FitchRatings

09 OCT 2020

Fitch Affirms Ratings for NextEra, FPL and Gulf Power; Outlook Stable

Fitch Ratings - New York - 09 Oct 2020: Fitch Ratings has affirmed NextEra Energy, Inc.'s (NextEra) Long-term Issuer Default Rating (IDR) at 'A-'. Fitch has also affirmed the IDRs of Florida Power & Light Co. (FPL) at 'A'/'F1', Gulf Power Company at 'A'/'F1' and NextEra Energy Capital Holdings (Capital Holdings) at 'A-'/'F2'. NextEra provides a full guarantee of Capital Holdings' debt and hybrids. Capital Holdings is the intermediate holding company that owns NextEra's non-regulated businesses. The Rating Outlook is Stable for all entities.

NextEra's ratings and Stable Outlook reflect ownership of two highly rated electric utility subsidiaries, which benefit from the constructive regulatory environment in Florida, and its strong competitive position as the largest renewable generation company in the U.S. Significant rate base growth at FPL, combined with regulated M&A, has outpaced the strong growth in non-regulated renewable operations, thereby, tilting the business risk favorably toward an approximately 70%/30% regulated/non-regulated mix. Fitch expects NextEra's consolidated FFO leverage, including non-recourse debt, to be approximately 4.5x over 2020-2022.

Key Rating Drivers

KEY RATING DRIVERS FOR NEXTERA:

No Material Impact from Coronavirus: Fitch does not expect coronavirus to have a material impact on NextEra's operations and access to capital. Given its strong competitive position in renewables, NextEra enjoys significant clout with its supply chain vendors and tax equity investors leading to minimal disruptions to its operations and large construction program. A vast majority of NextEra's wind and solar portfolio is under long-term power purchase agreements (PPAs) with minimal volumetric risk. NextEra's PPAs counterparties are typically highly creditworthy, consisting of regulated utilities and public power entities and only a small proportion is corporates.

At its utility operations, Fitch expects growth in the higher margin residential segment due to work-from-home policies to offset in part the impact from lower commercial sales. FPL derives approximately 60% of its MWH sales from residential customers, 38% from commercial and 2% from industrial. Gulf Power derives approximately 50% of its retail MWH sales from residential customers, 35% from commercial and 15% from industrial. A large military presence in Gulf Power's service territory, which currently represents approximately 39% of the total industrial sector sales, also provides stability against sales decline. The uncollectible expenses could rise but should remain manageable. In the 2008-09 financial crisis, Fitch estimates the uncollectibles as a percentage of revenues were approximately 0.2% and 0.1% for FPL and Gulf Power, respectively.

Continued Pivot to Regulated and Contracted Assets: NextEra's continued shift from merchant businesses toward regulated investments and contracted non-regulated renewable assets is supportive of its credit profile. Driving the favorable shift in cash flow mix are base rate increases at FPL following a constructive 2016 rate order, modernization plan at Gulf Power, planned investments in regulated solar generation projects, and the continued growth in contracted, non-regulated solar and wind investments. Fitch expects the proportion of regulated EBITDA in the overall business mix to be approximately 70%. Within the non-regulated businesses, management's emphasis remains on long-term contracted renewable generation. Fitch expects the adjusted EBITDA contribution from both regulated and contracted businesses at NextEra to be approximately 90% over the next few years.

Leading Position in Renewables: Fitch considers NextEra to be strongly positioned to take advantage of the energy transition underway in the U.S., where technological developments and falling costs of wind, solar and battery storage have accelerated the shift in power generation mix away from fossil fuels. The company currently has more than 14.4 GW of renewables backlog, which is the largest backlog in its development history and includes approximately 6.5 GW of contracts for delivery beyond 2020. NextEra demonstrated strong origination in the first half of 2020 adding 3.3 GW to its backlog. The recent extension of Production Tax Credits for wind projects that begin construction in 2020 at a rate of 60% is expected to support continued wind development until 2024. Accelerating trends in deployment of battery storage and pairing of batteries with intermittent renewables to offer a firm product opens up additional growth opportunities.

