FLORIDA POWER & LIGHT COMPANY
Cost Measurement & Allocation Department
Cost Allocation Manual (CAM)
2016

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I. INTRODUCTION

This Cost Allocation Manual (CAM) documents cost allocation policies and practices, and provides guidelines to employees regarding the application of those policies for affiliate transactions.

The over-riding principle of this process is that resources shared between Florida Power and Light (FPL) and its affiliates cannot result in subsidization by the regulated entity on behalf of its non-regulated affiliates. This manual describes the standard services provided between FPL and its affiliates, as well as FPL's inter-company process for charging direct and indirect costs, the Corporate Services Charge (CSC), and other apportionment methods. The costing concepts and principles described herein are applied consistently to all subsidiaries billed by FPL.

When affiliates request services from FPL personnel, FPL employees should direct charge for services to the benefiting affiliate. This manual describes processes to direct charge those costs, as well as the allocation processes used when direct charging is not practical.

II. COST ACCOUNTING CONCEPTS

Costs are apportioned among entities based on three cost characteristics:

- **Direct** – Costs of resources used exclusively for the provision of services that are readily identifiable to an activity. An example of inter-company direct costs would be the fully-loaded salary of an engineer working on an affiliate's power plant.

- **Assigned** – Costs of resources used jointly in the provision of both regulated and non-regulated activities that are apportioned using direct measures of cost causation. The square footage cost of office space used by affiliates would be an example of assignable costs.

- **Unattributable** – Cost of resources shared by both regulated and non-regulated activities for which no causal relationship exists. These costs are accumulated and allocated to both regulated and non-regulated activities through the use of the CSC. The costs associated with NextEra Energy, Inc.'s board of directors is an example of unattributable costs allocated using the Corporate Services Charge (See Corporate Services Charge section for details on unattributable charges).

III. REGULATORY REQUIREMENTS AND REPORTING

FERC Accounting Guidelines

The Uniform System of Accounts (USOA), as prescribed by the Federal Energy Regulatory Commission (FERC), and adopted by the Florida Public Service Commission (FPSC), is found in the Code of Federal Regulations, Title 18, Subchapter C. Part 101. Application of these guidelines indicates that:

- Inter-company transactions are to be recorded in FERC account 146.

- Intra-Utility direct charge transactions are to be recorded in the appropriate account(s) within the operational function receiving the goods or services.
- Intra-Utility allocations of corporate center costs for business unit financial reporting are to be recorded in the Administrative and General (A&G) range of accounts. Administrative and general accounts should contain charges not chargeable directly to a particular operating function.

FERC recognizes explicitly in Order 707-A that the “at cost” pricing rules would be extended to single state holding companies that do not have centralized shared services companies. An important condition to this rule, however, is that such services may not be provided to unaffiliated third parties. The reason for this condition is that a market price is determinable in cases where such services are provided to third parties. Activities between FPL and its affiliates must comply with this Order.

FPSC Rule

The Florida Public Service Commission has adopted rules concerning cost allocation and affiliate transactions (25-6.1351). The purpose of these rules is to establish cost allocation requirements to ensure proper accounting for affiliate transactions and non-regulated utility activities so that these transactions and activities are not subsidized by utility ratepayers. The processes outlined in this cost allocation manual were developed to ensure compliance with this rule.

NARUC Guidelines

The National Association of Regulatory Utility Commissioners (NARUC) has developed a set of guidelines to assist regulated utilities and their affiliates in the development of procedures for recording transactions for services and products between a regulated entity and its affiliates. The prevailing premise of these guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities. The processes outlined in this manual are in accordance with these guidelines, as described in Exhibit A.

