	119,371	125,065
Deferred pension costs	0	0	51,640	45,918	0
Unamortized insurance policy acqui	0	0	0	0	250,434
Other	138,788	147,909	51,343	107,517	451,373
	$552,208	$434,088	$368,786	$419,647	$826,872
Total Assets	$13,078,012	$12,306,305	$11,281,785	$10,802,008	$12,325,309
CAPITALIZATION AND LIABILITIES					
Current Liabilities					
Notes Payable-Commercial paper	$349,600	$0	$0	$48,814	$125,760
Current maturities of LT debt	279,680	164,004	136,605	19,572	15,933
Accounts payable	323,282	411,369	389,562	357,904	335,509
Customers' deposits	216,140	215,435	201,014	189,648	187,875
Interest accrued	109,206	123,735	109,748	105,718	124,022
Income and other taxes	94,880	90,929	98,968	87,517	0
Deferred clause revenues	130,786	175	0	0	0
Other	335,043	172,069	171,061	127,225	0
	$1,838,617	$1,177,716	$1,106,958	$936,398	$789,099
Deferred Credits/Other Liabilities					
Accum. deferred income taxes	$1,512,067	$1,718,388	$1,507,231	$1,538,645	$1,516,483
Deferred reg. credit-income taxes	216,546	0	0	0	0
Unamort. investment tax credits	323,791	345,438	368,337	406,251	430,351
Capital lease obligations	271,498	324,198	279,657	74,887	0
Insurance/Banking Liabilities	0	0	0	0	1,584,505
Other	517,653	393,080	501,216	319,804	583,972
	$2,841,555	$2,781,104	$2,656,441	$2,339,587	$4,115,311
Capitalization					
Common Stock, $.01 par value	$1,901	$1,828	$1,708	$1,610	$1,333
Additional paid-in capital	3,589,994	3,312,903	2,886,113	2,566,844	1,780,392
Unearned compensation	(321,121)	(336,355)	(346,215)	(360,000)	279
Retained earnings	829,833	857,613	812,241	952,707	1,670,152
	$4,100,607	$3,835,989	$3,353,847	$3,161,161	$3,452,156
FPL Preferred stock					
without sinking fund	$451,250	$421,250	$346,250	$346,250	$346,250
with sinking fund	97,000	130,150	150,150	165,950	173,050
Long-term debt	3,748,983	3,960,096	3,668,139	3,852,662	3,449,443
	$8,397,840	$8,347,485	$7,518,386	$7,526,023	$7,420,899
Total Capital and Liabilities	$13,078,012	$12,306,305	$11,281,785	$10,802,008	$12,325,309

Source: 1989 - 1993 Annual Reports for FPL Group, Inc.

Exhibit 4a FPL Group, Inc. Income Statement for the Years 1989 to 1993 (in thousands)

	1993	1992	1991	1990	1989
Operating Revenues					
Utility	$5,224,299	$5,100,463	$5,158,766	$4,987,690	$4,946,291
Non-utility	91,995	92,864	90,670	98,655	86,253
Total operating revenues	$5,316,294	$5,193,327	$5,249,436	$5,086,345	$5,032,544
Operating Expenses					
Utility operations:					
Fuel/purchased power	$1,758,298	$1,829,908	$1,932,637	$1,927,233	$1,775,557
Operations and maintenance	1,251,284	1,203,474	1,276,244	1,243,583	1,194,871
Cost reduction program	138,000	0	90,008	0	0
Non-utility operations:	70,256	74,195	69,469	102,179	85,101
Loss on discontinuing businesses	0	0	0	99,850	0
Depreciation and amortization	598,389	554,237	518,068	501,269	636,976
Taxes other that income taxes	526,109	497,739	485,962	451,494	408,320
	$4,342,336	$4,159,553	$4,372,388	$4,325,608	$4,100,825
Operating Income	$973,958	$1,033,774	$877,048	$760,737	$931,719
Interest Expense & Other (Income) Deductions					
Interest and preferred stock dividends	$409,760	$410,152	$411,079	$393,074	$383,375
Allowance for funds used during construction	(66,238)	(57,782)	(34,044)	(25,424)	(21,623)
Other -- net	(48,812)	(46,978)	(47,456)	(26,981)	(32,685)
	$294,710	$305,392	$329,579	$340,669	$329,067
Income Taxes					
Current	$238,557	$147,961	$186,008	$66,632	$183,723
Deferred	11,942	113,472	(14,687)	55,261	2,086
	$250,499	$261,433	$171,321	$121,893	$185,809
Income From Continuing Operations	$428,749	$466,949	$376,148	$298,175	$416,843
Income (Loss) From Discontinued Operations	0	0	(135,570)	(689,180)	16,494
Net Income (Loss)	$428,749	$466,949	$240,578	($391,005)	$433,337

Note: Preferred stock dividends result from intercompany transactions and are not tax-deductible.

