417

FPL's Response to Staff's Seventh Request for Production of Documents No. 27.

QUESTION:
Please provide a copy of the report by Standard & Poor's or S&P Global Ratings, Inc., issued on June 14, 2021, titled, *NextEra Energy Inc. Ratings Affirmed, Outlook Stable, Management & Governance Revised Upward.*

RESPONSE:
Rating agency reports have been made public and can be found on the NextEra Energy Fixed Income website at the following web address:

http://www.investor.nexteraenergy.com/fixed-income-investors/download-library

S&P Global
Ratings

RatingsDirect®

Research Update:

NextEra Energy Inc. Ratings Affirmed, Outlook Stable, Management & Governance Revised Upward

June 14, 2021

Rating Action Overview

- NextEra Energy Inc.'s (NEE) regulated utility subsidiary Florida Power & Light Co. (FP&L) recently announced that it has achieved more than 40% of its "30-by-30" solar plan (installing 30 million solar panels by 2030). This highlights management's successful track record of consistently implementing its strategic planning efforts.
- As such, we revised our assessment of the company's management and governance (M&G) to strong from satisfactory. Our strong assessment also incorporates the depth and breadth of management's expertise across all of its businesses segments and NEE's comprehensive enterprise-wide risk management standards.
- We affirmed all of our ratings on NEE, including our 'A-' issuer credit rating. We also modestly lowered our downgrade threshold for the current rating to funds from operations (FFO) to debt of less than 20% (from 21% previously). The lower downgrade threshold reflects our view that the company has gradually decreased its business risk through the proactive reduction of its environmental, social, and governance (ESG)-related exposure. This includes reducing its dependency on fossil fuel-based generation and increasing its reliance on renewable generation and batteries.
- The stable outlook incorporates our view that NEE will continue to focus on expanding its regulated utility business and reducing the risk of its competitive businesses through the strategic augmentation of its lower risk contracted assets. We expect the company's regulated utility business to consistently account for more than 70% of consolidated EBITDA. We also forecast its consolidated financial measures will modestly weaken, including FFO to debt of 21%-24%.

PRIMARY CREDIT ANALYST

Gabe Grosberg
New York
+ 1 (212) 438 6043
gabe.grosberg@spglobal.com

SECONDARY CONTACT

Fei She, CFA
New York
+ 2124380405
fei.she@spglobal.com

Rating Action Rationale

The revision of our downgrade threshold reflects our view that the company has modestly improved its business risk profile by consistently reducing its ESG-related risks. As part of its 2019 acquisition of Gulf Power, NEE acquired several coal-fired generating plants. The company already closed all of its wholly owned coal-fired generation and we anticipate it will retire the vast majority of its remaining co-owned coal generating facilities by 2023. In conjunction with management's 30 by 30 plan, we expect NEE will continue to materially increase its reliance on renewables while reducing its exposure to fossil fueled-based generation. Specifically, we forecast the company will increase the renewable proportion of its generation portfolio to about 45% (from about 27% currently) by 2025 while reducing its reliance on nuclear generation to about 18% (from about 23%) and natural gas to about 36% (from about 48%). The cumulative effects of these improvements will further improve NEE's industry leading CO2 intensity (CO2 emissions metric tons/gigawatts) score (the company's carbon intensity score is about 40% lower than that of its next closest industry competitor). Furthermore, the company continues to make progress toward completing the installation of its 400 MW Manatee Energy Storage Center and the development of its 25 MW green hydrogen pilot project. These projects demonstrate that NEE will remain at the forefront of new technologies, which will complement its energy transition and renewable deployment. We believe these developments have reduced the company's business risk by demonstrating the successful implementation of its proactive strategy to reduce its greenhouse gas (GHG) emissions and associated ESG-related risks.

We revised our assessment of the company's M&G. The revision reflects NEE's track record of effective strategic planning and completion of its many infrastructure projects, including achieving milestones on its 30 by 30 solar plan, on time and on budget while also meeting or exceeding its expected financial performance. The company is proactively working to manage its many risks, including those stemming from its exposure to hurricanes and GHG emissions. Its recent acquisition of Gulf Power, which relied on coal-fired generation, its relatively quick closure of most of its coal plants, and its reduction of its GHG emissions are further examples of NEE's ability to successfully execute on its strategic initiatives.

Our ratings on NEE reflect our excellent assessment of its business risk profile and our intermediate assessment of its financial risk profile. We assess the company's business risk profile based on our expectation that its regulated and competitive long-term contracted businesses will consistently account for about 90% of its consolidated EBITDA. NEE is proactively expanding its relatively lower-risk utility business, which is very gradually reducing business risk. Currently, the company's regulated utilities provide about 72% of its EBITDA. This is an improvement from about 71% in 2020 and we expect it will further increase its regulated utility business' EBITDA contribution to about 73% by 2023. Despite the modest decrease in its business risk, we continue to assess NEE's business risk profile as being at the very lower end of the range for its business risk profile category. This reflects the operating risk of nuclear merchant generation, proprietary trading, retail supply and wholesale full-requirements contracts, and natural gas exploration and production businesses. These activities account for more than 10% of its consolidated EBITDA, involve significant liquidity needs, feature low margins, and require diligent risk management and hedging to protect against fluctuating commodity prices. To account for these risks, we apply a negative one notch comparable ratings analysis adjustment to our anchor on NEE. We assess the company's financial measures using our medial volatility table because it derives the majority of its operating cash flows from its lower-risk regulated utilities. In addition, the use of our medial volatility table reflects its generally effective management of its regulatory risk in Florida.