Diversification Report

In addition to the FERC Form No. 1, Annual Report of Major Electric Utilities, Licenses and Others, the FPSC requires the Utility to file an Annual Diversification Report. This report contains:

- Summary of changes to the corporate structure
- Updated structure showing parent and affiliates
- Summary of new or amended contracts with affiliates
- All transactions between regulated and non-regulated activities
- Detail reports of all individual transactions over $500,000 between FPL and affiliates
- Summary of asset transfers between FPL and affiliates
- Employee transfers between FPL and affiliates
- Analysis of non-tariffed services and products provided by the utility

IV. BILLINGS TO AFFILIATES FOR SERVICES PROVIDED BY FPL

FPL supports enterprise and affiliate operations through direct project activities and shared governance, compliance and other support functions. Direct activities are charged to affiliates through specific internal orders (see subsequent sections of this manual for process details). Shared support functions are allocated through the following mechanisms:

1. Corporate Services Charge (CSC)
2. Nuclear Operations Support Charge
3. Information Management Support Charge

All services provided to affiliates, either direct or allocated, are billed at actual cost using fully loaded rates. Payroll is charged by using the employee's actual payroll rate plus loaders, which cover payroll taxes, benefits, and administrative costs.

Corporate Services Charge (CSC) [(1)]

The Corporate Services Charge was implemented to bill Corporate Staff shared services and capital benefiting both FPL and its affiliates. This charge is based on a cost pool of shared services, which is allocated based on specific drivers or the Massachusetts formula.

Cost Pool – Corporate Shared Services

The Shared Services cost pool is determined annually through an extensive review of shared services and capital provided by FPL's Corporate Staff Departments to entities across the enterprise. The review is performed in conjunction with FPL's budget cycle and identifies the products and services to be allocated based upon each Work Breakdown Structure (WBS). These budgeted costs, along with capitalized hardware and software, are combined to obtain an estimated shared cost pool for the subsequent year. These shared costs are allocated to affiliates using specific drivers (where available) or the Massachusetts Formula.

Allocation – Massachusetts Formula

FPL reviewed options for allocation of the cost pool(s) where there were no specific driver(s) and elected to use the average of Payroll, Revenues and average Gross Property Plant and Equipment. This methodology is commonly referred to as the "Massachusetts Formula" and has been an industry standard for rate regulated allocations. The forecasted amounts for each of the three components are estimated for all applicable entities and given equal weight. An average is then computed for each operating entity, which when compared to the total, yields a ratio used to allocate its share of the cost pool.

The affiliate entities are billed monthly their share of the Corporate Services Charge using the ratios described above and the actual costs incurred for the month by the FPL department providing the service. Specifically, the amount of the charge is determined by multiplying the actual shared costs incurred (accumulated in SAP each month by WBS) by the appropriate driver percentages. The result is then allocated to the affiliates during the SAP settlement process as an inter-company charge.

[(1)] The CSC was formerly referred to as the Affiliate Management fee (AMF). The name has been changed in 2016 to more accurately describe the costs.

Corporate Shared Services and Capital

The list below includes examples of shared services that are provided by FPL to benefit the entire enterprise. These services are included in the Corporate Services Charge and are allocated to affiliates via the use of specific drivers or the Massachusetts Formula.

Shared Services Allocated via Specific Drivers

- **Information Management** (Specific drivers relating to workstations, mainframe time, etc.)
  - Corporate Applications – HR Employee Information System, Procurement, Financial Data Base, Email Systems
  - Communications & Technology – Telecommunications and Network Operating Centers (NOC)
  - Distributed Systems –Workstation, LAN and WAN Support
  - Mainframe Operations – GO and JB Computer Centers
  - PC Services – Help Desk and Workstation Support
  - Amortization and ROI – Shared Capitalized Hardware and Software

- **Human Resources/Corporate Real Estate/Security** (Specific drivers relating to FTE's and square footage)
  - Employee Relations – Safety Polices, Labor Relations Administration, and other employee related issues
  - Shared Services – Benefits Administration, Help Desk, Payroll, Educational Assistance, Recruiting, Equal Opportunity, Workforce Planning, Drug Testing and Group University
  - Benefit Programs
  - Health Centers
  - Corporate and Shared Facilities
  - Cafeteria Operations – Shared Affiliate Cafeteria Operations for applicable sites (JB, GO, LFO, CSE, PTN & PSL)
  - Security Administration – Facility Security, Data Security

- **Business Unit Leadership**
  - Power Generation Division drivers relating to megawatts
  - Nuclear Division drivers relating to number of units

Shared Services Allocated via Massachusetts Formula

- **Executive and Governance**
  - Salaries, benefits and expenses

- **Finance**
  - Corporate Transactions – Cash Management and Banking
  - Accounting – Cost Measurement & Allocation, Accounting Research & Financial Reporting
  - Corporate Tax
  - Finance and Trust Fund Investments
  - Planning and Analysis

