Tax Equity Partnerships

Differential Membership Interests

October 2019

Agenda

- Tax Equity Overview
- Tax Equity - Financial Reporting Overview
- Hypothetical Wind Project Example
- Hypothetical Solar Project Example
- Appendix (Additional Hypothetical Wind Example Detail)

The differential membership interest structure, commonly referred to as tax equity, allows for the efficient monetization of renewable energy tax benefits

What Is Tax Equity?

- **Renewable developers' capacity for tax benefits is often limited**
  - MACRS and Bonus Depreciation(1) often drive taxable operating losses, which creates a need for developers to partner with companies that can more readily utilize the tax benefits
- **A partnership structure is introduced to include a tax-paying investor into the ownership chain, and allows companies across diverse industries to own renewables**
  - NextEra Energy Resources generally utilizes one of three available tax equity structures for its renewable assets: the Pre-Tax, After-Tax, Partnership Structure (PAPS), the Pay-As-You-Go Partnership Structure (PAYGO), or the Solar ITC Partnership Structure (Solar ITC)
- **The IRS has given clear guidance on acceptable partnership structures**

Similar to equity, the timing of an investor's return varies and is based on the performance of the project(s) owned by the partnership

1) The Modified Accelerated Cost Recovery System (or MACRS), established in 1986, determines the depreciable life or cost recovery period of a business' investments in tangible property; bonus depreciation, which has generally been available since September 11, 2001 (the provision temporarily expired between 2005 and 2007), provided accelerated first-year depreciation that has ranged from 30% to 100%. Current law allows for 100% expensing of bonus depreciation for non-utility entities.

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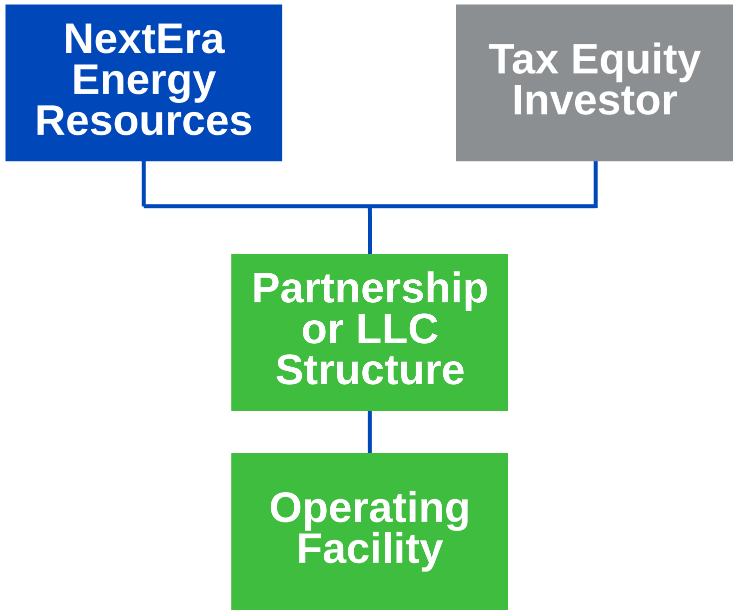
The differential membership interest (or tax equity) structure is an alternative source of capital for renewables

What Is Tax Equity?

- **Tax equity is a partnership structure with two investors:**
  - NextEra Energy Resources (Sponsor)
  - Minority Holder (tax-efficient investor)
- **Tax equity investor acquires its LLC interest either upfront (PAPS or Solar ITC) or upfront and over time (PAYGO)**
- **Under IRS rules, the LLC distributes a disproportionate allocation of tax attributes and cash distributions over the life of the partnership**

