Tax Reform Implications at FPL

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Tax Reform Legislation

- **On December 22, the President signed into law the Tax Cuts and Jobs Act of 2017**
- **The key provisions that impact FPL include:**
  - Reduction in corporate income tax rate from 35% to 21%
  - Removal of bonus depreciation for utilities for assets purchased and/or contracted after September 27, 2017(i.e., 100% expensing of capital equipment)
  - All utility interest expense continues to be deductible
  - All state and local tax expense continues to be deductible
  - Manufacturer's deduction (Section 199) is eliminated
  - ITC's for solar continue in the near term

The net impact of the proposed changes is expected to be favorable for customers and the company

FPL

FPL's 2016 Settlement Agreement provides flexibility to the Company to address changing business conditions

FPL's Settlement Agreement

- **FPL's return on equity midpoint is 10.55% within an overall allowed range of 9.6% to 11.6%**
- **To address variations in base revenues and expenses FPL is permitted use of a Reserve Amortization mechanism at its sole discretion**
  - FPL may record credits (decreases to expense) or debits (increases to expense), as required to achieve a target ROE
  - Cumulatively during the term of the agreement, FPL must use (decrease to expense) at least $250 MM and can use no more than $1.25B
- **FPL may, with notice to the parties, use this Reserve Amortization mechanism beyond the minimum term (2020) until base rates are next set**

The flexibility in the Settlement Agreement is beneficial for customers and the company to maintain rate stability

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The primary impact of tax reform is to lower FPL's cost of service; as applied through our Settlement Agreement, tax reform provides meaningful benefits to customers

Impact of the Tax Provisions for FPL

- **Reduction in tax rate to 21% has two primary impacts:**
  - Lowers income tax expense which is part of the cost of service
  - Reduces the amount of deferred tax expense we will pay to the government in the future
    - Excess deferred tax liabilities were reclassified to a regulatory liability and will be returned to customers through lower tax expense over the remaining lives of the underlying assets
- **Both of these items will reduce the cost of service, which, given the flexibility in the settlement agreement, will provide significant value for our customers**

Lower tax rates and the return of excess deferred taxes are beneficial for customers

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FPL has calculated the excess deferred taxes to be a regulatory liability of approximately $4.4 billion

Excess Deferred Taxes Due to Lower Tax Rate

	2017 $ Billions
Protected - Depreciation	$ 2.4
Non-Protected – Depreciation (basis adj)	0.7
Non-Protected – Other	0.2
Total Excess Deferred Taxes	**$ 3.3**
Total Reg Liability (i.e., with tax gross up)	**$ 4.4**

The excess deferred taxes are assumed to be normalized using an Average Rate Assumption Method (ARAM)

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Not all provisions of tax reform lower the cost of service

Impact of the Provisions for FPL, cont.

- **Two other provisions of tax reform have the opposite effect on customers:**
  - Loss of Section 199 deduction will increase our tax expense thereby increasing cost of service
  - Loss of bonus depreciation will result in the creation of less deferred taxes
    - Less deferred taxes will reduce operating cash flow
    - Requires more debt and equity to fund investments, making it more costly for customers
    - This loss of deferred taxes will grow over time putting upward pressure on revenue requirements
- **The effect of these provisions, likewise, can be accommodated through the settlement agreement**

Overall, tax reform is beneficial both to customers and shareholders

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The net impact in 2018 is estimated to be a revenue requirement savings of about $650 million which provides significant flexibility under the Settlement Agreement

Preliminary Estimated Impact on Revenue Requirements

	2018
Reduction in corporate tax rate to 21%	$ (573)
Loss of bonus depreciation	43
Amortization of excess protected deferred taxes	(113)
Amortization of excess non-protected deferred taxes	(45)
Loss of Section 199 deduction	36
Net Change in Revenue Requirements	**$ (652)**

Tax reform creates a ~$650M reduction in revenue requirements, all other things equal

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FPL's 2016 Settlement Agreement does not explicitly address changes in tax law or most other possible changes in revenues and expenses