Source: 1989 - 1993 Annual Reports for FPL Group, Inc.

Exhibit 4b FPL Group, Inc. Earnings and Dividends Per Common Share 1984 to 1993

Year	Earnings Per Share	Earnings Per Share before Extraordinary Items	Dividends Per Share	Average Shares Outstanding (in thousands)
1993	$2.30	$2.76	$2.47	186,413
1992	2.65	2.65	2.43	176,207
1991	1.48	2.66	2.39	162,553
1990	(2.86)	2.64	2.34	136,715
1989	3.12	2.99	2.26	131,544
1988	3.42	3.12	2.18	130,932
1987	3.10	2.69	2.10	129,959
1986	2.90	2.90	2.02	126,004
1985	3.11	3.11	1.94	119,696
1984	2.62	2.65	1.77	118,280

Note: "Earnings per share before extraordinary items" excludes gains or losses from discontinued operations and charges relating to cost reduction programs.

Sources: FPL Group, Inc. annual reports 1989 to 1993, Value Line, Inc., June 17, 1994

Exhibit 5 FPL Group, Inc. Cash Flow Statement for the Years 1989 to 1993 (in thousands)

	1993	1992	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income (Loss)	$428,749	$466,949	$240,578	($391,005)	$410,416
Depreciation and amortization	598,389	554,237	518,068	501,269	636,976
Increase (decrease) in deferred income taxes	10,225	211,156	(31,414)	47,912	31,325
Provision for refunds	0	0	0	10,257	38,650
(Increase) decrease in recoverable storm costs	12,184	(57,130)	0	0	0
Refund of revenues from tax savings rule	0	0	0	(22,960)	(37,692)
Deferrals under cost recovery clauses	138,949	(102,977)	120,772	(10,483)	(117,340)
Charges for discontinuing businesses	0	0	0	99,850	0
Increase (decrease) in accrued interest and taxes	(10,578)	5,948	15,481	49,962	(42,002)
Loss from discontinued operations	0	0	135,570	689,180	(16,494)
Other	89,058	(90,521)	194,466	78,813	59,129
Net cash provided by operating activities	$1,266,976	$987,662	$1,193,521	$1,052,795	$962,968
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital and nuclear fuel expenditures	($1,247,661)	($1,390,930)	($1,343,931)	($1,038,740)	($836,493)
Sale of Colonial Penn	0	0	128,380	0	0
Net cash provided (used) by discontinued operations	0	0	(49,827)	(92,006)	58,488
Receipts from partnerships and leveraged leases	82,462	17,592	11,572	(96,894)	(90,667)
Other	34,365	(10,013)	1,427	(55,086)	(107,198)
Net cash used in investing activities	($1,130,834)	($1,383,351)	($1,252,379)	($1,282,726)	($975,870)
CASH FLOW FROM FINANCING ACTIVITIES					
Unearned ESOP compensation	$0	$0	$0	($360,000)	$0
Issuance of FPL bonds and other long-term debt	2,082,993	874,633	265,246	276,073	213,542
Issuance of FPL Group Capital long-term debt	125,889	25,000	0	0	0
Issuance of preferred stock	190,000	125,000	0	0	0
Proceeeds from FPL Group Capital borrowings	0	0	0	260,000	0
Retirement of long-term debt and preferred stock	(2,648,170)	(699,614)	(360,372)	(141,892)	(193,890)
Issuance of Common Stock	276,287	422,626	318,341	796,491	73,124
Dividends on Common Stock	(461,639)	(430,716)	(392,000)	(323,919)	(297,861)
Sale of nuclear fuel	0	0	235,972	75	47,399
Increase (decrease) in notes payable--Comml. Paper	349,600	0	(48,814)	(76,946)	107,176
Other	22,756	(13,295)	(3,468)	(7,892)	8,478
Net cash provided (used) in fin. activities	($62,284)	$303,634	$14,905	$421,990	($42,032)
Net increase (decease) in cash and cash equivalents	$73,858	($92,055)	($43,953)	$192,059	($54,934)
Cash and cash equivalents at beginning of year	$78,156	$170,211	$214,164	$22,105	$77,039
Cash and cash equivalents at end of year	$152,014	$78,156	$170,211	$214,164	$22,105

Source: 1989 - 1993 Annual Reports for FPL Group, Inc.