Tax Equity Structure

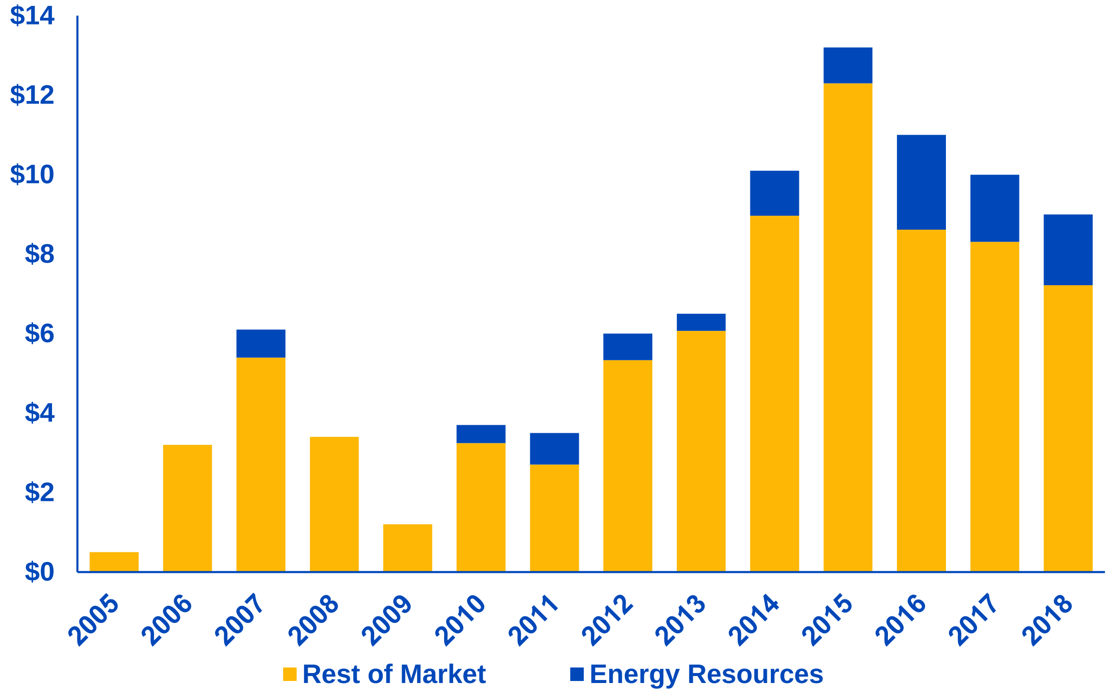


The tax equity investor or minority holder effectively earns its return via tax attributes allocated from the LLC

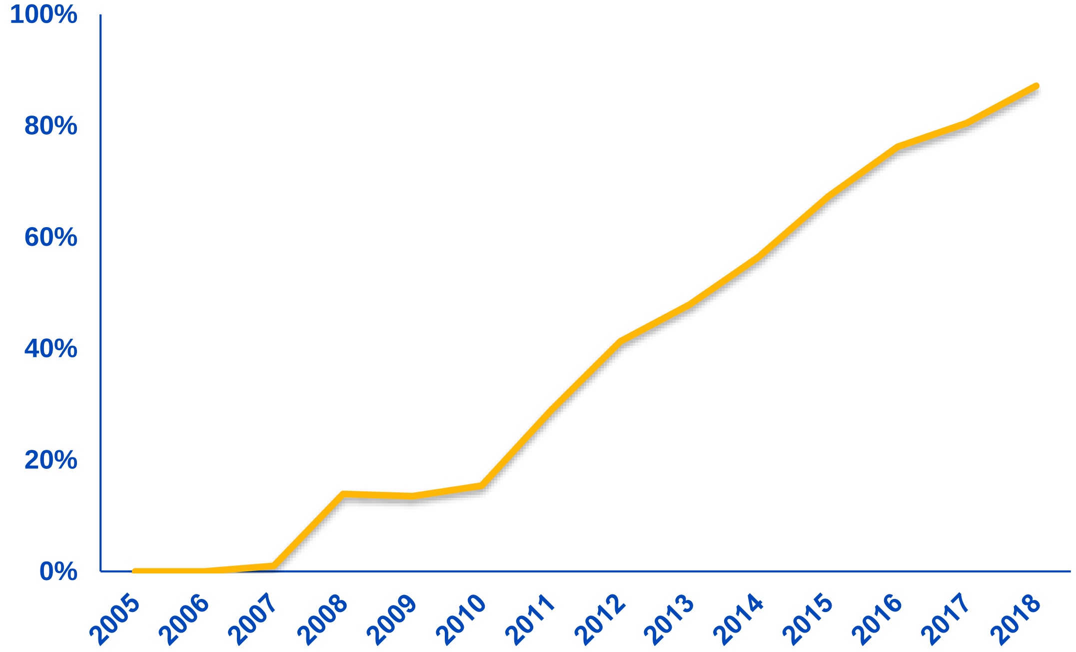
NextEra Energy Resources uses the tax equity market as a source of capital for its wind and solar businesses

When Has NextEra Energy Resources Used Tax Equity Partnerships?