- Corporate Budgeting
- Risk Management

- **Corporate Communications**
  - Internal Communications
  - External Media
  - Annual Report

- **General Counsel/Environmental/Compliance**
  - Shareholder Services
  - Board of Directors Fees
  - Environmental Services

- **Engineering and Construction**
  - Integrated Supply Chain – Administration of Corporate Travel and Integrated Supply Chain
  - Accounts Payable

- **Human Resources/Corporate Real Estate/Security**
  - Mail Services – Courier and Mail Services (GO, JB, LFO)

- **Internal Auditing**

- **Corporate Operational Development**
  - Quality, Planning, Analysis
  - Process Improvement Initiatives

Nuclear Operations Support Charges–Nuclear (NUC), IM Nuclear (IMNUC) (2)

Nuclear Operations Support Charges are utilized to bill shared nuclear fleet services. FPL has leveraged its fleet construction, compliance and operating capabilities over the broader enterprise for many years in order to optimize results for its customers. The larger scale of the enterprise fleet has historically allowed for shared expertise and the resulting competitive advantage. Service fee charges are managed by the Business Unit (Operating Business Unit or Staff Group) Budget Coordinators or Analysts and represent ongoing services provided or shared among affiliates. The Nuclear Operations Support Charges includes two types of charges: fleet support to NextEra Energy, Inc. (FPL and NextEra Energy Resources) nuclear plants and specific system support for NextEra Energy Resources nuclear plants.

The Nuclear Operations Support Charges do not receive the non-productive loader because full salaries are allocated based on relevant drivers to each entity served.

(2) The Nuclear Operations Support Charges were formerly referred to as Service Fees. The name has been changed in 2016 to more accurately describe the costs.

Nuclear Fleet Operations Support Charge

The Nuclear Fleet Operations Support Charge is billed using actual monthly charges accumulated and then allocated using the number of generating units as the driver. The Nuclear Operations Support Charge includes the following shared services:

- Nuclear Engineering
- Nuclear Assurance
- Nuclear Business Operations
- Nuclear Project Management
- Nuclear Security Access
- Nuclear Security
- Nuclear Licensing and Regulatory Support
- Nuclear Performance Improvement
- Nuclear Emergency Preparedness
- Nuclear Fuel Engineering
- Nuclear Change Management
- Nuclear Fleet Outage Planning - Long term
- Nuclear Training
- Six Sigma - Lean Process Improvement

Specific project related services not included in the Nuclear Fleet Operations Charge, which are direct charged NextEra Energy Resources by FPL Nuclear, are:

- Due Diligence
- Construction Projects
- Transition Teams
- Support of NextEra Energy Resources Capital Projects
- Outage Support
- Nuclear Project Controls (Cost tracking of projects)

Nuclear Information Management Operations Support Charge

The Nuclear Information Management Operations Support Charge is also billed using actual monthly charges that are accumulated and then allocated based on the number of generating units in place. The Information Management Nuclear Support Charge includes the following shared services:

- Nuclear Asset Management System (NAMS) Support
- IM Management
- Data Services
- IMO Nuclear Lead (Infrastructure Support)
- Nuclear Web Applications Support

Inter-Company Direct Billing

In accordance with FERC and FPSC requirements, FPL bills affiliates its fully loaded cost for services provided, using specific internal orders obtained via the following process:

1. **Affiliate Project Manager requests FPL employee services**

   The affiliate project manager contacts the FPL employee's supervisor and requests the services of the employee on a project for a specific amount of time or completion of a job.

2. **Project Manager completes request form for an Affiliate Internal Order (IO)**

   After obtaining approval by the supervisor, the Project Manager requesting the service must complete a request for an internal order - link to form: http://eweb/global/campaigns/sap/MD-Request.shtml
   The following information will be required:

   a) The Work Breakdown Structure (WBS) Element the order will be assigned to and settled to
   b) The settlement rule
   c) The functional area if required
   d) Requesting company code
   e) Overhead Key related to long term assignments, if applicable (See discussion of Long Term Assignment Rates below).

