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Credit Opinion: Florida Power & Light Company

Global Credit Research - 01 Apr 2015

Juno Beach, Florida, United States

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	A1
First Mortgage Bonds	Aa2
Senior Secured Shelf	(P)Aa2
Senior Unsecured Shelf	(P)A1
Subordinate Shelf	(P)A2
Pref. Shelf	(P)A3
Commercial Paper	P-1
Parent: NextEra Energy, Inc.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured Shelf	(P)Baa1
Subordinate Shelf	(P)Baa2
Pref. Shelf	(P)Baa3

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Key Indicators

[1]**Florida Power & Light Company**

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
CFO pre-WC + Interest / Interest	**9.5x**	**8.5x**	**7.4x**	**7.7x**	**7.9x**
CFO pre-WC / Debt	**35.0%**	**36.6%**	**31.8%**	**33.2%**	**36.7%**
CFO pre-WC - Dividends / Debt	**20.4%**	**24.8%**	**31.8%**	**28.1%**	**33.0%**
Debt / Capitalization	**34.7%**	**31.8%**	**33.0%**	**33.8%**	**33.4%**

[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

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

- Constructive regulatory environment ahead of rate case in 2016

- Large capex program sustained for cleaner power, growing population

- Superior credit metrics

Corporate Profile

Headquartered in Juno Beach, Florida, Florida Power and Light Company (FPL, A1 Issuer Rating) is the largest vertically integrated regulated utility in Florida, with approximately 25,100 megawatts of generating capacity and 4.7 million customer accounts. A subsidiary of NextEra Energy, Inc. (NextEra, Baa1 Issuer Rating), one of the largest providers of electricity-related services in the US. FPL accounted for about 60% of NextEra's earnings in 2014.

SUMMARY RATING RATIONALE

FPL is one of the strongest regulated electric utilities in the US. The political and regulatory environment for Florida utilities is stable, allaying some of the uncertainties that next year's rate case will entail. FPL has good cost recovery mechanisms that produce consistently above-average credit metrics. Its large, mainly residential service territory is growing, and the economic recovery will result in organic growth in sales and need for new infrastructure. To meet those needs, FPL continues to make substantial capital investments in its rate base, which will increase earnings as they are completed.

DETAILED RATING CONSIDERATIONS

CONSTRUCTIVE REGULATORY ENVIRONMENT AHEAD OF RATE CASE IN 2016

The political and regulatory environment for Florida utilities is relatively stable, following last November's state elections. FPL is currently operating under the 2012 rate settlement that provides a high degree of rate certainty. Ahead of its expiration at year-end 2016, FPL will be in a rate case next year to determine new base rates starting in 2017.

The 2012 rate settlement provided for an initial increase in retail base rates by $350 million in January 2013. FPL is allowed to earn 1% above or below a regulatory ROE of 10.5% and its actual results have been in the upper end of that range. A key positive feature of the settlement is the Generation Base Rate Adjustment, which allows base rates to be increased once each of its three plant modernization projects becomes operational. The company has completed two of these projects (Cape Canaveral in 2013 and Riviera Beach in 2014), adding roughly $400 million to the company's rate base. It expects to complete its final project, Port Everglades, in 2016 and add another $205-$215 million to its base rates.

FPL earns the vast majority of its net income through its base rates but it also has various clauses that provide for adequate and timely cost recovery and returns on certain other investments. The company has experienced very little in disallowances and lag in recovery. For example, its fuel and capacity clauses are adjusted annually based on expected fuel and purchased power prices and for prior period differences between projected and actual costs. FPL may also recover pre-construction costs and carrying charges for construction work in progress for nuclear capital expenditures, and has been able to recover costs associated with the utility's solar generating facilities. Additionally, FPL has an environmental cost recovery clause that is adjusted annually for capital spending and operating expenses related to emission controls.

LARGE CAPEX PROGRAM SUSTAINED FOR CLEANER POWER, GROWING POPULATION

Much of the $3 billion-plus in capital that FPL plans to spend annually over the next few years will result in cleaner, more fuel-efficient power generation. For example, it plans to replace old gas turbine peakers with combustion turbines (a $750-$800 million investment), and buying out its power purchase agreement with the Cedar Bay coal facility ($520 million) and replacing it with a new combined cycle gas unit ($1.0-$1.1 billion investment, subject to regulatory approval and a request for proposal). In addition, FPL is building three utility-scale solar projects ($400-$420 million), which is one way it is seeking to address some of its customers' interest in solar power. These types of investments will help FPL comply with the Environmental Protection Agency's proposed Clean Power Plan, although how it will be implemented is still uncertain.

