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CREDIT OPINION
17 June 2020

Update

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RATINGS

Gulf Power Company

Domicile	Florida, United States
Long Term Rating	A2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Gulf Power Company

Update to credit analysis

Summary

Gulf Power Company's (Gulf Power) credit profile reflects a credit supportive regulatory environment in Florida that allows for the use of several timely cost recovery mechanisms, which enables the company to generate stable financial metrics including a ratio of cash flow from operations pre-working capital changes (CFO pre-W/C) to debt in the low-to-mid-20% range.

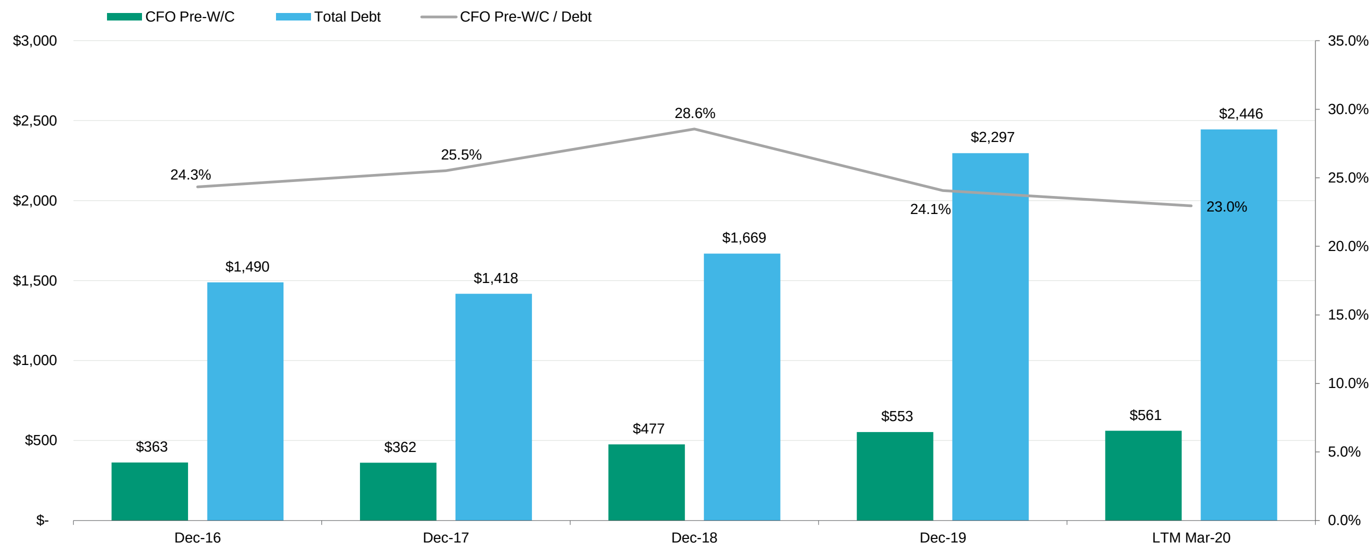
Gulf Power's credit quality also considers the financial strength of the company's parent, NextEra Energy Inc. (NEE), and its much larger affiliated Florida electric utility, Florida Power & Light (FPL) Company. Gulf Power and FPL's application to consolidate Gulf Power's operations into FPL would strengthen Gulf Power's credit quality, once executed. Being part of the much larger FPL would offset the risk associated with the Gulf Power's relatively small size, concentrated service territory, and exposure to storm related event risk. Gulf Power also has elevated carbon transition risk within the regulated electric and gas utility sector because its fuel mix is heavily weighted toward coal and natural gas. However, under NEE's ownership we expect the company will significantly reduce its exposure to coal and add substantial solar energy to its generation mix over time.

Recent developments

The coronavirus outbreak, weak global economic outlook and asset price declines have created a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

We expect Gulf Power to be resilient to recessionary pressures related to the coronavirus because of its rate regulated business model. Nevertheless, we are watching for electricity and gas usage declines, utility bill payment delinquency, and the regulatory response to counter these effects on earnings and cash flow. As the events related to the coronavirus continue, we are taking into consideration a wider range of potential outcomes, including more severe downside scenarios. The effects of the pandemic could result in financial metrics that are weaker than expected; however, we see these issues as temporary and not reflective of the long-term financial or credit profile of Gulf Power.