3. **Create Affiliate IO**

   The SAP Master Data Group will create the Affiliate IO using the information obtained in the request form.

4. **Inform Requestor of IO creation**

   After IO creation, the SAP Master Data Group will inform the requester by email.

5. **FPL Employee charges affiliate IO on the timesheet for specific hours worked**

   Charges to the Internal Orders are accumulated each month and loaded with the appropriate overheads billed by SAP during the month end closing process (see information regarding overhead rates below). Also included in the billable charges are any appropriate non-payroll charges.

It is the responsibility of the employee to ensure that any work performed for affiliates is properly recorded in his/her timesheet. It is the responsibility of each employee's supervisor to ensure that all time sheets are reviewed in accordance with FPL's Sarbanes –Oxley processes to ensure that all affiliates are properly charged.

Allocation of Costs for Significant Capital Projects

For significant capital projects which will benefit the enterprise and/or FPL and certain affiliates (typically software development projects), the business case developed in support of the project will identify future expected benefits to each of the entities that will be utilizing the system or application. For these projects, an analysis should be performed during the planning phase to determine the appropriate sharing of costs and each benefitting entity should record their respective share of the capital project. Post implementation, on-going maintenance activity costs are included in the CSC as described in the Information Management paragraph under the Corporate Services Charge section above.

Transfer of Assets from FPL to Affiliates

In addition to services provided, FPL may transfer assets used in its regulated operations to an affiliate. In accordance with FPSC and FERC requirements, FPL will charge the non-regulated affiliate the greater of market price or net book value. It is the responsibility of the Investment Recovery Operations group to ensure that market testing is performed and that proper documentation is maintained. An independent appraiser must verify the market value of a transferred asset with a net book value greater than $1,000,000. On certain occasions, FPL may record the asset at either market price or net book value if it maintains documentation to support and justify that such a transaction benefits regulated operations. When these billings occur, notification must be given to Cost Measurement and Allocation to ensure proper reporting of these transactions as required by FERC and FPSC.

OVERHEAD RATES

FPL Overhead Rates

FPL attaches various overhead rates to payroll charged to affiliates to ensure that all relevant indirect costs associated with each employee are appropriately billed. Overhead rates and the purposes of each are described below:

Rate Description	Type	Rate Purpose
Pension & Welfare	Internal/External	Pension & Welfare recovers company dollars budgeted for current year for expenses related to life, medical & dental insurance, thrift plan and long term disability benefits. Also recovers pension, retiree medical, employee education assistance and benefit costs.
Payroll Tax OH FICA (Social Security & Medicare) FUTA (Federal Unemployment Insurance) SUTA (State Unemployment Insurance)	Internal/External	Recovers estimated company payments for social security, Medicare, state & federal unemployment and workers compensation insurance.
Performance Incentives - Exempt	Internal/External	Recovers the cost of the budgeted performance incentive for exempt employees.
Workers Comp	Internal/External	Recovers estimated payments for workers comp insurance.
A&G Payroll	External	Recovers the O&M payroll of corporate and business unit staff support
A&G Expenses	External	Recovers the O&M expenses of corporate and business unit staff support
Non-Productive	External	Recovers the cost of non-productive time such as vacation, sick time and other non-excused absences plus non-distributed other earnings such as relieving time, shift differential and merit pay. Distribution, Transmission and Substation non-productive is applied to bargaining variable direct labor only.

The internal rates above are based on forecasted data, are calculated annually during the budget cycle, and are in effect beginning in January of each year. The external rates are based on historical data, are calculated during Q1, and are in effect beginning in March of each year. See Exhibit B for a list of rates in effect for 2016.

Long Term Assignment Rates

When FPL employees are used exclusively for affiliate activities for extended periods of time, a reduced Long-Term Loading Rate should be used. This is due to two factors. First, non-productive time (sick, vacation, holiday) is already included in the salary being allocated since it is expected that a full year's salary is allocated. If non-productive time were also loaded, the affiliate would be charged twice. Secondly, the affiliate will be providing the necessary A&G support, such as supervision, office equipment, supplies, etc. therefore, FPL A&G expenses should not be included in the loading rate.