Gulf Power Transformation: Fitch views management's ongoing efforts to modernize Gulf Power's generation fleet and lower operating costs as a positive. Fitch recently upgraded Gulf Power's LT IDR to 'A' from 'A-' and ST IDR to 'F1' from 'F2', reflecting better than expected financial performance of the company driven by reduction in operating expenses that is tracking ahead of plan. In addition, NextEra has injected $700 million of equity into Gulf Power in the first half of this year, which has strengthened Gulf Power's capital structure and made it less reliant on debt to fund its ongoing modernization plan.

Management is taking steps to merge Gulf Power with FPL and plans to file a combined rate case filing in 2021 for new rates to be effective Jan. 1, 2022. Regulatory approvals will be required from the Federal Energy Regulatory Commission and the Florida Public Service Commission (FPSC). Fitch does not anticipate any issues in securing these approvals.

Resilient Credit Metrics: On a fully consolidated basis (including non-recourse project debt), Fitch expects NextEra's FFO leverage to approximate 4.5x and FFO fixed-charge coverage to approximate 6.0x over 2020-2022. Credit metrics in 2023 should benefit from conversion of $4.5 billion equity units that were issued in 2020. The investors in equity units are obligated to purchase stock at the end of three years. Fitch does not allocate any equity credit to the underlying debentures issued to collateralize the investor's forward stock purchase obligation.

Parent Subsidiary Linkage: Fitch considers rating linkages between NextEra and its subsidiaries, FPL and Gulf Power, to be weak to moderate. Legal ties are considered weak due to the absence of guarantees and cross-default provisions. Other weak linkage considerations include an authorized regulatory capital structure provision, a maximum debt-to-capitalization ratio in debt indentures, and access to own utility financing that provide some level of ring-fencing around FPL and Gulf Power. However, operational and strategic ties are expected to be strong. Gulf Power's reliance on parent equity infusions to support a heavy capex program over the forecast period supports the weak to moderate rating linkage.

Fitch has applied a bottom-up approach in rating FPL and Gulf Power. Fitch considers FPL and Gulf Power to be stronger entities than their parent due to low business risk nature of regulated operations, strength of their regulatory environment, and stronger credit metrics and leverage. Fitch has applied a consolidated approach to rate NextEra. Fitch would generally limit the notching between NextEra and its regulated subsidiaries to one to two notches.

NextEra and Capital Holdings' IDRs are the same due to strong legal rating linkages. NextEra guarantees all debt at Capital Holdings.

KEY RATING DRIVERS FOR FPL

Upcoming Rate Case Filing: FPL expects to file its next general rate case in the first quarter of 2021 for rates effective January 2022. This will be a combined rate filing with Gulf Power. FPL generally has a history of securing constructive four-year settlements, such as the one achieved in its 2016 rate case. The 2016 rate order authorized an $811 million retail base rate increase over January 2017-December 2020, based upon an authorized ROE of 10.55%, within a band of 9.6%-11.6%. The 2016 rate order also authorized a generation base rate adjustment mechanism for new generation assets, including solar, placed in service over the settlement period and an ability to amortize a specified amount of surplus depreciation reserve in order to earn a regulatory ROE within the authorized band. Fitch has assumed that FPL is able to preserve several of these features in the next rate order.

High Capex: FPL has outlined $18.7 billion in potential capital investments over 2020-2022. A significant portion will be spent to maintain and upgrade infrastructure, including investments for storm hardening and grid reliability. A law recently enacted in the state directs the Florida Public Service Commission (FPSC) to implement a clause recovery mechanism for utilities on their investments related to storm hardening and undergrounding. The balance is earmarked for new generation capacity, which includes the Dania Beach natural gas combined cycle plant, utility scale solar generation and community solar investments. FPL recently secured an approval from the FPSC for its 1,490 MWs community solar program, which involves addition of 20 new solar power plants by mid-2021. Fitch expects FPL to finance its capex and dividend distributions in a balanced manner to maintain its regulatory capital structure.

