

FPL GROUP INC
Form 8-K
September 27, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of earliest event reported: **September 26, 2002**

Commission
File
Number

Exact name of registrants as specified in
their
charters, address of principal executive
offices and
registrants' telephone number

IRS Employer
Identification
Number

1-8841

1-3545

FPL GROUP, INC.
FLORIDA POWER & LIGHT COMPANY

700 Universe Boulevard
Juno Beach, Florida 33408
(561) 694-4000

59-2449419

59-0247775

State or other jurisdiction of incorporation or organization: Florida

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, Inc. (FPL Group) and Florida Power & Light Company (FPL) (collectively, the Company) are hereby filing cautionary statements identifying important factors that could cause the Company'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 the Company in this combined Form 8-K, 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, 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 the Company's actual results to differ materially from those contained in forward-looking statements made by or on behalf of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes 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.

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, include:

- FPL Group and FPL are subject to changes in laws or regulations, including the Public Utility Regulatory Policies Act of 1978, as amended (PURPA), and the Public Utility Holding Company Act of 1935, as amended (PUHCA), changing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission (FERC), 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 (NRC), with respect to allowed rates of return including but not limited to 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 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, 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'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 both at FPL's plants and at the plants of other nuclear operators. Breakdown or failure of an FPL Energy, LLC (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 its 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 its 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 and FPL could recognize financial losses as a result of volatility in the market values of these contracts, or if a counterparty fails to perform.
- 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 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 domestic 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 to raise capital on favorable terms, particularly during times of uncertainty in the capital markets, could impact FPL Group's and FPL's ability to grow their businesses and would likely increase their interest costs.
- 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's and FPL's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be affected by recent national 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.

Item 5. Other Events and Regulation FD Disclosure

On September 26, 2002, FPL Group announced that it expects its third quarter 2002 financial statements to reflect several nonrecurring items. In total, FPL Group anticipates recording one-time charges ranging from approximately \$235 million to \$290 million (\$140 million to \$175 million after tax) in the third quarter of 2002 due to unfavorable market conditions in the wholesale energy and telecommunications markets. In addition, FPL Group received a \$229 million tax refund during the third quarter of 2002 out of an estimated \$300 million it expects to receive as a result of a recent IRS ruling. Following is a discussion of these items by segment.

FPL Energy - The wholesale energy sector continues to face difficult market conditions including a deterioration in forward prices and reduced liquidity, as well as increasing credit concerns that may limit the number of counterparties with which FPL Energy does business. During the third quarter of 2002, FPL Energy conducted a thorough review of its business development plans, organizational structure and expenses. As a result, FPL Energy has decided to substantially exit fossil-fueled greenfield power plant development activities, which is expected to result in the write-off of approximately \$65 million to \$72 million (\$40 million to \$45 million after tax) of previously capitalized development costs.

An agreement for the supply of gas turbines and other related equipment was renegotiated during the third quarter of 2002 to significantly reduce the commitment to purchase such equipment, resulting in a charge totaling

approximately \$16 million (\$10 million after tax). FPL Group remains committed to purchase seven gas turbines through 2003. At the same time, FPL Energy entered into a contract to purchase 450 wind turbines through 2005. The operating lease agreement with a special purpose entity and the related credit facility used to finance certain turbine purchases were terminated during the third quarter of 2002.

FPL Energy also realigned its organizational structure during the third quarter of 2002 to lower general and administrative expenses and took other actions associated with the restructuring. Together these are expected to result in a charge ranging from approximately \$10 million to \$20 million (\$5 million to \$10 million after tax).

In addition, FPL Energy expects to record a charge ranging from approximately \$10 million to \$25 million (\$5 million to \$15 million after tax) associated with certain regulatory issues involving FPL Energy's partner in two wind projects built in the early 1990s.

Corporate and Other -

FPL FiberNet, Inc. (FPL FiberNet) has also been reviewing the impact of the changing telecommunications market on its business plans. FPL FiberNet has decided to indefinitely defer the planned build-out of metro fiber rings in certain cities in Florida and has reduced its expectations for future revenue growth due to continued deterioration in the telecommunications market. During the third quarter of 2002, FPL FiberNet completed valuation studies assessing the recoverability of its assets, and as a result expects to record charges ranging from approximately \$85 million to \$110 million (\$50 million to \$65 million after tax).

Subsidiaries of FPL Group, other than FPL, have investments in several leveraged leases, two of which are with MCI Telecommunications Corporation (MCI). MCI filed for bankruptcy in July 2002 and the leveraged leases are now in default. As a result, during the third quarter of 2002 FPL Group recorded reserves totaling approximately \$48 million (\$30 million after tax) in connection with these leveraged leases.

FPL - During the third quarter of 2002, FPL received a \$229 million tax refund out of an estimated \$300 million it expects to receive as a result of a recent IRS ruling.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

FPL GROUP, INC.
FLORIDA POWER & LIGHT COMPANY
(Registrants)

Date: September 26, 2002

K. MICHAEL DAVIS

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K. Michael Davis

Controller and Chief Accounting Officer of FPL Group, Inc.
Vice President, Accounting, Controller and
Chief Accounting Officer of Florida Power & Light Company
(Principal Accounting Officer of the Registrants)