To qualify for reduced loading, the employee must reasonably expect to charge their time to an affiliate internal order for one full year, and be physically located at the affiliate offices. If an employee's charges during the year fall below 75%, they must be removed from the long-term loading rate.

Employees meeting the above requirements must charge a specific Internal Order that has been set up to accommodate long term assignments. When an IO is requested by the Affiliate Project Manager (see step 2 under "Affiliate Direct Charges thru Specific Internal Orders" above), the request must include a special Overhead Key "Z604: Long-Term No External Overheads on the IO Master Record". These inter-company IO's receive payroll taxes and benefits, but no external overheads. Once the employee's charges fall below 75%, they must charge an IO that has been set up to include the external overheads.

FACILITY AND EQUIPMENT CHARGES

The Cost Measurement and Allocation group is responsible for monthly entries to bill the following activities:

Systems Charges:
A small number of affiliates utilize various FPL systems on a limited basis for printing, mailing and payment processing of various items. These systems include the SAP and Payment Processing Center (PPC) systems. The use of these systems is billed on a transactional basis. A cost study is performed by the Customer Service organization in conjunction with the Cost Measurement and Allocation department to determine the cost to FPL per transaction for these systems. The number of transactions is collected monthly and billed to the affiliates at those rates.

The Power Delivery unit (specifically Transmission/Substation) shares various hardware and software applications with a regulated affiliate. The charges are billed based on actual costs and are calculated using specific drivers that best represent the activity (i.e., number of users, number of network devices, number of servers, etc).

Furniture and Computers:
Affiliates are billed monthly for office furniture using a weighted average rate that includes the cost for fully depreciated furniture for which no market exists, and market value for new furniture. A market rate analysis is performed periodically by Corporate Real Estate and was last prepared in 2015.

Affiliates are also billed monthly for personal computers based on cost. All charges are based on the number of FPL owned units utilized by the affiliates.

Office Space:
Space is available to the affiliates in FPL buildings only when vacancies exist. The non-regulated affiliates are charged for the square feet they occupy based on the higher of cost or a market rate, which is updated every five years based on a market study performed by Corporate Real Estate (CRE). Regulated affiliates are billed based on cost. The next market study will be conducted in 2017.

V. BILLINGS TO FPL FOR SERVICES PROVIDED BY AFFILIATES

Limited shared services provided by affiliate personnel are charged to FPL using actual costs allocated based on specific drivers. FPL's Cost Measurement and Allocations group reviews the driver calculations on an annual basis, and receives email notification from the affiliates as driver updates are made in SAP.

Transfer of Assets to FPL from Affiliates

Billings from affiliates to FPL for assets transferred are based on the lower of cost or market. It is the responsibility of the Investment Recovery Operations group to ensure that market testing is performed and that proper documentation is maintained. An independent appraiser must verify the market value of a transferred asset with a net book value greater than $1,000,000. On certain occasions, FPL may record the asset at either market price or net book value if it maintains documentation to support and justify that such a transaction benefits regulated operations. When these billings occur, notification must be given to Cost Measurement and Allocation to ensure proper reporting of these transactions as required by FERC and FPSC.

Affiliate Overhead Rates

The calculation and maintenance of the overhead rates applied to direct charges coming in to the utility are the responsibility of the affiliate performing the services. On an annual basis (typically at the end of Q1), the Cost Measurement and Allocation group requests, from applicable affiliates, the rates that will be used in the upcoming year, along with email confirmation that the rates have been properly updated in SAP.

Affiliate Procurement of Goods under Vendors Common with FPL

When affiliates procure goods from common vendors of FPL, they should do so directly under separate affiliate purchase orders. This ensures invoicing and product delivery will be processed directly to the affiliate, and the affiliate will not be billed for FPL's loading costs. It also ensures that the contract terms (warranties and liabilities) of the purchase order(s) are placed with the affiliate, not with FPL. In some cases, the affiliate has the ability to take advantage of master agreements established between FPL and the vendor. FPL's strategy is to evaluate fleet wide (multi-site) agreements category by category with a focus on total value for FPL and supplier quality, taking advantage of leverage opportunities to consolidate the spend across the entire fleet, establish long term contracts with a limited number of suppliers of proven experience and quality, and to negotiate terms that provide for shared risks and shared benefits for improved performance.