Settlement Agreement

- **The general mechanism for handling changes in revenues and expenses within the allowed ROE band is reserve amortization**
  - Tax law changes, like other expenses, are not explicitly addressed
  - FPL is required to maintain ROE within the 9.6% to 11.6% range
  - FPL establishes a target ROE each year and utilizes reserve amortization to remain within the range
- **Two fundamental constraints of reserve amortization:**
  - We cannot use more than the $1.25 B allotted during the settlement period
  - We cannot use less than zero at any point; and must use at least the $250 million that was a carryover from prior settlement period

All other Florida IOU's agreements were negotiated with specific reference to tax reform

FPL

Without the Settlement Agreement's flexibility, tax reform in isolation would cause FPL to exceed its ROE band in 2018

Financial Impact of Tax Reform

- **Pre-tax reform, FPL utilized $100 MM of surplus in 2017 for an 11.5% ROE**
- **Pre-tax reform, forecast was to use ~$180 MM in 2018 to achieve an 11.6% ROE**
- **Through 2018, FPL would have utilized ~$280 MM**
- **Tax reform is estimated to provide $650 MM in savings in 2018**
  - Using the $650 MM in tax savings to offset the $280 MM in cumulative surplus used would result in $370 MM in additional savings falling to the bottom line
  - The $370 MM is equivalent to roughly 170 basis points or FPL earning an 13.3% ROE

Earning above 11.6% ROE likely would result in an end to the Settlement Agreement that is working well for customers and shareholders

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Flexibility in the Settlement Agreement allows FPL customers to realize immediate benefits from tax reform and to preserve the Settlement Agreement

Tax Reform Plan

- **FPL had a $1.3 B regulatory asset on its books for the costs associated with Hurricane Irma**
- **FPL is permitted under the Settlement Agreement to petition the Commission for a surcharge to collect the incremental storm costs**
  - Initial plan was to collect the surcharge over three years via a $4.00 surcharge in 2018 and a ~$5.50 surcharge in 2019-2020
- **Did not make sense to charge customers a surcharge, but over earn as a result of tax savings**
- **FPL decided to forgo the Hurricane Irma surcharge and ensure that we could preserve the Settlement Agreement by maintaining an ROE within the allowed range**

Forgoing the surcharge will save the average customer $250

FPL

FPL expensed the $1.3B in Hurricane Irma costs in December 2017

2017 Impact

- **After tax reform was signed into law, FPL made the accounting determination to expense Irma in 2017**
- **FPL utilized remaining $1.15 billion of reserve amortization to offset loss, leaving us roughly $100 million short of amount needed to achieve an 11.5% ROE**
  - Resulting ROE for 2017 was 11.07%

By expensing Irma and utilizing all available surplus, FPL will not over earn in 2018

FPL

Consistent with its pre-tax reform forecast, and consistent with the negotiated benefit of the Settlement Agreement, FPL expects to achieve an 11.6% ROE for 2018

2018 and Beyond Impact

- **FPL has set its plan to target an 11.6% ROE and begins 2018 with no available reserve amortization**
- **We expect to begin realizing the ~$650 MM in tax savings in January following the pattern of our pre-tax book income**
  - We can utilize the tax savings to reverse the reserve amortization we utilized on Irma, while at the same time ensuring we stay within the allowed 9.6%-11.6% ROE band
  - We now expect to have replenished ~$300 MM of reserve amortization by the end of 2018
- **This pattern will continue in 2019 and 2020 such that we project to end 2020 with roughly half of the $1.25 billion of reserve amortization remaining**

FPL will earn less than 11.6% through mid-2018 as it works to replenish reserve amortization from tax savings

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This plan, possible under the Settlement Agreement, is a great outcome for customers

Benefit to Customers of this Plan

- **No surcharge for Hurricane Irma which provides an average savings of $250 per customer**
- **Bill reduction of $3.35 in March 2018 when Hurricane Matthew surcharge rolls off**
- **FPL expects that with tax savings and the amount of reserve amortization remaining at the end of 2020, we may be able to defer the need for a rate case for up to two additional years**
  – This would provide further bill stability and predictability for our customers and preserve for many of our customers important rate concessions

Customers will see a bill decrease in 2018

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The net impact of tax reform and the flexibility of the Settlement Agreement is to reduce the utilization of reserve amortization through 2020