Historic Deal Volume ($B)(1)



Percent of Annual PTCs Allocated to Tax Equity Investors



1) Represents new money tax equity investments only; excludes secondary market transactions.
Source: Chadbourne & Parke LLP; Renewable Energy World; Platts; Norton Rose Fulbright; Mayer Brown.

NextEra Energy Resources generally utilizes one of three tax equity structures, while retaining control of the underlying operating facility

Comparison of Significant Terms

	PAPS	Solar ITC	PAYGO
Initial Sizing of the Investor's Contribution	Present value (PV) of cash distributions and tax attributes allocated to the tax equity investor (TEI) at the agreed upon after-tax return	Same as PAPS	~75% of the PV of cash distributions and tax attributes allocated to the TEI at the agreed upon after-tax return; remaining proceeds come from PAYGO contributions
Investor PAYGO Contributions	Not applicable	Not applicable	Sized to ensure that <25% of total investment is 'contingent' (per IRS Rev. Proc. 2007-65)
Tax Attribute Allocations	Varying allocations between the TEI and the Sponsor[1]; generally, 99% of tax attributes to the TEI during the term	Generally consistent with PAPS, except in years subsequent to operating facility COD[2] the TEI receives 67% of the tax attributes	Same as PAPS
Cash Distribution Allocations	Varying allocations between the TEI and the Sponsor	Allocations are generally fixed throughout, with the majority going to the Sponsor	Same as Solar ITC
Sponsor Buyout Provision	The Sponsor may purchase the TEI's interest once the targeted IRR has been achieved[1]	Same as PAPS	Same as PAPS

1) The Sponsor is the developer of the wind or solar facility (NextEra Energy Resources)
2) COD is defined as Commercial Operations Date
3) Typically, the buyout price is based on an Independent Appraiser's fair market value that is agreed upon at closing

In addition to the unique ongoing contributions from the TEI, the typical PAYGO structure allocates the majority of cash distributions and minimal tax attributes to the Sponsor

Typical Allocations for a PAYGO Partnership[1]

	NextEra Energy Resources	Tax Equity Investor
Cash Distribution	Pre-flip = 85% Post-flip = 95%	Pre-flip = 15% Post-flip = 5%
PTCs	Pre-flip = 1% Post-flip = 95%	Pre-flip = 99% Post-flip = 5%
Taxable Income	Pre-flip = 1% Post-flip = 95%	Pre-flip = 99% Post-flip = 5%

Buyout

- Once the investor earns its specified targeted return (typically occurs close to the end of the PTC team, or 10 years), then:
  - » Cash distributions and earnings allocations flip as noted, and
  - » NextEra Energy Resources has the right to acquire the TEI's LLC interest at fair value[2]

1) For illustrative purposes only; each tax equity arrangement is structured differently based on commercial negotiations
2) Fair value is typically determined and agreed to at the initial closing date

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NextEra Energy presents tax equity ownership as a minority ownership interest in its consolidated financial statements

Financial Reporting Overview

Balance Sheet

- Presented as equity transactions (noncontrolling interests, or NCI)
- Represents the TEI's economic ownership rights in the net assets of the partnership

Income Statement

- The TEI's share of the partnership's earnings are presented as net income attributable to NCI
  - Represents the tax and cash attributes allocated to the TEI
  - Computed using HLBV[(1)] based on the partnership's liquidation provisions
  - NextEra Energy's tax provision represents only its share of the partnership's income

Cash Flows Statement

- Initial cash proceeds, PAYGO proceeds, and cash distributions are presented as financing activities
  - By issuing tax equity, it has the effect of moving tax attribute cash flows from operating activities to financing activities

NextEra Energy consolidates the underlying assets, liabilities, income statement and cash flows activity of its tax equity partnerships

1) The hypothetical liquidation at book value (HLBV) approach allocates earnings between NextEra Energy and the tax equity investor based on the change from the beginning of the period to the end of the period in each party's share of the partnership's book value according to the liquidation provisions of the partnership agreement