Customer Growth, Usage Weakness: Prior to the uncertainty created by the coronavirus pandemic, Florida's economy was doing well, with most key indicators, such as housing starts, employment and consumer sentiment, on an upward trend. The state continues to draw people from other parts of the country. Growth in customer accounts averaged 0.6%, 0.9% and 1.3% in 2017, 2018 and 2019, respectively, which has offset weakness in underlying usage due to energy efficiency. In the first half of

2020, customer growth was 1.2%. Fitch's financial forecasts for FPL are based on a 0.5% cumulative annual growth rate in retail sales over 2020-2022.

Robust Credit Metrics: Fitch forecasts FPL's credit metrics to remain robust over 2020-2022 and expects FFO leverage of 2.9x-3.2x and FFO fixed-charge coverage of 8.5x-9.0x.

KEY RATING DRIVERS FOR GULF POWER

Gulf Power Transformation: Fitch views the modernization of Gulf Power's generation fleet, lower operating costs and the creation of transmission interconnection with FPL as a positive. Management plans to modernize Gulf Power's 2,300MW coal-intensive generation fleet (approximately 50% of total generation) and reduce operating expenses by approximately 50% by 2021. The savings in fuel and operating costs are expected to lead to a 20% reduction (in real dollars from the 2018 baseline) in typical residential bills by the mid-2020s and drive significant growth in EBITDA and FFO for Gulf Power. This is similar to what FPL has accomplished in operations. Fitch believes Gulf Power's targets are achievable given FPL's successful track record.

Elevated Capex: Total capex over 2020-2022 is expected to be approximately $2.6 billion. Key projects that have been completed include 100MW of new generation capacity at the Smith power plant and 74.5 MW of utility scale solar. Other planned projects include 149 MW of utility-scale solar at two additional sites, conversion of the Crist coal plant to natural gas and building a natural gas lateral, and transmission interconnection with FPL's service territory. No regulatory approvals are required for these projects.

Constructive Regulation: Fitch views Florida utility regulation as constructive. Fitch believes that despite a heavy capex program, Gulf Power should be able to achieve ROEs within the authorized range of 9.25%-11.25% while lowering rates for customers due to fuel and O&M cost savings. Gulf Power's authorized-equity ratio was increased to 53.5% from 52.5% as part of the FPSC order on tax reform.

Credit Metrics to Strengthen: Fitch estimates YE 2019 FFO leverage at 4.0x for Gulf Power. Fitch expects Gulf Power's credit metrics to improve to approximately 3.2x by 2022 as cost savings materialize, and the 2020 equity injection by the parent bolsters the balance sheet. The FFO fixed-charge coverage ratios are expected to remain strong and improve to 9.0x by 2022.

Derivation Summary

NextEra compares favorably with its peer parent holding companies, Southern Company (BBB+/Stable), Sempra Energy (BBB+/Stable) and Dominion Energy (BBB+/Stable) given its ownership of a strong regulated utility in Florida, dominant position in contracted renewable business and superior credit metrics, offset by a smaller proportion of regulated utility operations in the overall business mix. NextEra's proportion of consolidated EBITDA generated from regulated utility subsidiaries is approximately 70%, which is less favorable compared with Southern (80%), Sempra (80% pro forma for Cameron completion) and Dominion (85%-90%, pro-forma for the sale of its natural gas transmission and storage business). NextEra's projected FFO leverage metrics at 4.5x are stronger than the projected metrics for Southern (5.0x) and Dominion (4.8x) and comparable with those of Sempra (4.5x).

