Accounting for Differential Membership Interests ("Tax Equity Transactions")

Agenda

- Why is Tax Equity Important to NextEra?
- Overview of Typical Tax Equity Structures
- Baseline All-Equity (Unlevered) View
- Financial Statement Impact
- Appendix – Change in Income Statement Classification December 31, 2012

Currently, NextEra Energy is in a net operating loss (NOL) position, and therefore, payment of federal income taxes has been deferred to future periods

Why is Tax Equity Important to NextEra Energy?

- **Both FPL and NextEra Energy Resources (NEER) have invested at high rates for a sustained period of years**
- **Both businesses are currently in the largest capital investment phase in recent history**
- **NEER is the nation's leading producer of renewable energy from the wind and sun**
  - Capital intensive businesses that invest in property with accelerated depreciation face a NOL position
  - Rapid growth, as we have accomplished, compounds the issue
- **Hurricane losses at FPL caused NOL carry forwards/backs**
- **Federal stimulus measures have exacerbated the issue**
  - Bonus tax depreciation provisions (100% in 2011, 50% in 2012)

Fast growing, capital intensive business + storms + bonus depreciation = deferred payment of federal income taxes

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Partnership structures vary, but commonly involve different periods of economic allocations, and the developer retains management control

Typical Partnership Structure

At Closing

- Project sponsor/developer receives cash and recognizes a liability
- Typically done at or near the in-service date of the asset to maximize tax credit and depreciation utilization

Years(1) 1 to X

- Investor receives ~99% of tax attributes
- Project sponsor receives ~100% of operating cash distributions

Years(1) (X+1) to 10

- Investor receives ~99% of tax attributes
- Investor also receives ~100% of operating cash distributions

Investor Return Achieved

- Once Investor earns a specified return (targeted at end of year 10), Investor receives 5% of operating cash distributions and tax attributes
- Project sponsor has option to purchase investor's remaining 5% ownership interest

(1) In most transactions, X represents year 5 or 6

NEXTera ENERGY RESOURCES

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To illustrate the impacts on the financial statements, we will examine a hypothetical contracted PTC project

Illustrative Project Assumptions – 100 MW PTC Wind Farm

• Capital Costs:	$175 MM
• PPA Price:	$40 / MWh, flat
• O&M:	~$12 / MWh
• Net Capacity Factor:	43%
• Tax Rate:	35% Federal, 6% State
• Useful Life:	30 years

**Actual project values vary materially;
this example is used for illustrative purposes only**

The tax efficiency, or lack thereof, is not apparent in the earnings profile of a typical wind project

Baseline Income Statement(1)

($ MM)

Year:	Closing	1	2	3	4	5	6	7	8	9	10
Revenue		$15.1	$15.1	$15.1	$15.1	$15.1	$15.1	$ 15.1	$15.1	$15.1	$ 15.1
Operating expenses		(5.0)	(4.9)	(4.7)	(4.6)	(4.4)	(4.3)	(4.2)	(4.0)	(3.9)	(3.7)
Depreciation		(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Operating income		4.3	4.4	4.6	4.7	4.9	5.0	5.1	5.3	5.4	5.6
Income tax exp (ex PTCs)		(1.6)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(2.0)	(2.0)	(2.1)	(2.1)
Federal PTCs		8.3	8.7	8.7	9.0	9.0	9.0	9.4	9.4	9.8	9.8
Net income		$11.0	$11.4	$11.5	$11.9	$12.0	$12.1	$ 12.5	$12.7	$13.1	$ 13.3
Capital employed	$175.0										
Taxes:											
Tax depreciation	35.0	56.0	33.6	20.2	20.2	10.1	-	-	-	-	-
State taxable income	(35.0)	(45.9)	(23.4)	(9.8)	(9.7)	0.5	10.8	10.9	11.1	11.2	11.3
Federal taxable income	(32.9)	(43.2)	(22.0)	(9.2)	(9.1)	0.5	10.1	10.3	10.4	10.5	10.7

Note: Simplified to assume completion of project at December 31st of year 0

(1) Baseline income statement reflects project funded with 100% equity (no tax equity or debt financing)

Agenda

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We will now add a hypothetical differential membership interest partnership to the baseline project

