Tax Reform and Impacts on the Business

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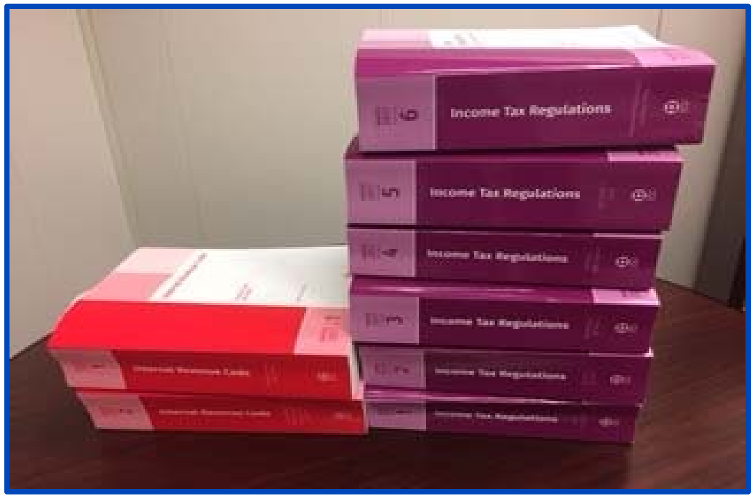
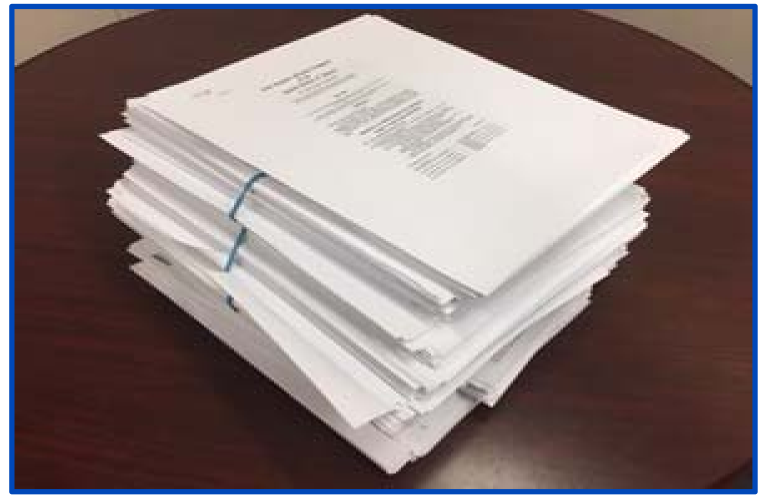
Feb. 8, 2018

Tax reform was intended to result in a more equitable, simple tax code that would stimulate investment

Where We Started



Tax Reform Bill



- 6 versions of the bill
- 2,500 pages of legislative text
- 850 pages of legislative history
- 274 amendments proposed
- 19 revenue/budget analyses prepared

Simplification?

Definitely not simplified, but designed to stimulate investment

U.S. companies react to tax reform

THE WALL STREET JOURNAL.

Apple to Pay $38 Billion in Taxes on Cash Overseas, Build New U.S. Campus

FOX BUSINESS

Pfizer Plans $5 Billion Boost in U.S. Manufacturing From Tax-Law Changes -- Update

THE HILL

Cisco, Pfizer, Coca-Cola plan to turn over gains from proposed tax cuts to shareholders

The Washington Times

After Trump tax cuts, ExxonMobil to invest $50 billion in U.S. business

Bloomberg

FedEx to Borrow $1.5 Billion for Contribution to Pension Plan After Tax Changes

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Tax Cuts and Jobs Act had an immediate impact on 2017 and will continue to impact 2018 and beyond

Permanent Broad-based Corporate Tax Reform

- **Immediate Impact**
  - [redacted]
  - Altered approach to Hurricane Irma recovery
- **Provisions with potential future impact**
  - 40% reduction in statutory tax rate from 35% to 21%
  - 100% bonus depreciation for 5 years for unregulated business
  - Limitation on interest deductibility for unregulated business
  - Eliminated the domestic production deduction
  - Complex international tax provisions
  - Acceleration of revenue recognition

The direct and indirect impact on [redacted] FPL are material and far-reaching

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20180046-EI

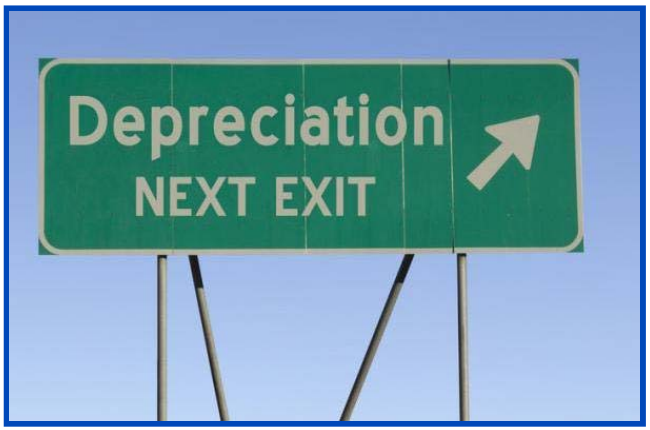
[redacted]

100% bonus depreciation applies to property acquired after Sept. 27, 2017 and placed in service prior to 2023

Bonus Depreciation

Prior law

- **Qualified property eligible for bonus depreciation**
  - 50% in 2017
  - 40% in 2018
  - 30% in 2019



2017 Tax Act

- **Unregulated businesses**
  - 100% bonus depreciation through 2022 (phase-down through 2026)
  - Prior law applies to assets under contract prior to Sept. 28, 2017
  - 50% or 100% bonus depreciation during Q4 2017
- **Regulated businesses**
  - Generally not eligible for bonus depreciation
  - Prior law applies to assets under contract prior to Sept. 28, 2017

Accelerating deductions is NPV accretive, but extends PTC/ITC utilization

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Net interest expense limited to 30% EBITDA / EBIT

Interest Expense

- **Prior Law**
  - Interest generally deductible
- **2017 Tax Act**
  - Defers net interest expense in excess of 30% EBITDA (30% EBIT after 2021)
  - Deferred interest indefinitely carried forward
  - Interest expense "properly allocable" to utilities exempt from limitation
  - 30% EBITDA/EBIT determined at consolidated group level and separately at partnership level

E	Earnings
B	Before
I	Interest
T	Taxes
D	Depreciation
A	Amortization

EBITDA not expected to limit interest deductibility, allocation of holding company interest requires guidance

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20180046-EI

Flexibility in the settlement agreement allows FPL customers to realize immediate benefits from tax reform

FPL Response to Tax Reform

- Lower tax rate reduces revenue requirements by $650M per year
- Hurricane Irma created a $1.3 B regulatory asset
- FPL planned a 3-year storm surcharge
  - $4.00 in 2018 and $5.50 in 2019-2020
- The surcharge and tax benefits would have caused FPL to over-earn

- Immediately expense costs of Hurricane Irma in 2017 by writing off the regulatory asset
- Primarily offset Irma costs by reserve amortization/surplus
- Avoids FPL over-earning
  - Builds surplus
  - Maintains ROE within the allowed range
- Potential to defer rate case by up to two years

Foregoing the surcharge will save the average customer $250 and could preserve the settlement agreement

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20180046-EI

Pages 9-12 are not produced because they are not related to FPL and are not relevant.