Exhibit 1
Historical CFO Pre-WC, Total Debt and ratio of CFO Pre-W/C to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» Credit supportive Florida regulatory environment with several timely cost recovery mechanisms

» Cash flow coverage metrics that support its credit quality

» Application to merge into FPL will strengthen credit quality, once executed

Credit challenges

» Capital expenditures, including substantial environmental spend, remain elevated

» Relatively small size, concentrated service territory, and exposure to storm related event risk

» Elevated carbon transition risk which is expected to be addressed under NextEra ownership

Rating outlook

The stable outlook reflects our view that the Florida regulatory environment will remain credit supportive, and that Gulf Power's financial metrics will remain stable, such that its ratio of CFO pre-W/C to debt will be in the low-to-mid-20% range. The stable outlook also incorporates our expectation that ownership by NextEra will be supportive of Gulf Power's credit quality.

Factors that could lead to an upgrade

Gulf Power could be upgraded if the Florida regulatory environment and available cost recovery mechanisms become more credit supportive or if the company's financial metrics strengthen, such that its ratio of CFO pre-W/C to debt is sustained in the high 20% range. The company could be upgraded if its application to merge into FPL is approved and the merger is executed.

Factors that could lead to a downgrade

Gulf Power could be downgraded if there are adverse political or regulatory developments in Florida that negatively affect credit quality; if there are additional, unanticipated capital expenditure requirements leading to higher debt leverage; or if the company's financial metrics deteriorate, including a ratio of CFO pre-W/C to debt sustained below 22%.

Key indicators

Gulf Power Company [1]

	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
CFO Pre-W/C + Interest / Interest	7.7x	7.9x	8.0x	9.8x	9.5x
CFO Pre-W/C / Debt	24.3%	25.5%	28.6%	24.1%	23.0%
CFO Pre-W/C – Dividends / Debt	16.6%	13.9%	19.4%	5.8%	5.8%
Debt / Capitalization	38.3%	36.1%	39.8%	49.7%	46.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics

Profile

Gulf Power Company, headquartered in Pensacola, Florida, is a vertically integrated utility that provides electricity to retail customers in northwest Florida and to wholesale customers in the Southeast. Gulf Power serves approximately 470,000 customers in a 7,500 square mile region and owns about 2,400 MW of nameplate capacity. The majority or 1600 MW is coal-fired baseload units located in Florida, Mississippi and Georgia and the remainder includes about 700 MW of natural gas-fired generation and 75 MW of solar generation that recently went in-service. Gulf Power was acquired by NextEra Energy, Inc. (Baa1 stable), one of the largest regulated utility and power holding companies in North America, on 1 January 2019.

Detailed credit considerations

Credit supportive regulatory environment in Florida

The Florida regulatory environment is above average in terms of credit supportiveness for investor-owned utilities. FPSC decisions over the last couple of years are evidence of its credit supportiveness. For example, in May 2019, Gulf Power initially requested recovery of $342 million in costs associated with Hurricane Michael and to replenish the company's storm reserve. State regulators unanimously approved an interim surcharge, noting that damage incurred from the hurricane is not recoverable through regular rates. The storm charge was effective beginning last July and will be applied to customer bills for about 5 years raising about $68 million annually. In November 2019, Gulf Power updated its request for Hurricane Michael cost recovery to be approximately $296 million. The decrease is primarily attributed to a portion of costs were considered capital and not recovered through the storm charge. The company is awaiting final FPSC approval at hearing set for September, but we expect the amount will be largely recoverable.

On 26 March 2018, the FPSC approved a stipulation and settlement agreement between Gulf Power and key stakeholders that addressed the effects of tax reform legislation on the utility's revenue requirement and rates. The agreement incorporated a rate decrease of $103 million in 2018, which included a $69.4 million one-time decrease associated with the return of the unprotected excess deferred tax regulatory liability and a rate reduction of approximately $34 million in 2019. The FPSC also authorized an increase in Gulf Power's equity ratio to 53.5% from 52.5%, meant to mitigate the negative impact that tax reform would have on the company's cash flow and credit metrics.