FPL benefits by having little exposure to coal. In 2014, FPL generated the majority of its power from natural gas (68%), the rest coming from nuclear (23%), purchased power (5%), and coal (4%). Already a top gas user among US utilities, FPL is becoming increasingly reliant on natural gas. As a strategic response, the company has begun to invest up to $191 million in gas reserves in the Woodford Shale as both a fuel cost hedge and a long-term investment. FPL will recover the costs associated with this project through the fuel clause. Although the Florida Public Service Commission (FPSC) has already approved the Woodford project, this unprecedented type of investment has stirred some controversy and regulatory uncertainty. The FPSC is

currently determining its policies for future such investments.

FPL is enjoying a recovery in the local economy. Migration into the state has pushed FPL's customer growth rate (1.8% and 1.1%, respectively, in 2014 and 2013) above the industry average of barely 1%. These new customers are generating organic growth in FPL's revenues ($36 and $37 million, respectively in 2014 and 2013) while creating a need for additional investments on which the utility will earn a return.

SUPERIOR CREDIT METRICS

FPL has some of the strongest cash flow coverage metrics in the US utilities sector, because a high percentage of its revenues is recovered through cost recovery clauses and its leverage is low. FPL's cash flow from operations before working capital changes (CFO Pre-WC) interest coverage and CFO Pre-WC-to-debt have averaged 8.5x and 34.5%, respectively, over the last three years ending December 2014. These metrics are strongly positioned for the company's current rating category.

Its debt-to-capitalization of 34.7% at 31 December 2014 is among the lowest in its peer group, much of it due to a fully funded pension plan, which is unusual in the industry. FPL receives capital contributions from and pays dividends to NextEra, so that it maintains its reported equity ratio around its allowed level of slightly under 60%. We expect the utility to continue to finance its capital expenditure program with a mix of long-term debt and capital contributions from the parent, limiting the amount of additional leverage incurred and maintaining its debt-to-capitalization below 35% on a Moody's adjusted basis.

Liquidity Profile

FPL maintains an ample liquidity profile with a total of $3.2 billion of bank credit facilities, with $235 million expiring in May 2015 (which we expect will be renewed), $500 million in 2016, and $2.5 billion in 2020. FPL uses these facilities to back up commercial paper borrowings, letters of credit, and $633 million of revenue bonds in case they are put back to the company and not remarketed. The company has no material adverse change clause in its bank credit agreements and was in compliance with the debt-to-capitalization financial covenant contained in these agreements as of 31 December 2014.

FPL generated cash flow from operations of $3.5 billion in 2014, while investing $3.2 billion in capital expenditures and distributing $1.6 billion in dividends to NextEra. In 2015, capital expenditures are estimated at $3.4 billion, which we expect will be mostly covered by internally generated cash flows. In terms of scheduled debt maturities, the company has $43 million of storm securitization bonds due in August 2015. Other than minor amortization payments ($15 million in 2015) on its other securitization issue, FPL's next major maturity is in November 2017 when $300 million of first mortgage bonds mature.

Rating Outlook

The stable rating outlook reflects the regulatory clarity provided by FPL's current rate settlement through the end of 2016. The company will undergo a rate case next year, but we believe that a constructive regulatory environment will prevail. Credit-supportive mechanisms for cost recovery as well as regular capital contributions from NextEra will maintain FPL's strong credit metrics, including CFO Pre-WC-to-debt in the low to mid 30% range.

What Could Change the Rating - Up

Further upgrade of FPL's ratings is constrained by the circumstances of the utility's location (geographic concentration in Florida, event risk from storms) and its substantial capital expenditure program. Its rate-regulation will limit much more upside in its financial performance. FPL's A1 issuer rating is currently constrained by the three-notch gap with NextEra's Baa1 rating, but, longer term, FPL could be upgraded in conjunction with an upgrade of NextEra.

What Could Change the Rating - Down

A downgrade could be considered if there are significant cost disallowances or other changes to Florida's credit-supportive regulatory and cost recovery framework, or if there is a sustained decline in cash flow coverage metrics, including CFO Pre-WC-to-debt below 25%, or an increase in debt-to-capitalization above the 40% range.

Rating Factors

Florida Power & Light Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current FY 12/31/2014		[3]Moody's 12-18 Month Forward ViewAs of April 2015	
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	Baa	Baa	A	A
Factor 3 : Diversification (10%)				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	8.5x	Aaa	8.4x - 8.7x	Aaa
b) CFO pre-WC / Debt (3 Year Avg)	34.5%	Aa	34% - 35%	Aa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	25.3%	Aa	25% - 27%	Aa
d) Debt / Capitalization (3 Year Avg)	33.2%	Aa	32% - 34%	Aa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Aa3		Aa3
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Aa3		Aa3
b) Actual Rating Assigned		A1		A1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2014; Source: Moody's Financial Metrics [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.

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