Under new accounting guidance effective January 1, 2018, tax equity financings are presented as equity transactions

Balance Sheet Presentation

- **Tax equity transactions were formerly presented under “deferral related to differential membership interests” in other non-current liabilities**
- **Under the new guidance, NextEra Energy continues to consolidate the project-level operations and presents its tax equity as noncontrolling interests in equity**

NEXTERA ENERGY, INC.
CONSOLIDATED BALANCE SHEET
(millions)

		December 31, 2018
PROPERTY, PLANT AND EQUIPMENT		
Electric plan in service and other property	$	81,986
Nuclear fuel		1740
CAPITALIZATION		
Common stock ($0.01 par value, authorized shares - 800)	$	5
Additional paid-in-capital	$	10,490
Retained earnings		23,837
Accumulated other comprehensive loss		(188)
Total common shareholder's equity		34,144
Noncontrolling interests		3,269
Total equity		37,413
OTHER LIABILITIES AND DEFERRED CREDITS		
Asset retirement obligation		3,135
Deferred income taxes		7,367
Regulatory liabilities		9,009
Derivatives		516
Deferral related to differential membership interests - VIEs		-
Other		1,449
Total other liabilities and deferred credits	$	21,476

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Under the new guidance, NextEra Energy presents all benefits associated with its tax equity as net income attributable to NCI

Income Statement Presentation

- **Tax equity is generally accounted for as a sale for tax purposes, but not for GAAP purposes**
  - NextEra Energy continues to consolidate and present all income and expense from the related projects
- **There is no Day 1 GAAP impact**
- **Net Income Attributable to NCI represents the monetization of tax attributes and cash distributions that are allocated to the TEI, partially offset by the TEI's specified rate of return**

NEXTERA ENERGY, INC.
CONSOLIDATED STATEMENT OF INCOME
(millions)

	Year Ended December 31, 2018
OPERATING REVENUES	$ 16,727
OPERATING EXPENSES (INCOME)	
Fuel, purchased power and interchange	$ 3,732
OTHER INCOME (DEDUCTIONS)	
Interest expense	(1,498)
Benefits associated with differential membership interests - net	-
Equity in earnings of equity method investees	358
Allowance for equity funds used during construction	96
Interest income	51
Gains on NEP deconsolidation	3,927
Gains on disposal of investments and other property - net	111
Change in unrealized losses…securities held in NEER's nuclear decomm. Funds - net	(189)
Other net periodic benefit income	168
Other - net	48
Total other income (deductions) - net	3,072
INCOME BEFORE INCOME TAXES	7,352
INCOME TAX EXPENSE (BENEFIT)	1,576
NET INCOME	5,776
NET (INCOME) LOSS NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	862
NET INCOME ATTRIBUTABLE TO NEE	$ 6,638

NextEra Energy presents all cash flows from and to the tax equity investor as financing cash flows

Cash Flows Statement Presentation

- **NextEra Energy's presentation did not change with the new guidance that became effective on January 1, 2018**
- **Cash distributions and PAYGO contributions were reported in Other-net in the presented financial statements due to materiality**

NEXTERA ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Years Ended December 31		
	2018	2017 [(a)]	2016 [(a)]
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 5,776	$ 5,323	$ 2,999
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,911	2,357	3,120
Nuclear fuel and other amortization	236	281	308
Impairment charges	11	446	7
Unrealized losses (gains) on marked to market derivative contracts - net	54	436	(44)
Foreign currency transaction losses (gains)	16	(25)	13
Deferred income taxes	1,463	(882)	1,226
Cost recovery clauses and franchise fees	(225)	82	94
Acquisition of purchased power agreement	(52)	(243)	-
Benefits associated with differential membership interests - net	-	(460)	(309)
Equity in earnings of equity method investees	(358)	(141)	(148)
Distributions of earnings from equity method investees	328	160	102
Gains on disposal of a business, assets and investments - net	(191)	(1,223)	(487)
Gain on NEP deconsolidation	(3,927)	-	-
Recoverable storm-related costs	-	(108)	(223)
Other - net	156	109	(32)
Changes in operating assets and liabilities:			
Current assets	(631)	(333)	(146)
Noncurrent assets	(220)	(60)	(58)
Current liabilities	163	758	(32)
Noncurrent liabilities	83	(19)	(21)
Net cash provided by operating activities	6,593	6,458	6,369

CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of long-term debt	4,399	8,354	5,657
Retirements of long-term debt	(3,102)	(6,780)	(3,310)
Proceeds from differential membership investors	1,841	1,414	1,859
Net change in commercial paper	1,062	1,419	(106)
Proceeds from other short-term debt	5,665	450	500
Repayments of other short-term debt	(455)	(2)	(662)
Payments to related parties under a cash sweep and credit support agreement - net	(21)	-	-
Issuances of common stock - net	718	55	537
Proceeds from issuance of NEP convertible preferred units - net	-	548	-
Dividends on common stock	(2,101)	(1,845)	(1,612)
Other - net	(372)	(725)	(439)
Net cash provided by financing activities	7,634	2,888	2,424

Tax equity makes up a large portion of NextEra Energy's NCI in its statement of shareholders' equity

Statement of Equity Presentation

NEXTERA ENERGY, INC.
CONSOLIDATED STATEMENT OF EQUITY
(millions)

	Total Common Shareholders' Equity [a]	Noncontrolling Interests [a]	Total Equity Equity [a]
Balances, December 31, 2017	$ 28,236	$ 1,295	$ 29,531
Net income (loss)	6,638	(862)	
Issuances of common stock, net of issuance cost of less than $1	700	-	
Shared-based payment activity	121	-	
Dividends on common stock [b]	(2,101)	-	
Other comprehensive income (loss)	(29)	-	
Impact of NEP deconsolidation[c]	58	(2,700)	
Sales of differential membership interest to NEP	-	(941)	
Adoption of accounting standards updates[d]	542	5,303	
Differential membership interest activity	(21)	1,243	
Other	-	(69)	
Balances, December 31, 2018	$ 34,144	$ 3,269	$ 37,413

- **The adoption of the new accounting standard resulted in a $5B increase to NCI and a reduction to other liabilities**
- **Future TEI cash contributions will increase NCI, while allocations of future tax attributes and cash distributions will decrease NCI**

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The hypothetical PAYGO tax equity partnership has an expected tenor of 10 years followed by a buyout payment to the TEI

Example: Project Membership Interest Assumptions[1]

Technology :	Wind
Site Capacity:	150 MW
Expected Tenor :	10 years (PTC period)
After-Tax Return :	7%
Tax Credits :	
Sponsor	1%
Investor	99%
Cash Pre / Post Flip :	
Sponsor	85% / 95%
Investor	15% / 5%
Taxable income / (loss) Pre / Post Flip :	
Sponsor	1% / 95%
Investor	99% / 5%
Buyout Price :	FMV of interest for post flip period

1) Actual values can vary materially; example is for illustrative purposes only

NextEra Energy Resources receives cash and allocates losses and tax attributes to the tax equity investor over the PAYGO term

Wind Project PAYGO Financial Results

($ MM)

Year:	0 (1)	1	2	3	4	5	6	7	8	9	10	Total
Balance Sheet Rollforward:												
Noncontrolling interests - beginning of period (2)	$ 138.3	$ 138.3	$ 131.7	$ 122.7	$ 112.4	$ 100.3	$ 86.2	$ 71.1	$ 54.3	$ 35.5	$ 18.0	$ 138.3
Contributions - PAYGO payments		4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	47.0
Distributions to tax equity investors		(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(11.0)
Buyout payment											(7.8)	(7.8)
Net income / (loss) attributable to NCI		(10.2)	(12.6)	(13.9)	(15.7)	(17.7)	(18.7)	(20.4)	(22.4)	(21.1)	(13.8)	**(166.5)**
Noncontrolling interests - end of period	$ 138.3	$ 131.7	$ 122.7	$ 112.4	$ 100.3	$ 86.2	$ 71.1	$ 54.3	$ 35.5	$ 18.0	$ -	$ -
Cash Flow Statement:												
Net cash provided by financing activities	$ 138.3	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ 3.6	$ (4.2)	**$ 166.5**

Annual income statement recognition in NCI

(red dashed box) =
- Represents net cash flows the tax equity investor pays to the partnership
- Treated as a Financing Cash Flow

(green dashed box) =
- Represents tax attributes and cash allocated to the tax equity investor
- Treated as a net loss allocated to noncontrolling interest holder, which results in earnings to NextEra Energy Resources