Until its next base rate proceeding, Gulf Power is allowed to continue operating under the terms of its last rate case order in April 2017, which included an authorized return on equity (ROE) midpoint of 10.25% and ROE range of 9.25% to 11.25%. The FPSC approved a refund of $9.6 million beginning in 2019 to Gulf Power customers to reflect the remaining tax savings from protected deferred income tax balances resulting from tax reform.

Gulf Power's April 2017 rate case order included several timely cost recovery provisions, including a fuel cost recovery mechanism that includes a true-up of actual fuel costs, a projection of future costs and interest on the over/under recovery balance. The mechanism also allows for interim rate adjustments if the end of period over or under recovery exceeds 10% of the projected annual fuel revenues for the period. The fuel cost recovery mechanism also allows for recovery of power purchase costs and energy conservation and environmental compliance costs.

Capital expenditures remain elevated and require significant debt financing

Under the ownership of NextEra Energy, Gulf Power has significantly ramped up capital spending, which will remain elevated. The company continues significant investments in transitioning its generation portfolio to lower cost and lower carbon-emitting assets such

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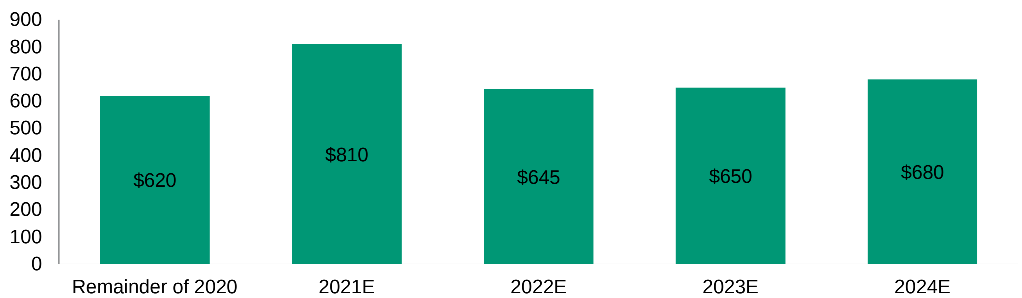
as solar energy and natural gas-fired instead of coal-fired generation. Over the next four years, Gulf Power's capital expenditures will average $729 million annually, up considerably from the average annual investment total of about $250 million in the four year prior period. Gulf Power is expected to spend over $3.4 billion from 2020 through 2024 with peak investments of over $800 million in 2021. We expect Gulf Power will fund investments with a balanced mix of debt and equity to maintain the utility's targeted capital structure approved by regulators.

Exhibit 3

Projected capital expenditures remain elevated during the 2020 - 2024 period



Source: Company presentations

Much of Gulf Power's capital expenditures going forward will be for generation, transmission and distribution system maintenance, as well as for the growth and hardening of its distribution system. The utility also expects to incur costs associated with the closure and monitoring of coal ash ponds and compliance with the coal combustion residuals rule.

Gulf Power generated about 30% of its own energy from coal in 2019, which is down from about 45% in 2014, with the remaining coming from its own natural gas units, as well as from predominantly gas fired purchased power agreements. Because of its relatively high reliance on coal fired generation, Gulf Power continues to spend considerably on environment compliance as well as other investments to reduce its carbon footprint. Gulf Power is investing about $175 million converting its 970 MW coal-fired Plant Crist to a gas-fired facility with a target in-service date of the summer of 2020.

Gulf Power continues to invest in solar generation including $104 million on the 74.5 MW Blue Indigo Solar Energy Center, which went into service in April 2020. In its 10-year site plan, Gulf Power, along with affiliate, FPL, are expected to add 1,560 MW of solar energy capacity from 2020 through 2024. Gulf Power's investments like these will reduce the utility's exposure to coal-fired generation and carbon footprint. Gulf Power's credit profile incorporates our expectation that the utility will continue to recover its environmental expenditures as part of its rate proceedings, although there could be some regulatory lag.