Illustrative Tax Equity Assumptions – 100 MW PTC Wind Farm

• **Expected Tenor:**	**10 years (PTC period)[1]**
• **After-Tax Return:**	**7.0%**
• **Tax Attributes to Sponsor:**	**1% for 10 years**
• **Tax Attributes to Investor:**	**99% for 10 years**
• **Operating Cash to Sponsor:**	**100% for the first 6 years**
• **Operating Cash to Investor:**	**100% for the last 4 years**
• **Buyout Price:**	**5% of FMV at flip ($3-5 MM)[2]**
• **Federal Tax Rate:**	**35%**

Note: Commercial operations date and closing date are both December 31st of year 0
(1) Actual tenor will depend upon project performance
(2) Actual buyout will depend on actual tenor

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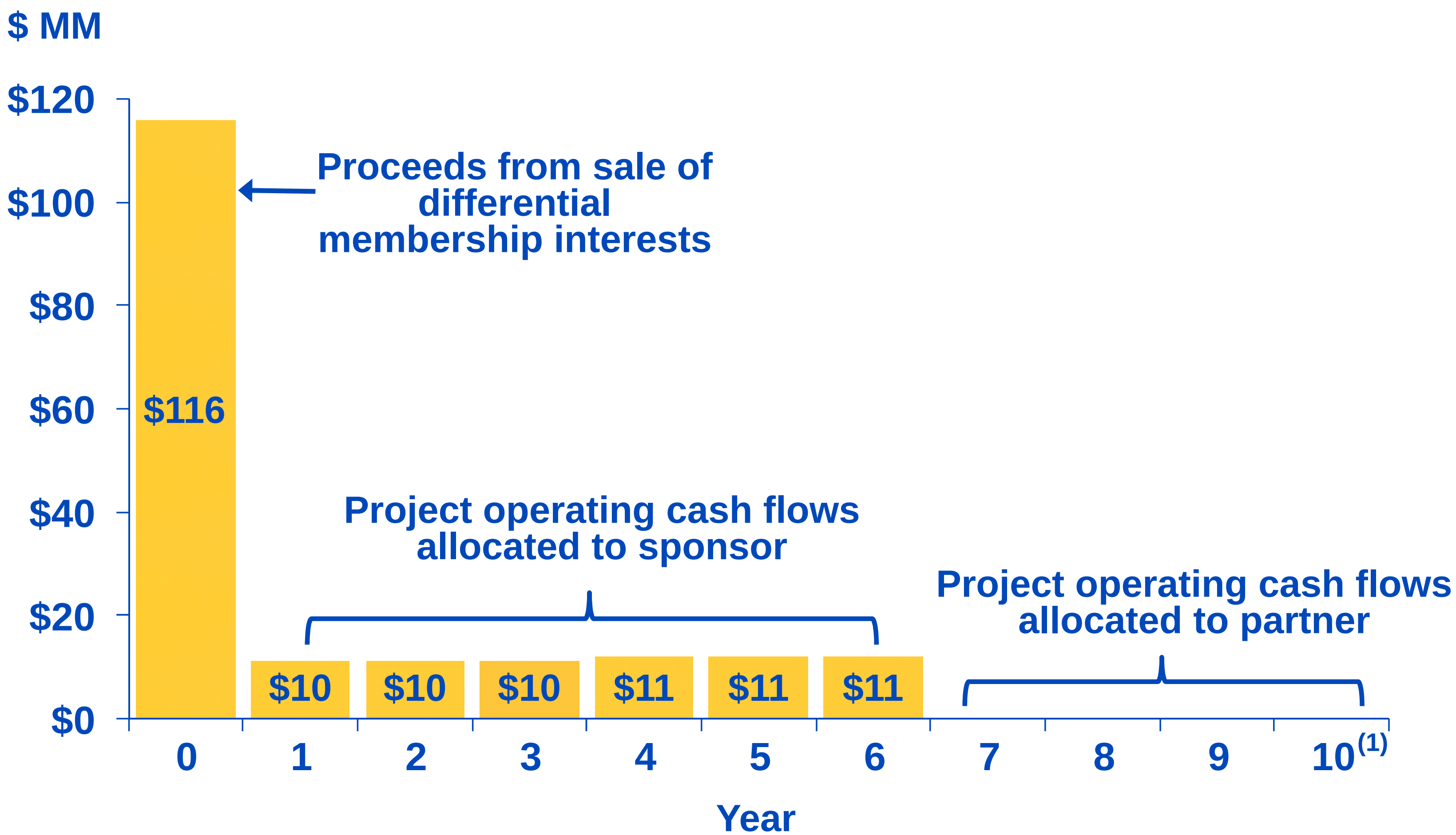
In this hypothetical example, we receive $116 MM in cash at closing, reflecting the sale to the non-operating partner