VI. DEFINITIONS

Affiliates – Companies that are related to each other due to common ownership or control.

Cost Allocators – The methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

Common Costs – Cost associated with services or products that are of joint benefit to both regulated and non–regulated business units.

Cost Driver – A measurable event or quantity which influences the level of costs incurred and which can be directly traced to an origin of the costs themselves.

Fully Allocated – Services or products bear the sum of the cost drivers plus an appropriate share of the indirect costs.

Non-regulated – Refers to services or products not subject to regulation by regulatory authorities.

Prevailing Market Rate – A generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

Regulated – Refers to utility services or products subject to rate regulation by regulatory authorities.

Subsidization – The recovery of costs from one class of customers, business unit or entity, that are attributable to another.

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Exhibit A – NARUC Guidelines for Cost Allocations and Affiliate Transactions

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent

subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions

associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

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Exhibit B – 2016 Overhead Loading Rates

Overhead Rates Applied to Direct Charges

Non-productive payroll	19.87%
Performance Incentive	13.40%
Pension and Welfare	10.09%
Administrative and General Payroll	13.55%
Administrative and General Expense	11.88%
Payroll Taxes	6.48%
Workers Compensation Insurance	Varies by BU

Overhead Rates Applied to the Nuclear Operations Support Charges

Performance Incentive	13.40%
Pension and Welfare	10.09%
Administrative and General Payroll	13.55%
Administrative and General Expense	11.88%
Payroll Taxes	6.48%
Workers Compensation Insurance	Varies by BU

Overhead Rates Applied to Shared Services Payroll Dollars Included in the CSC

Performance Incentive	13.40%
Pension and Welfare	10.09%
Payroll Taxes	6.48%
Workers Compensation Insurance	Varies by BU

FLORIDA POWER & LIGHT COMPANY
Cost Measurement & Allocation Department
Cost Allocation Manual (CAM)
2016

Description	FPL	NEER	FLORIDA FIBERNET	FPLES / Readipower	NEECH/NEE/ Palms	NHT	LST	NEET	TEXAS FIBERNET	Total Affiliate %
MASS FORMULA RATIOS										
MF-Shared	60.87%	36.79%	0.84%	0.43%	0.13%	0.07%	0.63%	0.16%	0.07%	39.13%
SPECIFIC DRIVERS										
Headcount	61.93%	34.73%	1.68%	0.66%	0.32%	0.00%	0.25%	0.25%	0.17%	38.07%
Square Footage - All sites	82.12%	14.66%	0.16%	0.55%	1.88%	0.03%	0.05%	0.54%		17.88%
Square Footage - Juno Beach Office	58.89%	34.98%	0.02%	0.00%	4.74%	0.08%	0.00%	1.30%	0.00%	41.11%
Capitalized Hardware/Software shared with Affiliates	80.38%	16.80%	1.83%	0.65%	0.00%	0.00%	0.18%	0.14%	0.03%	19.63%
Affiliate Megawatts - NUC Executive	50.00%	50.00%								50.00%
Affiliate Megawatts - PGD Executive	56.31%	43.69%								43.69%
Actual number of workstations per Business Unit for support and project activities	66.94%	30.58%	1.33%	0.64%			0.24%	0.17%	0.10%	33.06%
Actual number of workstations per Business Unit (includes Affiliates in FPL/Florida facilities) for support and project activities	86.44%	10.89%	1.59%	0.83%			0.05%	0.20%		13.56%
IM resources for transmission systems supporting Affiliates	87.50%	7.50%					5.00%			12.50%
Servers per Business Unit / Affiliate for support and project activities	78.41%	18.35%	2.68%	0.48%			0.08%			21.59%
Database Administrator Resource - Business Intelligence Data Movement	94.33%	5.67%								5.67%
Database Administrator Resource - Technical Support	98.47%		1.53%							1.53%
HR Systems Support Activities Based on Headcount	66.31%	31.59%	1.27%	0.63%			0.20%			33.69%
SAP User count per Business Unit / Affiliate for support and project activities	59.55%	36.39%	2.62%	0.55%			0.35%	0.33%	0.21%	40.45%