Exhibit 4

Gulf Power's substantial capital Initiatives during the 2019 - 2022 period

Opportunity	Status	Projected Investment	Recovery Mechanism
North Florida Resiliency Connection	Development in process; target in-service 2021	~$400 million	Base rates
Plant Crist conversion to natural gas and gas lateral	Development in process; target in-service 2020	~$150 - $175 million	Base rates
New Plant Crist combustion turbines	Projected for 2021 COD	~$400 - $500 million	Base rates
Plant Smith combustion turbine upgrades	2019 completion	~$50 million	Base rates
2020 solar investments	Three sites projected for 2020 -- 2021 COD	~$300 million	Base rates
2019 customer systems	2019 -- 2020 completion	~$70 million	Base rates
Transmission & distribution storm hardening	Investments from 2019 -- 2022	~$100 - $200 million	Storm protection plan cost recovery clause / base rates
All other transmission & distribution	Investments from 2019 -- 2022	~$650 - $800 million	Base rates
Environmental clause investments	Ongoing	~$200 million	Environmental cost recovery clause
Maintenance of existing assets and other	Ongoing	~$400 - $600 million	Base rates

Source: Company Presentations

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Financial metrics expected continue to support credit quality even during elevated investment period

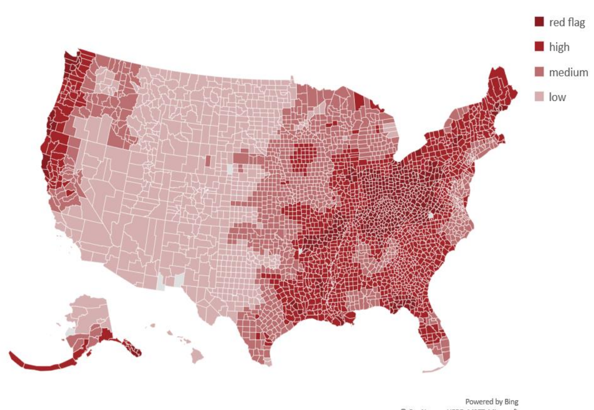
We expect Gulf Power's financial metrics to remain relatively stable even during this elevated investment period as the company is expected to use a balanced mix of debt and equity to finance its capital expenditures. As an example, over the last 12-months, the company issued $431 million of long-term debt while also receiving $500 million of capital contributions from its parent. For the 12-month period ending 31 March 2020, Gulf Power's ratio of CFO pre-W/C to debt was 23.1%. Going forward, we expect the company's financial profile to remain steady, including a ratio of CFO pre-W/C to debt in the low-to-mid 20% range.

Relatively small size, concentrated service territory and exposure to storm related event risk will be largely mitigated once consolidated under FPL

Gulf Power is a relatively small utility with a concentrated service territory along the Gulf Coast of northwestern Florida, making it vulnerable to storm related event risk. However, as with other utilities in Florida vulnerable to hurricane activity, regulatory treatment to address storm costs has also been an important factor supporting Gulf Power's credit quality, particularly in the last few years as serious storms have affected its service territory. As of 31 December 2019, the utility has a deficit balance in its storm reserve of approximately $208 million but the FPSC's May 2019 order allowing Gulf Power to collect about $68 million annually from its customers through a storm surcharge will allow the utility to recover the deficit and replenish its storm reserve. Securitization legislation for the recovery of excessive storm-related costs is also in place in Florida, although Gulf Power has not pursued securitization financing for past storm costs.