Sponsor Yearly Cash Flow Under Tax Equity



(1) In this example, the Sponsor acquires the Investor's ownership interest at the end of year 10 for $4.1 million; this payment is not reflected in the chart above

The year-by-year view in more detail

Cash Flow Impact to Sponsor

($ MM)

Year:	Closing	1	2	3	4	5	6	7	8	9	10
Baseline Cash Flow to Sponsor:											
Operating cash distributions	$ -	$ 10.1	$ 10.2	$ 10.3	$ 10.5	$ 10.6	$ 10.8	$ 10.9	$ 11.1	$ 11.2	$ 11.3
Federal taxes	11.5	15.1	7.7	3.2	3.2	(0.2)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)
State taxes	2.1	2.8	1.4	0.6	0.6	-	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
PTCs	-	8.3	8.7	8.7	9.0	9.0	9.0	9.4	9.4	9.8	9.8
Deferred tax utilization[(1)]	(11.5)	(23.4)	(16.4)	(11.9)	63.2	-	-	-	-	-	-
After-tax cash flow	$ 2.1	$ 12.9	$ 11.6	$ 10.9	$ 86.5	$ 19.4	$ 15.7	$ 16.0	$ 16.2	$ 16.6	$ 16.7
Tax Equity Cash to Sponsor:											
Proceeds	$116.0										
Operating cash distributions	-	$ 10.1	$ 10.2	$ 10.3	$ 10.5	$ 10.6	$ 10.8	$ -	$ -	$ -	$ -
Federal taxes	0.1	0.2	0.1	-	-	-	-	-	-	-	-
State taxes	-	-	-	-	-	-	-	-	-	-	-
PTCs	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Buyout	-	-	-	-	-	-	-	-	-	-	(4.1)
After-tax cash flow	$116.1	$ 10.4	$ 10.4	$ 10.4	$ 10.6	$ 10.7	$ 10.9	$ 0.1	$ 0.1	$ 0.1	$ (4.0)
Change in Sponsor's Cash Flow:	**$114.0**	**$ (2.5)**	**$ (1.2)**	**$ (0.5)**	**$(75.9)**	**$ (8.7)**	**$ (4.8)**	**$(15.9)**	**$(16.1)**	**$(16.5)**	**$(20.7)**

(1) In this example, the sponsor is assumed to have no net cash federal tax liability in years 1 through 3; then is assumed to be a full tax payer in year 4 and thereafter

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Tax equity investors are able to monetize income tax benefits more efficiently than the sponsor / developer

Cash Flow Impact to Tax Equity Investor

($ MM)

Year:	Closing	1	2	3	4	5	6	7	8	9	10
Tax Equity Cash to Investor - Expected:[(1)]											
Initial investment	$(116.0)										
Operating cash distributions	-	$ -	$ -	$ -	$ -	$ -	$ -	$10.9	$11.1	$11.2	$11.4
Federal taxes	11.4	14.9	7.6	3.2	3.2	(0.2)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)
State taxes	2.1	2.8	1.4	0.6	0.6	-	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
PTCs	-	8.2	8.6	8.6	8.9	8.9	8.9	9.3	9.3	9.7	9.7
Buyout	-	-	-	-	-	-	-	-	-	-	4.1
After-tax cash flow	**$(102.5)**	**$25.9**	**$17.6**	**$12.4**	**$12.7**	**$8.7**	**$4.8**	**$15.9**	**$16.1**	**$16.5**	**$20.8**

(1) In this example, the contracted after-tax return to the tax equity investor is 7.0%, exclusive of state tax benefits and the buyout payment. As a result, the expected return is higher

Accounting for the receipt of cash at closing is straightforward

Tax Equity Impact on Balance Sheet & Cash Flow Statement

($ MM)

Balance Sheet View

Property, Plant and Equipment	
Current Assets	
Cash and Cash Equivalents	$116
Other Assets	
Total Assets	$116
Capitalization	
Current Liabilities	
Other Liabilities and Deferred Credits	
Deferral Related to Differential Membership Interests – VIEs	$116
Commitments and Contingencies	
Total Capitalization and Liabilities	$116