Preliminary Estimated Impact on Reserve Amortization Utilization

	2018-2020 $ B	Use of Tax Savings
Pre-tax reform 2020 reserve amort remaining	$ --	
Expense of Hurricane Irma	(1.25)	~65%
Impact of tax reform	1.95	
Post tax reform 2020 reserve amort remaining	**$ 0.70**	~35%

Rebuilding portion of initial reserve through tax reform may allow FPL to defer filing for new base rates for up to two years beyond the minimum term of the Settlement Agreement (2020)

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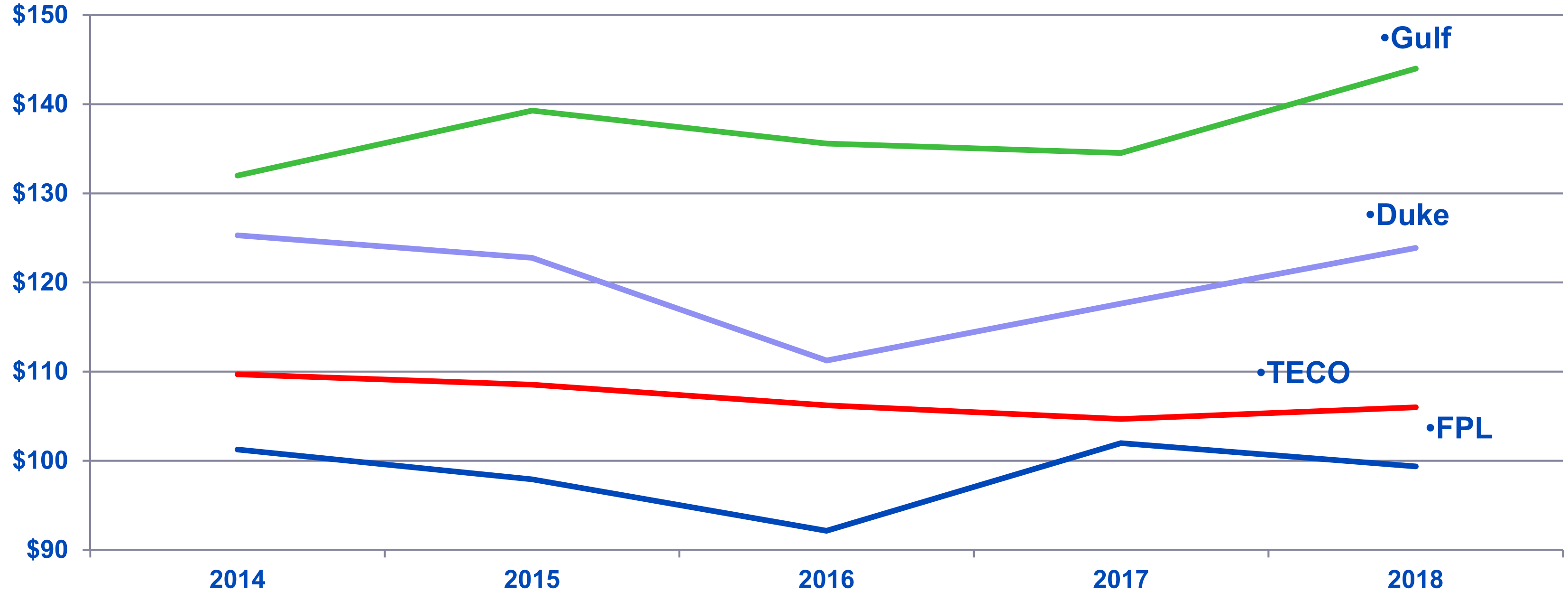
•FPL will remain the lowest Residential IOU bill in the state

2014 – 2018 FL IOUs Typical 1,000 kWh Residential Bill



	2014	2015	2016	2017	Mar 2018
FPL	$101.25	$97.92	$92.14	$101.98	$99.37
TECO	$109.70	$108.55	$106.22	$104.68	$106.00(1)
Gulf	$132.00	$139.29	$135.58	$134.53	$144.00(1)
Duke	$125.29	$122.77	$111.25	$117.63	$123.88(1)

(1) Source: FPSC website as of January 1, 2018. http://www.floridapsc.com/Files/PDF/Utilities/Electricgas/BillingAdjustments/ba_total-2018a.pdf