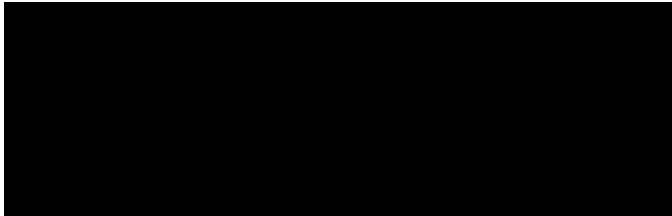


ACCOUNTING FOR CHANGE IN TAX RATE RELATED TO REGULATED ENTITIES

Issue and Background

Due to tax reform, the company tax rate is expected to change from 35% to 21%. Therefore, the Company has to restate all deferred tax balances to reflect the tax that the deferred balances are expected to turn around at. A question was raised whether these deferred tax balance changes should be recorded through earnings or whether a regulatory asset or liability balance should be recorded for the Company’s regulated contracts/entities. These contracts/entities include:

- FPL long-term whole sale contracts

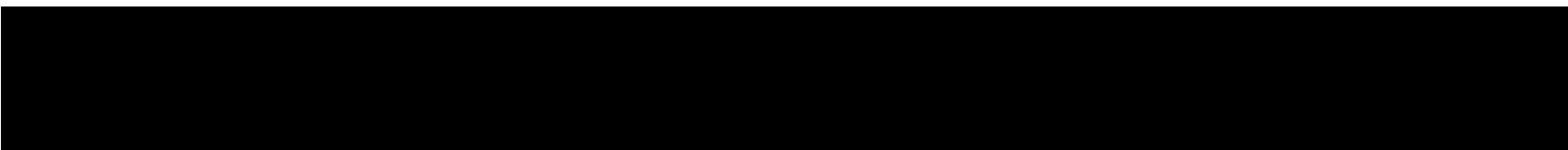


ASC 980-740-25-1 and 25-2 states in part:

25-1 *For regulated entities that meet the criteria for application of paragraph 980-10-15-2, this Subtopic specifically:*

- a) ..
- b) ..
- c) *Requires adjustment of a deferred tax liability or asset for an enacted change in tax law or rates.*

25-2 *If, as a result of an action by a regulator, it is probable that the future increase or decrease in taxes payable for (b) and (c) in the preceding paragraph will be recovered from or returned to customers through future rates, an asset or liability shall be recognized for*



that probable future revenue or reduction in future revenue pursuant to paragraphs 980-340-25-1 and 980-405-25-1. That asset or liability also shall be a temporary difference for which a deferred tax liability or asset shall be recognized.

Based on the above guidance, a regulatory asset or liability should be recorded if it is probable that the benefit resulting from the tax rate decrease will be returned to customers through future rates.

	<u>FSC</u>	<u>EQUITY METHOD INVESTMENTS IN SABAL TRAIL AND MVP</u>	<u>FPL WHOLE SALE CONTRACTS</u>	<u>NEET</u>
FERC Regulated Entity (Yes/No)			The wholesale contracts are FERC regulated however the wholesale business is a relatively small portion of the total business of FPL	
Currently qualifies for ASC 980 Accounting			Yes	
Is it probable that the tax benefit will be returned to customers through future rates in accordance with ASC 980-740-25-2?			Per Tim Gerrish, FPL's wholesale contracts include two contracts (Lee county and FL Keys) that have tariff rates (i.e. true up to actual costs on an annual basis). The 8 other long term contracts contain negotiated stated rates	

			<p>that include Change in Law provisions. However, the Change in Law provisions of the negotiated wholesale agreements only contemplate <u>increases</u> in costs due changes in law. It does not contemplate changes which would decrease the rates.</p> <p>Per discussion with Mason Emmett, internal Senior FERC Counsel, the FERC is very reluctant to open up negotiated contracts and he does not believe it is probable that the tax benefits would be returned to these 8 customers.</p> <p>The Lee County and FL Keys agreements will result in return of the benefit to the customers.</p> <p>While there may be conceptual merit to record the impact of the tax change related to the 8 stated rate contracts to earnings and not a regulatory liability, there appears to be significant</p>	
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			<p>challenges in discerning what portion of the impacts, if any, relate to those contracts. These 8 contracts make up less than 1% of the total revenues of FPL.</p>	
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Offsetting entry to change in deferred balances (Regulatory asset/liability or Earnings)			Regulatory Liability	
Can entity continue to follow regulatory accounting (ASC 980)?			Yes	

Implications if have to discontinue regulatory accounting		N/A	N/A	N/A