Cash Flow Statement View

Cash Flow from Operating Activities	
Cash Flow from Investing Activities	
Cash Flow from Financing Activities	
Proceeds from Sale of Differential Membership Interests	$116
Net Increase/ (Decrease) in Cash	$116

Each year, the deferral is increased at the Investor's target return and decreased for the value passed to the Investor

Example: Closing through Year 1 Accounting

($ MM)

Beginning total obligation		**$116**	
Constructive[(1)]	$0		
Deferred	$116		
Add after-tax investor return		**$8**	**Target return x deferred balance[(2)]**
Subtract:			
Value of PTCs allocated to Investor		($8)	**372,913 MWh x $22 / MWh**
Depreciation tax benefit allocated to Investor		($32)	**$90,090 deduction x 35% tax rate**
Remaining tax attributes (EBITDA x 35%)		$3	**Tax obligation without MACRS**
Cash operating margin allocated to Investor		$0	**No cash margin to Investor in years 1-6**
Ending deferred obligation		**$87**	
Ending constructive obligation[(1)]		**$28**	**Accelerated tax obligation that would be incurred by Investor in a premature buyout**
Ending obligation		**$115**	
Change - total obligation		**($1)**	

(1) See next page for explanation of constructive obligation
(2) Illustration shown as though an annual calculation; actual calculation and resulting entries booked monthly

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The total recorded obligation represents a value which would keep the investor whole in a premature liquidation

Hypothetical Liquidation

($ MM)

Investor Tax Basis and Deferred Obligation

	Investor Tax Basis	Deferred Obligation
Day 1 proceeds	$116	$116
After-tax Investor return		8
PTC's		(8)
Tax loss / benefit	(80)	(29)
Ending balance	$36	**$87**

At end of year 1, deferred obligation is down to $87 MM, but Investor tax basis is only $36 MM

Liquidation at Deferred Obligation

Proceeds (at deferred obligation amount)	**$87**
Less tax basis	(36)
Tax gain	$51
Tax expense	**($18)**
Proceeds (at deferred obligation amount)	$87
Tax expense	(18)
Net cash (does not equal deferred obligation)	**$69**

Therefore, in a premature liquidation, Investor would incur a tax liability of $18 MM…

…implying net proceeds of only $69 MM, instead of the $87 MM deferred obligation

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The sponsor recognizes a "constructive obligation" to account for the Investor's income tax effect in a premature liquidation

Hypothetical Liquidation
($ MM)

Calculation of "Make-Whole" Payment

Net cash		**$69**
Deferred obligation		87
Tax expense		18
Tax gross-up (1 minus 35%)	÷	65%
Make-whole payment (constructive obligation)		**$28**

- We calculate a "make-whole" payment by grossing up the difference between the $87 MM and the $69 MM
- This amount is known as the constructive obligation and is recorded as a liability on the sponsor's books

Liquidation with "Make Whole" Payment

Proceeds (deferred obligation + "make-whole")	**$115**
Less tax basis	(36)
Tax gain	$79
Tax expense	**($28)**
Total proceeds in premature liquidation	$115
Tax expense	(28)
Net cash (equals deferred obligation)	**$87**

- As a check, with the constructive obligation, the Investor now receives the full amount in premature liquidation
- Constructive obligation naturally declines in subsequent years

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After the depreciation tax benefit is exhausted, the constructive obligation declines. From an accounting perspective, all entries are reflected in debits and credits to Other Income/(Deductions)

Example: Year 6 Accounting (Simplified)

($ MM)

			Effect on Income Statement
Beginning total obligation		**$93**	
Constructive	$35		
Deferred	$58		
Add after-tax Investor return		$4	**Increase benefits associated with differential membership interests - net**
Subtract:			
Value of PTCs, allocated to Investor		($9)	**Decrease benefits associated with differential membership interests - net**
Depreciation tax benefit allocated to Investor		$0	**No change as MACRS expires after year 5**
Remaining tax attributes (EBITDA x 35%)		$4	**Increase benefits associated with differential membership interests - net**
Cash operating margin allocated to Investor		$0	
Ending deferred obligation		**$57**	
Change in constructive obligation		**($7)**	**Decrease benefits associated with differential membership interests - net**
Ending obligation		**$85**	
Change - total obligation		**($8)**	

Note: Illustration shown as though an annual calculation; actual calculation and resulting entries booked monthly