We expect NEE's consolidated financial measures to gradually decline, including FFO to debt of 21%-24%. This incorporates the company's robust annual capital spending of more than $10 billion and dividends of more than $3 billion. We expect NEE's discretionary cash flow to remain negative and anticipate it will continue to depend on having consistent access to the capital markets.

Outlook

The stable outlook on NEE incorporates our view that it will continue to focus on expanding its regulated utility business and reducing the risk of its competitive businesses through the strategic augmentation of its lower risk contracted assets. We expect the company's regulated utility business to consistently account for more than 70% of consolidated EBITDA. We also forecast its consolidated financial measures will modestly weaken, including FFO to debt of 21%-24%.

Downside scenario

We could lower our rating on NEE over the next 24 months if we believe its management of regulatory risk has weakened, its lower-risk regulated utility businesses account for less than 70% of its consolidated EBITDA, or its FFO to debt declines and remains consistently below 20%. This could occur if the company unexpectedly increases its debt leverage to support a more aggressive growth strategy, higher-than-forecast shareholder rewards, or another large debt-financed acquisition.

Upside scenario

We could raise our rating on NEE over the next 24 months if its financial measures improve and remain consistently in the middle of our expected range for the intermediate financial risk profile category, including FFO to debt greater than 26%. This could occur if the company reduces its reliance on debt leverage or decides to finance a future large acquisition or capital project mostly with equity.

Company Description

NEE is a large electric power and energy infrastructure company that primarily comprises lower-risk regulated utilities (about 70% of EBITDA), competitive generation (about 20% of EBITDA), proprietary trading (about 5% of EBITDA), and natural gas infrastructure businesses (about 5% of EBITDA). The company's regulated utility serves more than 5.6 million customers in Florida and has about 31,000 megawatts (MW) of electric generation, of which it derives about 70% from natural gas. NEE's nonregulated operations focus largely on contracted electric generation (generally hedged or under long-term contracts) with an emphasis on renewable energy projects, as well as some fossil fuel-based and nuclear generation.

Liquidity

We view NEE's liquidity as adequate and more than sufficient to cover its needs for the next 12 months even if its EBITDA declines by 10%. Specifically, we expect the company's liquidity sources to be more than 1.1x its uses over the next 12 months. Under our stress scenario, we do not expect that NEE would require access to the capital markets to meet its liquidity needs. In addition, we believe the company has sound relationships with its banks and a satisfactory standing in the credit markets. We also anticipate it could absorb a high-impact, low-probability event with limited need for refinancing.

Principal liquidity sources:

- FFO of about $8.8 billion;
- Credit facility availability of about $12.2 billion; and
- Cash on hand of about $1.5 billion as March 31, 2021.

Principal liquidity uses:

- About $6.6 billion of debt due in the next 12 months;
- Annual maintenance capital spending of about $10 billion, which reflects NEE's ability to scale back its planned capital expenditure (capex), including its growth capex, in case of financial distress; and
- Annual dividends of about $3 billion.

Issue Ratings - Subordination Risk Analysis

Capital structure

- NEE's capital structure comprises about $53 billion of total debt, of which about $30 billion is outstanding at NextEra Energy Capital Holdings Inc. (NEECH), about $18 billion is outstanding at FP&L, and about $5 billion is outstanding at NextEra Energy Resources LLC.

Analytical conclusions

- We rate the hybrid equity units at NEE two notches below our issuer credit rating, which incorporates one notch for their deferability and one notch for their subordination.
- We rate the unsecured debt at NEECH, which is guaranteed by NEE, one notch below our issuer credit rating because it ranks behind a significant amount of debt issued by subsidiaries in the capital structure.
- We rate the junior subordinated notes and hybrid equity units at NEECH two notches below our issuer credit rating, which incorporates one notch for their deferability and one notch for their subordination.
- We rate the commercial paper program at NEECH 'A-2' based on our issuer credit rating on the company.

Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Low
- Competitive position: Excellent

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

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: Strong (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: a-

- Group credit profile: a-

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
NextEra Energy Inc.	
Issuer Credit Rating	A-/Stable/--
Florida Power & Light Co.	
Issuer Credit Rating	A/Stable/A-1
NextEra Energy Capital Holdings Inc.	
Issuer Credit Rating	A-/Stable/A-2
NextEra Energy Inc.	
NextEra Energy Capital Holdings Inc.	
Senior Unsecured	BBB
NextEra Energy Capital Holdings Inc.	
Senior Unsecured	BBB+
Junior Subordinated	BBB
Commercial Paper	A-2
Florida Power & Light Co.	
Senior Secured	A+/A-1
Senior Secured	A+
Recovery Rating	1+
Senior Unsecured	A/A-1
Senior Unsecured	A
Preferred Stock	BBB+
Preference Stock	BBB+
Commercial Paper	A-1

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.