NextEra Energy Resources will recognize earnings comparable to the amount of net cash received from the TEI over the term of the PAYGO tax equity structure

1) Simplified to assume completion of project and closing of tax equity at December 31st of year 0
2) NCI represents the tax equity investor's ownership share of the partnership. NCI is reported as a component of equity on NextEra Energy's balance sheet

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The hypothetical Solar ITC tax equity partnership has an expected tenor of 6 years followed by a buyout payment to the TEI

Example: Project Membership Interest Assumptions[1]

Technology :	Solar
Site Capacity:	100 MW
Expected Tenor :	7 years [2]
After-Tax Return :	6%
Tax Credits :	
Sponsor	1%
Investor	99%
Cash: Pre / Post Flip :	
Sponsor	70% / 95%
Investor	30% / 5%
Taxable income / (loss) : Pre / Post Flip :	
Sponsor	33%[3] / 95 %
Investor	67%[3] / 5%
Buyout Price :	FMV of interest for post flip period

1) Actual values can vary materially; example is for illustrative purposes only
2) ITC recapture period is 5 years
3) Year 1 allocation is 99% Investor, 1% Sponsor

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NextEra Energy Resources receives cash at closing and recognizes earnings over the Solar ITC term by allocating losses and tax attributes to the tax equity investor

Solar ITC Financial Results

($ MM)

Year:	0 (1)	1	2	3	4	5	6	7	Total
Balance Sheet Rollforward:									
Noncontrolling interests - beginning of period (2)	$ 54.8	$ 54.8	$ 45.8	$ 36.5	$ 26.2	$ 17.4	$ 9.1	$ 6.0	$ 54.8
Distributions to tax equity investors		(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(16.1)
Buyout payment								(3.0)	(3.0)
Net income / (loss) attributable to NCI		(6.7)	(7.0)	(8.0)	(6.5)	(6.0)	(0.8)	(0.7)	**(35.7)**
Noncontrolling interests - end of period	$ 54.8	$ 45.8	$ 36.5	$ 26.2	$ 17.4	$ 9.1	$ 6.0	$ -	$ -
Cash Flow Statement:									
Net cash provided by financing activities	$ 54.8	$ (2.3)	$ (2.3)	$ (2.3)	$ (2.3)	$ (2.3)	$ (2.3)	$ (5.3)	**$ 35.7**

Annual income statement recognition in NCI

Red dashed box =
- Represents net cash flows the tax equity investor pays to the partnership
- Treated as a Financing Cash Flow

Green dashed box =
- Represents tax attributes and cash allocated to the tax equity investor
- Treated as a net loss allocated to noncontrolling interest holder, which results in earnings to NextEra Energy Resources

NextEra Energy Resources will recognize earnings comparable to the amount of net cash received from the TEI over the term of the Solar ITC tax equity structure

1) Simplified to assume completion of project and closing of tax equity at December 31st of year 0
2) NCI represents the tax equity investor's ownership share of the partnership. NCI is reported as a component of equity on NextEra Energy's balance sheet

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Accounting for the receipt of cash at closing is straightforward

Tax Equity Impact on the Balance Sheet and Cash Flow Statement

($ MM)

Balance Sheet View

Property, Plant and Equipment	
Current Assets	
Cash and Cash Equivalents	$138.3
Other Assets	
Total Assets	$138.3
Capitalization	
Noncontrolling Interest (NCI)	$138.3
Liabilities	
Total Capitalization and Liabilities	$138.3

Cash Flow Statement View

Cash Flow from Operating Activities	
Cash Flow from Investing Activities	
Cash Flow from Financing Activities	
Proceeds from Differential Membership Interest	$138.3
Net Increase/ (Decrease) in Cash	$138.3

Each year, the membership interest is increased by the TEI's specified rate of return and decreased for the value transferred to the TEI

Example: Closing through Year 1 Accounting

($ MM)