The net effect on the income statement is shown below

GAAP Income Statement – Tax Equity vs. Baseline
Cumulative Impact of Years 1-15
($ MM)

	Baseline	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	79.2	-
Interest Expense	-	-	-
Benefits Associated with Differential Membership Interests - net	-	69.5	69.5
EBIT	79.2	148.7	69.5
Tax Provision (excluding PTCs)	(30.5)	(57.4)	(26.9)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 139.8**	**$ 92.3**	**$ (47.5)**

From a management perspective, the net effect on the income statement is…

Management[1] Income Statement – Tax Equity vs. Baseline

Cumulative Impact of Years 1-15

($ MM)

	Baseline	Tax Equity	Variance
Revenue	$ 376.1	$ 376.1	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	228.8	228.8	-
Interest Expense	-	(77.5)	(77.5)
Pre-Tax Book Income	228.8	151.3	(77.5)
Tax Provision	(89.0)	(59.0)	30.0
Net Income	**$ 139.8**	**$ 92.3**	**$ (47.5)**

As with other wind projects, PTCs are reflected as revenue on a pre-tax basis. In addition, tax equity costs are presented as pre-tax interest expense.

(1) NextEra Energy Resources utilizes this management income statement format to report equivalent gross margin hedged and earnings drivers

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The net effect on the GAAP cash flow statement…

GAAP Cash Flow Statement – Tax Equity vs. Baseline
Cumulative Impact of Years 1-15

($ MM)

	Baseline	Tax Equity	Variance
Operating Cash Flow	$ 260.5	$ 145.6	$ (114.9)
Investing Cash Flow	(175.0)	(175.0)	-
Financing Cash Flow	-	67.4	67.4
Net Cash Flow	**$ 85.5**	**$ 38.0**	**$ (47.5)**

Cash Flow Statement Presentation

- **Initial proceeds from sale of differential membership interests are reflected in cash flows from financing activities**
- **The allocation of tax attributes (PTCs and benefits from income tax losses) to the Investor are used to partially pay down the deferred obligation**
  - Because these tax allocations are non-cash to the sponsor, GAAP reporting precludes reflecting these non-cash "payments" as financing activities but rather are shown as reductions to operating cash flows
- **The allocation of project operating cash distributions to the investor is reflected in cash flows from financing activities**

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To further demonstrate the cash flow presentation, the following details the variance…

GAAP Cash Flow Statement – Tax Equity vs. Baseline
Cumulative Variance of Years 1-15
($ MM)

	Variance
Operating Cash Flows	
• PTC's Allocated to Investor	$ (90.1)
• Tax Losses Allocated to Investor	(24.8)
	$ (114.9)
Investing Cash Flows	
• No change	**$ -**
Financing Cash Flows	
• Initial Proceeds	$ 116.0
• Project Operating Cash Distributions	(44.5)
• Buy-out	(4.1)
	$ 67.4
Net Cash Flow	**$ (47.5)**

A significant portion of the investor's "return of capital" is included in operating cash flows for GAAP purposes…

… as a result, cumulative financing cash flows do not net to zero

The net effect on the GAAP balance sheet is…

GAAP Balance Sheet Impact

Tax Equity vs. Baseline – Years 1-10[1]

($ MM)

Year:	Closing	1	2	3	4	5	6	7	8	9	10
Baseline:											
PP&E, net	$175.0	$169.2	$163.3	$157.5	$151.7	$145.8	$140.0	$134.2	$128.3	$122.5	$116.7
Cash and Cash Equivalents	-	-	-	-	-	-	-	-	-	-	-
Total Assets	$175.0	$169.2	$163.3	$157.5	$151.7	$145.8	$140.0	$134.2	$128.3	$122.5	$116.7
Capitalization	$172.9	$171.0	$170.7	$171.2	$ 96.6	$ 89.1	$ 85.5	$ 82.0	$ 78.4	$ 74.8	$ 71.3
Accumulated deferred income taxes	2.1	(1.8)	(7.3)	(13.7)	55.1	56.7	54.5	52.2	49.9	47.7	45.4
Total Capitalization and Liabilities	$175.0	$169.2	$163.4	$157.5	$151.7	$145.8	$140.0	$134.2	$128.3	$122.5	$116.7
Tax Equity:											
PP&E, net	$175.0	$169.2	$163.3	$157.5	$151.7	$145.8	$140.0	$134.2	$128.3	$122.5	$116.7
Cash and Cash Equivalents[2]	116.0	-	-	-	-	-	-	-	-	-	-
Total Assets	$291.0	$169.2	$163.3	$157.5	$151.7	$145.8	$140.0	$134.2	$128.3	$122.5	$116.7
Capitalization	$152.6	$ 33.7	$ 32.3	$ 31.7	$ 31.9	$ 32.6	$ 33.6	$ 41.8	$ 50.8	$ 61.2	$ 71.3
Accumulated deferred income taxes	22.4	20.9	20.3	20.0	20.2	20.8	21.4	26.6	32.3	38.9	45.4
Deferral related to differential membership interests - VIEs	116.0	114.6	110.7	105.8	99.5	92.5	84.9	65.8	45.2	22.4	-
Total Capitalization and Liabilities	$291.0	$169.2	$163.3	$157.5	$151.6	$145.9	$139.9	$134.2	$128.3	$122.5	$116.7