Exhibit 6 FPL Group—Financial Projections as of March 1994

	1992 Actual	1993 Actual	1994 Estimate	1995 Estimate	1996 Estimate	1997 Estimate	1998 Estimate	1993-98 Annualized Growth
Florida Power & Light Company								
Electric Sales (millions of KWH)	69,290	72,455	74,411	76,420	78,484	80,603	82,779	2.7%
Customer Accounts (thousands)	3,281	3,350	3,437	3,526	3,618	3,712	3,809	2.6%
Total Capacity (owned by FPL in MW)	16,627	16,697	17,559	17,563	18,030	18,051	18,051	1.6%
Net Income	$467	$429	$527	$557	$576	$596	$615	
Depreciation and Amortization	554	598	665	711	741	778	795	
Capital Expenditures	$1,270	$1,337	$901	$831	$743	$769	$624	
Maturing Debt	152	11	2	81	101	4	185	
Preferred Dividends	44	43	40	40	40	40	40	
Common Dividends	431	461	?	?	?	?	?	
Avg. Shares Outstanding (millions)	176.2	186.4	191.5	192.1	192.1	192.1	192.1	
Capitalization Ratios								
Long Term Debt	48%	46%	46%	46%	45%	44%	44%	
Preferred Stock	6%	6%	6%	6%	6%	6%	6%	
Equity	46%	47%	48%	48%	50%	50%	50%	

Sources: Donaldson, Lufkin & Jenrette Securities Corp, analyst report, May 1994.
Salomon Brothers US Equity Research, analyst report, March 16, 1994
Florida Power & Light Company 1994-98 Forecast and 1993 Financial and Statistical Report

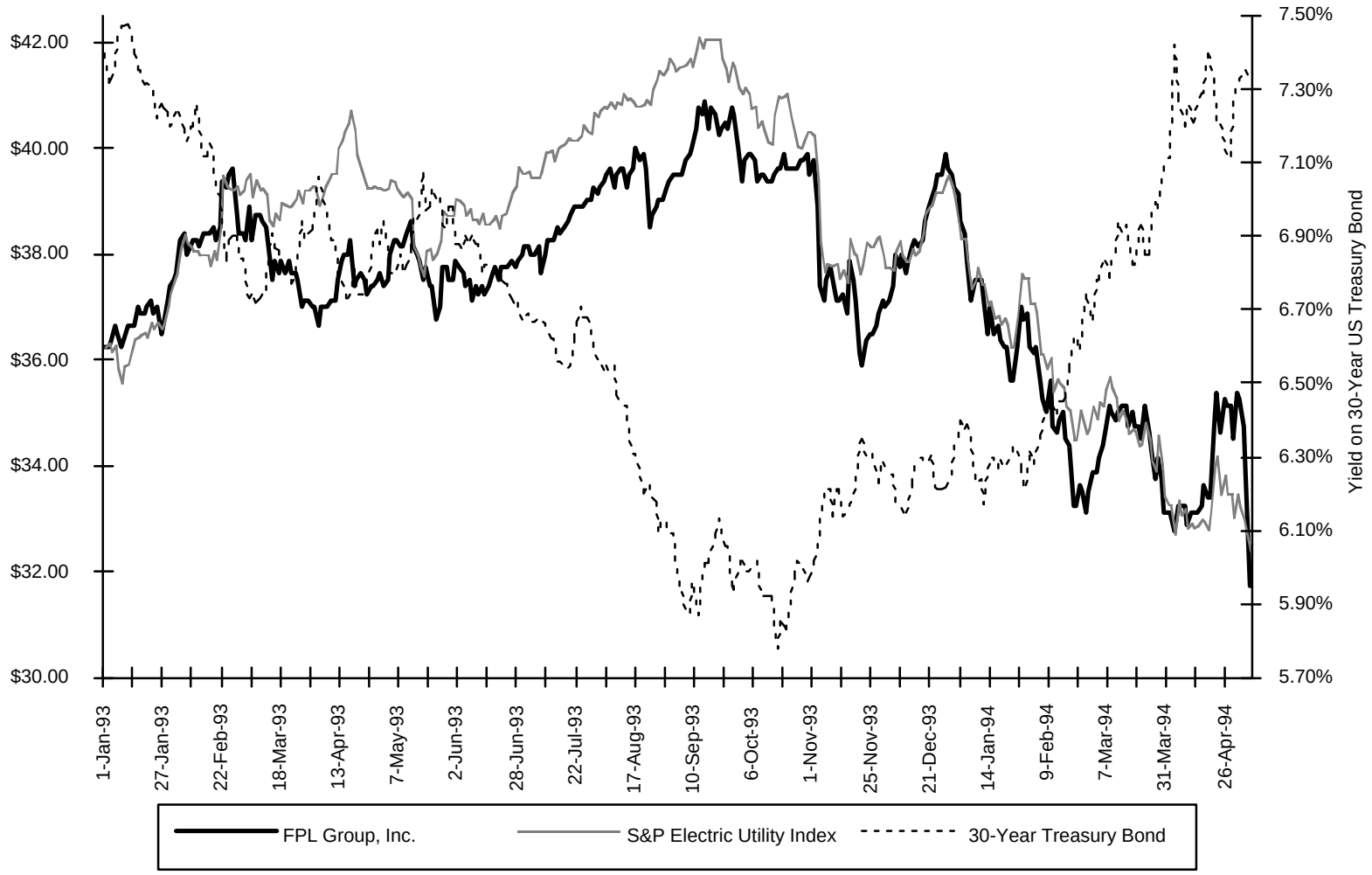
Exhibit 7 Investor-Owned Utilities in the Southeast United States in 1993

