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Intra Day
Dow Industrials 13,363
Philadelphia Electric Index 532
Follow up to August 3, 2007 Report

FPL Group
(FPL-NYSE-$63-Not Rated)
Wind Power Arithmetic II
Costs Threaten Offshore Long Island Wind Project

On July 5, 2007, Newsday, Long Island's largest daily, wrote an editorial, "Tilting at Windmills," criticizing the planned Long Island Power Authority (LIPA) ocean-based 140 megawatt wind farm for costing too much. According to Newsday, the price tag of the FPL Group project has risen to $697 million (initial estimate - $356 million) and that excludes another $100 million for cables and other costs to link it to LIPA's Transmission and Distribution (T&D) network. If those estimates are valid, the investment cost per kilowatt of $4,979 compares to $4,600 kw (our estimate) for TXU Corp.'s 2,300 megawatt Comanche Peak nuclear plant, and an average of $1,750 kw for onshore wind power estimated by FPL Management this past April. Today's Newsday indicated that two state representatives, Owen Johnson (R-West Babylon) and Charles Fuschillo (R-Merrick), will hold a news conference requesting that the project be canceled.

Based on the assumptions in Table 1, the revenue required to generate offshore power works out to $83.3 a megawatt hour ($38.8 million), more than double the $30-$40 mwh range for purchase power contracts indicated by FPL Group management in its April call. Other assumptions include capacity factor (38%), interest costs (6%) and production expenses ($4.0 mwh). It also assumes profits of $8.4 million as per guidelines issued by FPL management ($0.01 a share - $4 million to $0.015 share - $6 million per 100 megawatts).

Table 1
Long Island Offshore Project
Inputs

	Inputs
Capacity – Megawatts	140
Investment Kilowatt	4,979
Investment $-Millions	697
Debt	349
Equity	349
Capacity Factor	38%
Output MMWH	466,032
Depreciation 40 years	17.4
Interest Rate	6.0%
Tax Rate	35%
Profit ($0.015 per share per 100MW) - $mil	8.4
Operation & Maintenance ($-mwh)	20

(Continued)

(Continued)

Without production tax credits ($9.3 million at a 38% capacity factor), the project loses $0.9 million (Table 2, columns 1-2). Column 3 includes production tax credits ($20 mw) and 5-year accelerated amortization. The difference between straight line depreciation - $17.4 million over 40 years and $139.4 million over 5 years - creates deferred taxes of $43.7 million at a 35% tax rate. Earnings of $8.4 million represent a 2.4% return on common of $348.5 million. But assuming cash flow of $68.5 million (parent takes advantage of tax deferrals on consolidated return) is transferred, the equity component declines to $288.4 million and the return on common rises to 2.9%. In year 2, equity net of cash transfer declines to $228.3 million and the return on common increases to 3.7%.

Table 2
Theoretical Income
Long Island Offshore Project

Column	(1)	(2)	(3)	(4)
	No Tax Benefit		Tax Benefit	
			Year-1	Year-2
Income Statement	$-Mil	Mwh	$-Mil	$-Mil
Revenues	38.8	83.3	38.8	38.8
Depreciation	17.4	37.4	17.4	17.4
Production	1.9	4.0	1.9	1.9
Total Production costs	19.3	41.4	19.3	19.3
Operating Income	19.5	41.9	19.5	19.5
Interest	20.9	44.9	20.9	20.9
Pretax Income	(1.4)	(3.0)	(1.4)	(1.4)
Income Taxes				
Deferred Accelerated Depreciation			42.7	42.7
Taxes Payable			(43.7)	(43.7)
Taxes Pre-Production Credits		(1.0)	(1.0)	(1.0)
Production Credits			(9.3)	(9.3)
Net Income Taxes	(0.5)	(1.0)	(10.4)	(10.4)
Earnings	(0.9)	(1.9)	8.4	8.4
Common Equity	348.5		348.5	288.4
Cash Transfer	0.0		(68.5)	(68.5)
Earnings	8.4		8.4	8.4
Balance	356.9		288.4	228.3
Return on Common	-0.3%		2.9%	3.7%
Cash Flow				
Earnings	(0.9)		8.4	8.4
Deferred Accelerated Depreciation	0.0		42.7	42.7
Depreciation	17.4		17.4	17.4
Total	16.5		68.5	68.5

Source: Shields' Estimates

Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other FPL Group reports issued by me are: 1/9/06 ($42) – Not Rated; 8/3/07 ($56) – Not Rated.

Important Disclosures

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Buy Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.
Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.
Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

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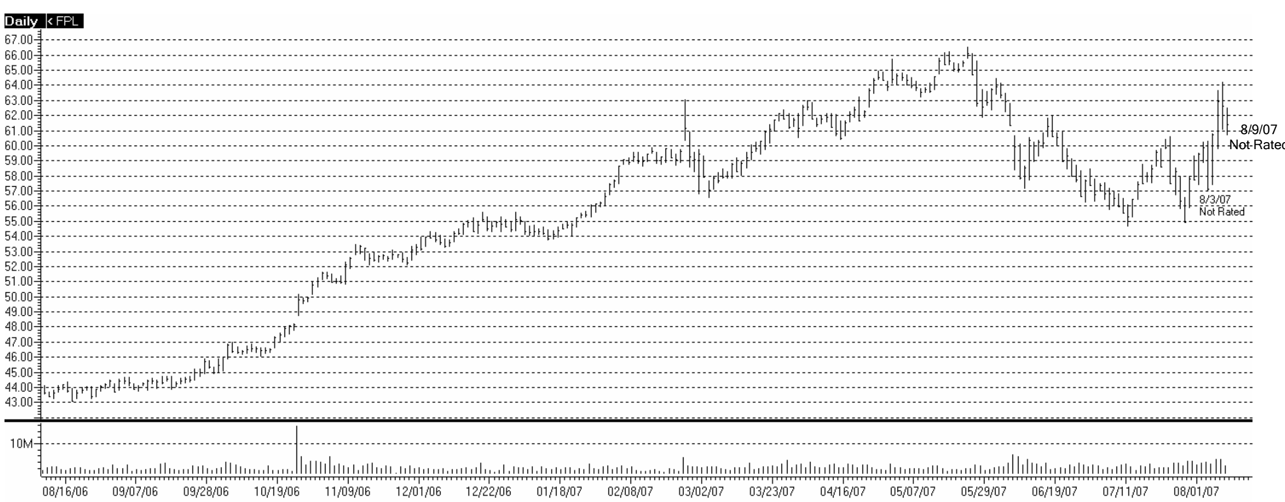
		% Investment Banking
Buy	20%	0%
Hold	80%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



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