(1) In this example, the balance sheet is essentially the same after year 10
(2) At closing, the tax equity investor contributes $116 MM into the project; at the beginning of year 1, the project distributes the cash to the sponsor

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In effect, tax equity is an alternative to project finance; sponsor pays a higher rate, but in exchange is able to accelerate realization of deferred tax position

GAAP Income Statement – Tax Equity vs. Project Finance
Cumulative Impact of Years 1-15
($ MM)

	Project Finance[1]	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	79.2	-
Interest Expense	(60.4)	-	60.4
Benefits Associated with Differential Membership Interests - net	-	69.5	69.5
EBIT	18.8	148.7	129.9
Tax Provision (excluding PTCs)	(6.9)	(57.4)	(50.5)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 103.0**	**$ 92.3**	**$ (10.7)**

(1) Assumes an equal amount of financing proceeds as tax equity of $116 MM, 20 year amortization, interest rate of 5.5%

From a management perspective, the net effect on the income statement is…

Management[1] Income Statement – Tax Equity vs. Project Finance – Cumulative Impact of Years 1-15

($ MM)

	Project Finance	Tax Equity	Variance
Revenue	$ 376.1	$ 376.1	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	228.8	228.8	-
Interest Expense	(60.4)	(77.5)	(17.1)
Pre-Tax Book Income	168.4	151.3	(17.1)
Tax Provision	(65.4)	(59.0)	6.4
Net Income	**$ 103.0**	**$ 92.3**	**$ (10.7)**

(1) NextEra Energy Resources utilizes this management income statement format to report equivalent gross margin hedged and earnings drivers

The net effect on the GAAP cash flow statement is…

GAAP Cash Flow Statement – Tax Equity vs. Project Finance
Cumulative Impact of Years 1-15
($ MM)

	Project Finance	Tax Equity	Variance
Operating Cash Flow	$ 223.6	$ 145.6	$ (78.0)
Investing Cash Flow	(175.0)	(175.0)	-
Financing Cash Flow	24.3	67.4	43.1
Net Cash Flow	**$ 72.9**	**$ 38.0**	**$ (34.9)**

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Appendix – Change in Income Statement Classification December 31, 2012

Effective December 31, 2012, pretax costs and benefits associated with differential membership interests are reported discretely in the income statement to improve transparency

Change in Income Statement Classification December 31, 2012

- **Historically, pretax costs and benefits associated with differential membership interests have been reported as "taxes other than income taxes and other" in the income statement**
  - Identification of these costs and benefits has been difficult for investors
  - Discrete presentation of these costs and benefits will improve transparency for investors
- **Effective with the December 31, 2012 10-K, pretax costs and benefits of differential membership interests are reported in a new line item "Benefits Associated with Differential Membership Interests – net" in the "Other Income/(Deductions)" section of the Income Statement; $16 million, $118 million and $81 million are reported in this new line for the years ended 2010, 2011, and 2012, respectively**
- **Three slides of this presentation were revised to reflect this change and are shown on the following slides**

After the depreciation tax benefit is exhausted, the constructive obligation declines. From an accounting perspective, all entries are reflected in debits and credits to operating expenses

Example: Year 6 Accounting (Simplified)

($ MM)

Previous Classification (Slide #18)