Beginning membership interest		**$138.3**	
Constructive interest[1]	$0.0		
Membership Interest	$138.3		
Add after-tax TEI specified target return		**$9.1**	**Target return x membership balance[2]**
Add PAYGO		**$4.7**	**Contribution from the TEI for PTCs generated during the period**
Subtract:			
Value of PTCs allocated to the TEI		($17.1)	**~723K MWh x $24 / MWh x 99% allocation**
Depreciation tax benefit allocated to the TEI		($22.7)	**~$109 MM deduction x 21% tax rate x 99% allocation**
Remaining tax attributes (EBITDA x 21%)		$1.5	**Tax obligation without MACRS**
Operating cash allocated to the TEI		($1.1)	
Ending membership interest, before the change in constructive interest		**$112.7**	
Change in constructive interest[1]		**$19.1**	**Accelerated tax obligation that would be incurred by the TEI in a premature buyout**
Ending membership interest		**$131.8**	
Change - total membership interest		**($6.5)**	

1) The constructive interest is the federal income tax "make whole" the TEI is entitled to in a premature liquidation of the partnership. Refer to the next two pages for additional details on the calculation of the constructive interest
2) Illustration shown as though the TEI's specified target return is calculated annually; the actual calculation and resulting accounting is recorded monthly

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In a hypothetical liquidation, the TEI may have an income tax obligation that pursuant to the tax equity partnership agreement would result in the TEI being made whole in order to achieve the specified after-tax target return

Hypothetical Liquidation

($ MM)

Investor Tax Basis and Membership Interest

	Investor Tax Basis	Membership Interest
Day 1 proceeds	$138.3	$138.3
PAYGO	4.7	4.7
After-tax TEI specified target return		9.1
Operating Cash	(1.1)	(1.1)
PTCs		(17.1)
Tax loss / benefit	(101.0)	(21.2)
Ending balance	**$40.9**	**$112.7**

At end of year 1, membership interest is $112.7 MM, but the TEI's tax basis is only $40.9 MM

Liquidation at Membership Interest

Proceeds (at membership interest amount)	**$112.7**
Less tax basis	($40.9)
Tax gain	$71.8
Tax expense	**($15.1)**
Proceeds (at membership interest amount)	$112.7
Tax expense	($15.1)
Net cash	**$97.6**

Therefore, in a premature liquidation, the TEI would incur a tax liability of $15.1 MM…

…implying net proceeds of only $97.6 MM, instead of the $112.7 MM membership interest

The sponsor recognizes a "constructive interest" to account for the TEI's "tax make-whole" payment in a premature liquidation

Hypothetical Liquidation

($ MM)

Calculation of "Make-Whole" Payment

Net cash		**$97.6**
Membership interest		$112.7
Tax expense		$15.1
Tax gross-up (1 minus 21%)	÷	79%
Make-whole payment (constructive interest)		**$19.1**

We calculate the "tax make-whole" payment by grossing up the difference between the $112.7 MM and the $97.6 MM

We refer to this amount as the "constructive interest" and it is embedded in the total membership interest (NCI) on NextEra Energy's balance sheet

Liquidation with "Make Whole" Payment

Proceeds (membership interest + "tax make-whole")	**$131.8**
Less tax basis	($40.9)
Tax gain	$90.9
Tax expense	**($19.1)**
Total proceeds in premature liquidation	$131.8
Tax expense	($19.1)
Net cash (equals membership interest)	**$112.7**

The constructive interest provides an additional allocation of pre-tax proceeds to the TEI in order for the TEI to receive its full membership interest in a premature liquidation

The tax make-whole naturally declines in subsequent years

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After the depreciation tax benefit is exhausted, the constructive interest declines

Example: Year 6 Accounting (Simplified)

($ MM)

			Effect on Income Statement
Beginning membership interest		**$86.2**	
Constructive interest	$21.4		
Membership interest, before tax make-whole	$64.8		
Add after-tax TEI return		$4.5	Decreases Earnings Before Taxes
Add PAYGO		$4.7	
Subtract:			
Value of PTCs, allocated to the TEI		($19.3)	Increases Earnings Before Taxes
Depreciation tax benefit allocated to the TEI		$0.0	No change – MACRS expires after year 5
Remaining tax attributes (EBITDA x 21%)		$1.5	Decreases Earnings Before Taxes
Cash operating margin allocated to the TEI		($1.1)	
Ending membership interest, before the change in constructive interest		**$76.5**	
Change in constructive interest		**($5.4)**	Increases Earnings Before Taxes
Ending membership interest		**$71.1**	
Change - total membership interest		**($15.1)**	