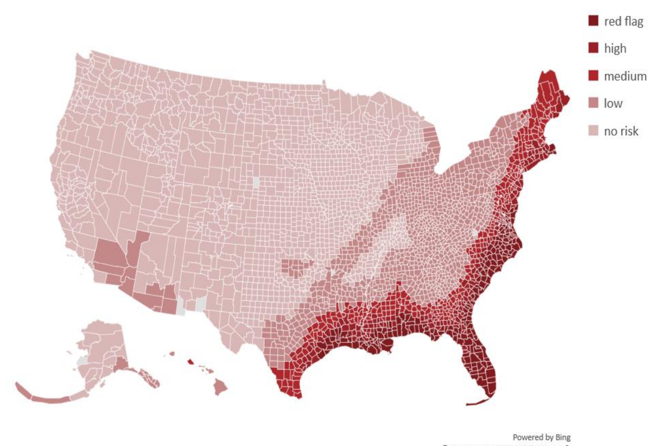
On 1 May 2020, Gulf Power and FPL filed an application with the FERC for approval to merge Gulf Power into FPL, with FPL as the surviving entity. The merger would be effective 1 January 2021. While Gulf Power will cease being a distinct corporate entity at the time of the merger, FPL will continue to provide service to customers in Gulf Power's service territory in northwest Florida under the existing Gulf Power brand during 2021, as a separate operating division with separate retail and wholesale rates. A decision from the FERC is expected on or before 28 October 2020. Furthermore, FPL and Gulf Power are contemplating a joint base rate case filing in 2021, which could effectively merge the rates of both utilities into one in 2022. At that time, Gulf Power would cease to exist and its customers would be served by a consolidated FPL. Although Gulf Power is a relatively small utility, it will benefit from being merged into the much larger and financially strong, FPL.

Exhibit 5
Relative projected extreme rainfall and flood stress



This metric is a combination of 3 projected components (wet days, very wet days, rainfall intensity) with annual changes from 2030-2040 vs. 1975-2005 + 2 historical components (flood frequency and flood severity, on return inundation basis).
Source: Four Twenty Seven, Inc (data sourced from CMIP5 models and Fathom)

Exhibit 6
Hurricane risk (historical data)



The indicator reflects the cumulative wind velocity from recorded cyclones over the period 1980-2016
Source: Four Twenty Seven, Inc (data sourced from IBTrACS version 3)

ESG considerations

Gulf Power has elevated carbon transition risk within the regulated utility sector because of Its substantial coal and natural gas fired generation ownership. There are no renewable portfolio standards in Florida and the state's political and regulatory environment is not demanding an increase in renewables to the same degree as in other states. However, the company has plans to materially reduce its

Gulf 000020
20200151-EI

exposure to coal by shutting down coal plants over next few years. Gulf Power is in process of transitioning its generation portfolio mix by increasing its natural gas fired generation and significantly increasing its solar energy by adding solar generation. For example, the company completed the combustion turbine upgrades at Plant Smith in 2019. Gulf Power is converting its 970 MW coal-fired Plant Crist to a gas-fired facility with a target in-service date in the summer of 2020. Gulf Power along with affiliate, FPL, plan on adding about 1,560 MW of solar energy capacity by 2024. Moody's framework for assessing carbon transition risk in this industry can be found in "Prudent regulation key to mitigating risk, capturing opportunities of decarbonization" (2 November 2017).

Social risks are primarily related to demographic trends, safety, customer and regulatory relations. Gulf Power continues to work towards ensuring safe, reliable and affordable electricity service to its customers by investing in its transmission and distribution infrastructure while moving its generation portfolio mix to lower cost natural gas and renewable energy sources. From a governance perspective, financial and risk management policies including a strong financial profile are important characteristics for managing environmental and social risks particularly amid the group's elevated capital expenditure program. We view management and governance of parent, NEE, as high based on our assessment criteria. Moody's framework for assessing corporate governance is discussed in "Utilities and power companies – North America Corporate governance assessments show generally credit-friendly characteristics" (September 19, 2019).

Liquidity analysis

Gulf Power has a solid liquidity profile, which is primarily supported by stable cash flow generation as well as access to its external revolving credit facility. For the 12-month period ending 31 March 2020, Gulf Power's cash flow generation was $328 million which was significantly lower than the $974 million in capital expenditures for the same period. The shortfall in funding capital investments with internal cash flow generation was supplemented with short and long-term borrowings and capital contributions from its parent. As Gulf Power continues with its elevated capital investment program, we expect that the company will fund any shortfalls from cash flow generation with debt and equity in a balanced manner that maintains the utility's regulated capital structure.

Gulf Power has a $600 million commercial paper (CP) program that is back-stopped by a $900 million revolving credit facility, expiring in February 2025. The revolver provides for the issuance of letters of credit of up to $75 million. The facility provides for same day borrowing up to the total aggregate commitment amount and has no material adverse change clause on borrowings. Provisions of the credit facility include a cross default provision that applies to other indebtedness of Gulf Power. The facility has only one financial maintenance covenant which limits consolidated debt to capitalization at 65% and the company is comfortably in compliance with this covenant. Gulf Power's next long-term debt maturity is $100 million of senior unsecured notes due on 15 May 2022.