	FPL Group	Carolina Power	Duke Power	Florida Progress	SCANA Corp.	The Southern Co.	TECO Energy, Inc.
Electric Subsidiaries	Florida Power and Light Company	Carolina Power and Light Company	Duke Power Co.	Florida Power Corp.	SC Electric and Gas Company	Alabama Power Co. Georgia Power Co. Gulf Power Co. (FL)	Tampa Electric Co.
Markets and Customers							
Major markets	East/South FL	East NC Northeast SC	Central NC Northwest SC	North Central FL	Southwest SC	Northwest FL, GA, and AL	Central FL
Total KWH produced (millions)	72,454.7	45,505.0	76,058.0	28,647.8	16,880.0	119,206.0	13,446.5
Customer Mix (percent of sales)							
Residential	56.0%	33.0%	33.0%	47.0%	43.0%	32.0%	44.0%
Commercial	36.0%	20.0%	24.0%	28.0%	29.0%	26.0%	30.0%
Industrial	4.0%	26.0%	28.0%	12.0%	20.0%	27.0%	10.0%
Utility Companies and other	4.0%	21.0%	15.0%	13.0%	8.0%	15.0%	16.0%
Capital Structure							
Long Term Debt/Total Capitalization	46.4%	48.2%	39.9%	48.7%	50.2%	45.1%	49.1%
Common Stock/Total Capitalization	47.3%	49.1%	50.9%	47.5%	47.0%	46.8%	48.3%
Total Assets (millions)	$13,078	$8,194	$12,193	$5,639	$4,041	$25,911	$3,128
Profitability							
Return on Common Stock	12.5%	13.6%	13.2%	10.9%	12.6%	13.0%	14.3%
Earnings per share	$2.75	$2.23	$2.80	$2.26	$3.72	$1.57	$1.30
Cash Flow per share	$5.85	$5.09	$5.80	$5.59	$6.02	$3.16	$2.70
Dividend per common share	$2.47	$1.66	$1.84	$1.95	$2.74	$1.14	$0.95
Dividend Yield	6%	5%	5%	6%	6%	5%	4%
Payout Ratio (all dividends)	91%	74%	68%	87%	74%	75%	73%
Capacity Utilization							
Annual Load Factor (a)	57%	59%	60%	51%	57%	59%	n/a
Capacity Margin (b)	8.6%	12.0%	14.3%	11.0%	7.9%	12.1%	13.8%
Percent of Power Purchased (1993est)	30.0%	11.0%	1.0%	15.0%	26.0%	7.0%	3.0%
Costs							
Operation/Maintenance Costs/KWH	$0.0075	$0.0103	$0.0072	$0.0070	$0.0051	$0.0059	$0.0049
Busbar Cost/KWH (c)	$0.0366	$0.0403	$0.0317	$0.0344	$0.0293	$0.0319	$0.0368
Incremental Generation Cost/KWH (d)	$0.0187	$0.0154	$0.0176	$0.0182	$0.0186	$0.0115	$0.0242
Transmission Cost/KWH (1987)	$0.0019	$0.0009	$0.0010	$0.0010	$0.0007	$0.0008	$0.0006
Rates (average realization per KWH)							
Residential	$0.0811	$0.0828	$0.0732	$0.0792	$0.0713	$0.0732	$0.0813
Commercial	$0.0675	$0.0694	$0.0600	$0.0581	$0.0562	$0.0704	$0.0673
Industrial	$0.0540	$0.0549	$0.0431	$0.0479	$0.0391	$0.0451	$0.0465