			Effect on Income Statement
Beginning total obligation		**$93**	
Constructive	$35		
Deferred	$58		
Add after-tax Investor return		$4	Increase operating expenses
Subtract:			
Value of PTCs, allocated to Investor		($9)	Decrease operating expenses
Depreciation tax benefit allocated to Investor		$0	No change as MACRS expires after year 5
Remaining tax attributes (EBITDA x 35%)		$4	Increase operating expenses
Cash operating margin allocated to Investor		$0	
Ending deferred obligation		**$57**	
Change in constructive obligation		**($7)**	Decrease operating expenses
Ending obligation		**$85**	
Change - total obligation		**($8)**	

Note: Illustration shown as though an annual calculation; actual calculation and resulting entries booked monthly

After the depreciation tax benefit is exhausted, the constructive obligation declines. From an accounting perspective, all entries are reflected in debits and credits to Other Income/(Deductions)

Example: Year 6 Accounting (Simplified)

($ MM)

New Classification (Slide #18)

			Effect on Income Statement
Beginning total obligation		**$93**	
Constructive	$35		
Deferred	$58		
Add after-tax Investor return		$4	Increase Benefits Associated with Differential Membership Interests- net
Subtract:			
Value of PTCs, allocated to Investor		($9)	Decrease Benefits Associated with Differential Membership Interests- net
Depreciation tax benefit allocated to Investor		$0	No change as MACRS expires after year 5
Remaining tax attributes (EBITDA x 35%)		$4	Increase Benefits Associated with Differential Membership Interests- net
Cash operating margin allocated to Investor		$0	
Ending deferred obligation		**$57**	
Change in constructive obligation		**($7)**	Decrease Benefits Associated with Differential Membership Interests- net
Ending obligation		**$85**	
Change - total obligation		**($8)**	

Note: Illustration shown as though an annual calculation; actual calculation and resulting entries booked monthly

The net effect on the income statement is shown below

GAAP Income Statement – Tax Equity vs. Baseline

Cumulative Impact of Years 1-15

($ MM)

Previous Classification (Slide #19)

	Baseline	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	9.2	69.5
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	148.7	69.5
Interest Expense	-	-	-
EBIT	79.2	148.7	69.5
Tax Provision (excluding PTCs)	(30.5)	(57.4)	(26.9)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 139.8**	**$ 92.3**	**$ (47.5)**

The net effect on the income statement is shown below

GAAP Income Statement – Tax Equity vs. Baseline

Cumulative Impact of Years 1-15

($ MM)

New Classification (Slide #19)

	Baseline	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	79.2	-
Interest Expense	-	-	-
Benefits Associated with Differential Membership Interests - net	-	69.5	69.5
EBIT	79.2	148.7	69.5
Tax Provision (excluding PTCs)	(30.5)	(57.4)	(26.9)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 139.8**	**$ 92.3**	**$ (47.5)**

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In effect, tax equity is an alternative to project finance; sponsor pays a higher rate, but in exchange is able to accelerate realization of deferred tax position

GAAP Income Statement – Tax Equity vs. Project Finance

Cumulative Impact of Years 1-15

($ MM)

Previous Classification (Slide #24)

	Project Finance[1]	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	9.2	69.5
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	148.7	69.5
Interest Expense	(60.4)	-	60.4
EBIT	18.8	148.7	129.9
Tax Provision (excluding PTCs)	(6.9)	(57.4)	(50.5)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 103.0**	**$ 92.3**	**$ (10.7)**

(1) Assumes an equal amount of financing proceeds as tax equity of $116 MM, 20 year amortization, interest rate of 5.5%

In effect, tax equity is an alternative to project finance; sponsor pays a higher rate, but in exchange is able to accelerate realization of deferred tax position

GAAP Income Statement – Tax Equity vs. Project Finance

Cumulative Impact of Years 1-15

($ MM)

New Classification (Slide #24)

	Project Finance[1]	Tax Equity	Variance
Revenue	$ 226.5	$ 226.5	$ -
Operating Expenses	(60.3)	(60.3)	-
Depreciation	(87.0)	(87.0)	-
Operating Income	79.2	79.2	-
Interest Expense	(60.4)	-	60.4
Benefits Associated with Differential Membership Interests - net		69.5	69.5
EBIT	18.8	148.7	129.9
Tax Provision (excluding PTCs)	(6.9)	(57.4)	(50.5)
Federal - PTCs	91.1	1.0	(90.1)
Net Income	**$ 103.0**	**$ 92.3**	**$ (10.7)**

(1) Assumes an equal amount of financing proceeds as tax equity of $116 MM, 20 year amortization, interest rate of 5.5%

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