S&P Global Ratings

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Research Update:

Gulf Power Co. Ratings Raised To 'A' On Updated Group Rating Methodology, Off UCO; Outlook Stable

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Rating Action Overview

- On July 1, 2019, S&P Global Ratings published its revised Group Rating Methodology criteria and placed its ratings on Gulf Power Co. (Gulf) under criteria observation (UCO).
- Following our criteria review, we established that the cumulative value of Gulf's insulating measures from its parent, NextEra Energy, Inc. (NEE), are sufficient to raise our issuer credit rating (ICR) on Gulf above NEE's group credit profile (GCP).
- As such, we are raising our long-term issuer credit rating on Gulf to 'A' from 'A-' and removing our ratings on the company from UCO. The outlook is stable.
- At the same time, we are raising our issue-level rating on the company's senior unsecured notes to 'A' from 'A-', and the commercial paper ratings to 'A-1' from 'A-2'.
- The stable outlook on Gulf is consistent with our stable outlook on parent NEE and incorporates our base-case assumptions for Gulf that the utility will generate sufficient cash flow to maintain stand-alone financial measures that are generally consistent with funds from operations (FFO) to debt of 20%-24% over the next three years.

Rating Action Rationale

The upgrade of Gulf reflects our view of the sufficient separateness, insulation measures, and its stand-alone credit profile consistent with our revised criteria.

Our analysis of the insulating measures considered the following:

- Gulf is a separate stand-alone legal entity that functions independently, both financially and operationally, files its own rate cases, and is independently regulated by the Florida Public Service Commission (FPSC).
- Gulf has its own records and books including its stand-alone audited financial statements.
- The utility has its own funding arrangements including issuing its own long-term debt and has a separate committed credit facility to cover its short-term funding needs.

Gulf 000010
20200151-EI

- Gulf does not commingle funds, assets, or cash flows with parent NEE or other subsidiaries. Also, NEE does not have a money pool.
- We believe there is a strong economic basis for NEE to preserve Gulf's credit strength, reflecting Gulf's low-risk, profitable, and regulated utility business model that is consistent with NEE's utility growth strategy, and is an important contributor for NEE to manage the relative size of its utility and nonutility businesses.
- Gulf does not have any obligation of cross-default in the event of a default at parent NEE or its other subsidiaries that could directly lead to a default at Gulf.

We expect a modest weakening to Gulf's financial measures. We are revising downward our assessment of Gulf's financial risk profile to significant from intermediate. This primarily reflects the company's higher capital spending on its transmission and distribution infrastructure, integration with Florida Power & Light Company (FPL)'s cost-efficient power generations, and development of new solar generation facilities. For 2018, Gulf's FFO to debt was 25.4% and we now expect financial measures will weaken, reflecting FFO to debt of 20%-24%. We are also revising the comparable rating analysis modifier to positive, reflecting our view that the financial measures will consistently remain at the higher end of the range for the significant financial risk profile category.

Outlook

S&P Global Ratings' stable outlook on Gulf is consistent with its stable outlook on parent NEE. The stable outlook on NEE reflects its marginally improving business risk profile, with regulated business accounting for about 70% of the consolidated company. Additionally, we expect the NEE's consolidated FFO to debt will be 21%-25% over the next three years. The stable outlook also incorporates our view that Gulf's stand-alone financial measures will remain at the higher end of the range for its financial risk profile category, reflecting FFO to debt of 20%-24% over the next three years.

Downside scenario

We could lower our rating on Gulf over the next 24 months if we lower our rating on NEE or if Gulf's stand-alone financial measures weaken such that its FFO to debt remains consistently below 21% while no material weakening to its business risk profile.

Upside scenario

We could raise our rating on Gulf Power over the next 24 months if we raise our rating on NextEra and Gulf's stand-alone FFO to debt is consistently higher than 27%.

Company Description

Gulf Power is a vertically integrated electric utility company that generates, transmits, and distributes electricity to about 460,000 customers in northwestern Florida. The company has about 2.5 GW of generation, of which 73% is from coal-fired generation and 24% from natural gas.

Gulf 000011
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Liquidity

We assess Gulf's liquidity as adequate because its sources will likely cover uses by more than 1.1x over the next 12 months and meet cash outflows even if EBITDA declines 10%. The assessment also reflects the company's generally prudent risk management, sound relationships with banks, ability to absorb high-impact, low-probability events with limited need for refinancing, and generally satisfactory standing in credit markets.

Principal Liquidity Sources

- Net credit facility availability of about $575 million;
- Cash FFO of about $450 million; and
- Minimal cash assumed.

Principal Liquidity Uses

- Long-term debt maturities of about $175 million;
- Maintenance capital expenditure of about $550 million; and
- Dividends of about $110 million.

Issue Ratings - Subordination Risk Analysis

Our short-term and commercial paper ratings are 'A-1' based on our long-term issuer credit rating on the company.

Capital structure

Gulf's capital structure consists of about $1.5 billion of long-term debt.

Analytical conclusions

We rate Gulf Power senior unsecured debt at the same level as our long-term issuer credit rating because they are the debt of qualified investment-grade utilities.

Ratings Score Snapshot

Gulf Power Co.: Issuer Credit Rating: A/Stable/A-1

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: a-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: a

- Group credit profile: a-
- Entity status within group: Insulated

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded

	To	From
Gulf Power Co.		
Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
Senior Unsecured	A	A-
Preferred Stock	BBB+	BBB
Preference Stock	BBB+	BBB
Commercial Paper	A-1	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.