Sources: Value Line, Annual Reports, North American Utility Almanac (J.C. Bradford & Co., 1993 edition)
Goldman Sachs Selected Electric Utility Industry Statistics (November 1994)

Notes: (a) Annual Load Factor is the average level of capacity used by the utility.
(b) Capacity Margin = (Total Capacity - Peak Load in Summer)/Total Capacity.
(c) Busbar Cost is the unit output cost of electric power coming out of a generating plant, before transmission and distribution.
(d) Incremental Generation Cost is the marginal cost to produce an additional kilowatt-hour.

Exhibit 8 FPL Group Stock Price and Interest Rates



Source: Datastream

Exhibit 9 Dividends by Industry and for Electric Utilities—First Quarter 1994

S&P Industry Groups	Dividend Payout Ratio	Dividend Yield
Health Care (drugs)	69.4%	4.1%
Household Products	66.9%	2.6%
Tobacco	65.7%	5.2%
Publishing (newspapers)	58.0%	2.5%
Hardward and Tools	53.6%	2.8%
Foods	45.7%	2.7%
Chemicals (specialty)	39.7%	1.8%
Cosmetics	39.4%	1.9%
Telecommunications (long distance)	39.3%	2.3%
Beverages (soft drinks)	38.2%	1.7%
Textiles	34.7%	2.2%
Regional Banks	32.6%	3.4%
Aerospace/Defense	31.0%	2.3%
Retail (specialty)	29.7%	0.9%
Shoes	25.5%	1.6%
Hotel-Motel	25.4%	0.9%
Entertainment	23.9%	0.7%
Automobiles	20.6%	1.9%
Toys	16.0%	0.8%
Restaurants	15.1%	0.8%
Computer Software/Services	10.9%	0.4%
Electronics (semiconductors)	6.5%	0.4%
Airlines	deficit	0.1%
Steel	deficit	0.9%
Sample of Electric Utility Companies		
Texas Utilities	106.2%	9.6%
Oklahoma G&E	93.3%	8.6%
Potomac Electric	92.2%	8.7%
Houston Industries	90.9%	10.0%
Delmarva P&L	90.6%	8.4%
SCE Corp.	88.7%	9.9%
NY State E&G	88.0%	9.3%
Central & SW	87.2%	7.9%
Public Service of CO	87.0%	7.7%
Commonwealth Edison	84.2%	7.1%
Northern State Power	81.9%	6.6%
American Electric	81.4%	8.6%
Ohio Edison	81.1%	9.0%
Dominion Resources	79.4%	6.5%
Consolidated Edison	75.5%	7.1%
PacificCorp	74.5%	6.5%
Carolina P&L	72.3%	7.1%
Southern Company	71.5%	6.5%
Pacific G&E	71.3%	8.5%
Entergy	66.7%	6.5%
General Public Utilities	65.5%	6.6%
Duke Power	64.8%	5.3%
Centerior Energy	61.5%	7.7%
Philadelphia Electric	60.8%	5.8%

Sources: S&P Analysts' Handbook, September 1994 Monthly Supplement, Barrons 5/16/1994, p. 16.

Exhibit 10 FPL Group Ownership Information—First Quarter 1994

Type of Shareholder	Percent of Total Shares		Number of Shareholders
Individuals and Other	51.9%		85,442
Institutions (total)	36.9%		328
Pension Funds/Universities		18.4%	
Mutual Funds/Money Managers		13.0%	
Financial Institutions		4.3%	
Insurance Companies		1.2%	
ESOP (Fidelity Management is trustee)	11.1%		
Insiders (Officers and Directors)	0.1%		17
Total	100.0%		85,787
Number of shares outstanding at 12/31/93 (millions)	190.1		

Sources: FPL Group 1993 Annual Report and Proxy Statement (5/4/94), CDA/Spectrum, and casewriter estimates.

Note: An ESOP (Employee Stock Ownership Plan) is a program administered by a third party trustee to encourage employees to purchase stock in the company—often used as a retirement savings vehicle.