Some of NextEra's peers face project execution risk due to the construction of large projects, which include the Cameron LNG project at Sempra and Vogtle Units 3 and 4 nuclear units at Southern. NextEra is also facing headwinds to its Mountain Valley Pipeline project but this project is relatively less material for NextEra. NextEra's ownership interest in NextEra Energy Partners (NEP) adds to complexity in organizational structure that its peers do not have.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer Include:

--Annual retail sales growth of 0.5% at FPL over 2020-2022;

--Rate increases for FPL as per 2016 rate order and retention of tax savings over 2020-2021;

--Constructive outcome in the 2021 rate case at FPL that preserves ROE at the current authorized levels;

--O&M and other expenses growth at FPL relatively flat from 2020 to 2022;

--Capex at regulated utilities and Capital Holdings of approximately $53 billion over 2020-2022 split approximately 50/50 between the two businesses;

--Renewable projects growth toward the middle of management's forecasts;

--Balanced funding mix at FPL and reliance on project debt and tax equity at Capital Holdings;

--Limited commodity exposure based on existing hedge position;

--At Gulf Power, sales growth of 0.5% p.a., capex of $2.6 billion over 2020-2022 funded in a balanced manner, rate changes reflecting the last rate order and tax-reform settlement, and a significant reduction in corporate overhead and O&M expenses over 2019-2020.

RATING SENSITIVITIES

NextEra Energy

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating actions for NextEra appear unlikely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--FFO leverage above 4.5x on a sustainable basis;

--Any deterioration in credit measures that result from higher use of leverage, outsized return of capital to shareholders or leveraged M&A;

--An aggressive acquisition or financial strategy at NEP, rising conflict of interest between NextEra and NEP, or predominantly shareholder focused use of proceeds from the sale of assets to NEP;

--A change in strategy to invest in noncontracted renewable/pipeline/electric transmission assets, more speculative assets, or a lower proportion of cash flow under long-term contracts;

--Any change in current regulatory policies at the FPSC and/or any weakness in the current business climate in Florida;

--Changes in tax rules that reduce NextEra's ability to monetize its accumulated production tax credits, investment tax credits and accumulated tax losses carried forward.

FPL

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating actions for FPL appear unlikely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unfavorable changes in Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs;

--Increasing risk profile of its parent company from higher debt leverage or aggressive corporate strategy;

--Sustained FFO leverage above 4.0x.

Gulf Power

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating actions for Gulf Power appear unlikely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unexpected negative regulatory developments in Florida;

--Weakness in customer usage and a reversal of customer growth trends that result in significantly lower than expected sales;

--Sustained FFO leverage above 4.0x.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: On a consolidated basis, NextEra had $13.0 billion of net available liquidity as of June 30, 2020, excluding limited recourse or non-recourse project financing arrangements. Similar to other Tier 2 CP issuers, NextEra's access to the CP markets has been sporadic earlier this year but the company continues to have strong access to the capital markets and banks for both corporate credit and project finance.

Summary of Financial Adjustments

Fitch provides equity credit to junior subordinated debt and preferred securities of Capital Holdings in accordance with Fitch's applicable criteria. Regarding FPL, Fitch deconsolidates securitization debt in accordance with Fitch's applicable criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Gulf Power Company	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1
• senior unsecured	LT	A+	Affirmed		A+
• preferred	LT	A-	Affirmed		A-
• senior unsecured	ST	F1	Affirmed		F1
Florida Power & Light	LT IDR	A	Affirmed		A

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Company					
	ST IDR	F1	Affirmed		F1
• senior secured	LT	AA-	Affirmed		AA-
• senior unsecured	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1
NextEra Energy Capital Holdings, Inc. (formerly FPL Group Capital Inc.)	LT IDR	A-	Affirmed		A-
	ST IDR	F2	Affirmed		F2
• senior unsecured	LT	A-	Affirmed		A-
• junior subordinated	LT	BBB	Affirmed		BBB
• senior	ST	F2	Affirmed		F2

ENTITY/DEBT	RATING			RECOVERY	PRIOR
unsecured					
NextEra Energy, Inc.	LT IDR	A-	Affirmed		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.01 May 2020) (including rating assumption sensitivity)

Corporates Notching and Recovery Ratings Criteria (pub.14 Oct 2019) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.26 Aug 2020)

Short-Term Ratings Criteria (pub.06 Mar 2020)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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