As of 31 March 2020, Gulf Power had approximately $320 million of cash and cash equivalents, up from $6 million at 31 December 2019. The increase in cash balance was due to the $300 million 364 day term loan that the company executed in March 2020 to bolster liquidity during the coronavirus pandemic. Gulf Power had $175 million of senior unsecured notes due in April 2020 which were repaid. The company's next long-term debt maturities include a $300 million term loan due in March 2021 and $141 million of notes due in May 2022.

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Rating methodology and scorecard factors

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 3/31/2020		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	A	A	A	A
Factor 3 : Diversification (10%)				
a) Market Position	Ba	Ba	Ba	Ba
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	9.0x	Aaa	6.9x - 7.4x	Aa
b) CFO pre-WC / Debt (3 Year Avg)	26.5%	A	20% - 25%	A
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	13.8%	Baa	17% - 22%	A
d) Debt / Capitalization (3 Year Avg)	41.8%	A	40% - 45%	A
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		A2		A2
HoldCo Structural Subordination Notching			0	0
a) Scorecard-Indicated Outcome		A2		A2
b) Actual Rating Assigned		A2		A2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2020 (LTM)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
[4] Standard risk grid for financial strength.
Source: Moody's Financial Metrics

Appendix

Exhibit 8
Cash Flow and Credit Metrics [1]

CF Metrics	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20
As Adjusted					
FFO	328	400	430	480	476
+/- Other	34	(38)	46	73	85
CFO Pre-WC	363	362	477	553	561
+/- ΔWC	57	3	(93)	(178)	(176)
CFO	419	365	383	375	385
- Div	116	165	153	420	420
- Capex	186	211	459	786	1,031
FCF	118	(11)	(229)	(831)	(1,066)
(CFO Pre-W/C) / Debt	24.3%	25.5%	28.6%	24.1%	23.0%
(CFO Pre-W/C - Dividends) / Debt	16.6%	13.9%	19.4%	5.8%	5.8%
FFO / Debt	22.0%	28.2%	25.8%	20.9%	19.5%
RCF / Debt	14.3%	16.5%	16.6%	2.6%	2.3%

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

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Exhibit 9

Peer Comparison Table [1]

	Gulf Power Company A2 Stable			Tampa Electric Company A3 Positive			Duke Energy Florida, LLC. A3 Stable			Florida Power & Light Company A1 Stable		
	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM	FYE	FYE	LTM
(in US millions)	Dec-18	Dec-19	Mar-20	Dec-18	Dec-19	Mar-20	Dec-18	Dec-19	Mar-20	Dec-18	Dec-19	Mar-20
Revenue	1,465	1,487	1,487	2,524	2,404	2,412	5,021	5,231	5,225	11,862	12,192	12,114
CFO Pre-W/C	477	553	561	839	726	759	1,005	1,446	1,501	5,114	5,254	5,315
Total Debt	1,669	2,297	2,446	2,936	3,328	3,350	7,912	8,538	8,553	13,171	15,799	15,788
CFO Pre-W/C / Debt	28.6%	24.1%	23.0%	28.6%	21.8%	22.6%	12.7%	16.9%	17.6%	38.8%	33.3%	33.7%
CFO Pre-W/C – Dividends / Debt	19.4%	5.8%	5.8%	16.3%	10.6%	11.6%	11.7%	16.9%	17.6%	35.0%	19.3%	19.7%
Debt / Capitalization	39.8%	49.7%	46.8%	41.9%	43.0%	42.1%	49.8%	49.0%	48.6%	33.6%	37.2%	35.6%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 10

Category	Moody's Rating
GULF POWER COMPANY	
Outlook	Stable
Issuer Rating	A2
Senior Unsecured	A2
Commercial Paper	P-1
PARENT: NEXTERA ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured Shelf	(P)Baa1
Jr Subordinate Shelf	(P)Baa2
Pref. Shelf	(P)Baa3

Source: Moody's Investors Service

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20200151-EI

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