

Environmental, Social, And Governance Evaluation

NextEra Energy Inc.

Summary

NextEra Energy Inc. (NEE) is a large diversified energy holding company headquartered in Juno Beach, Fla. that generates, transmits, distributes, and sells power to retail and wholesale customers in North America. In 2020, NEE generated revenue of \$18 billion and S&P Global Ratings-adjusted EBITDA of around \$10 billion. NEE operates as a regulated utility (about 70% EBITDA), and engages in competitive generation (about 20%), proprietary trading (about 5%), and natural gas exploration and production (about 5%). Through its regulated utility subsidiary, Florida Power & Light (FPL, which as a result of the January 2021 merger now subsumes Gulf Power Co.) it provides electric services to about 11 million people throughout most of Florida. Next Era Energy Resources, its competitive generation business, develops, constructs, and operates long-term contracted assets with an emphasis on renewables, electric transmission, and battery storage across North America.

NEE's ESG Evaluation score of 86 reflects its best-in-class preparedness for disruptive forces in the industry, which it is well equipped to capitalize on given its large scale and extensive clean energy expertise. It also reflects a long-term strategy that drives systemic environmental benefits across industries. While NEE is exposed to environmental risks, notably GHG emissions, it has been more proactive than peers in decarbonizing its fleet and vastly expanding its renewable capacity. But NEE, along with the industry, continues to face long-term challenges over nuclear waste. Despite rapid growth, NEE has been able to maintain affordable rates and above-average reliability levels, which support leading customer engagement practices. The industry also faces other social risks, such as safety and an aging workforce, though NEE has been more effective mitigating these issues than peers. NEE's governance benefits from its U.S. presence and an effective code and values framework premised on integrity and linked to sustainability goals. We believe the combined CEO-chairman role is not in line with international best practices but is somewhat offset by high board engagement and a track record of effective oversight.

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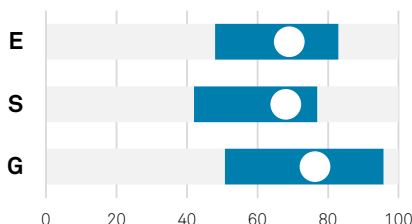
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ESG Profile Score

72 / 100



Company-specific attainable and actual scores

Preparedness Opinion (Scoring Impact)
















Best in class (+ 14)

ESG Evaluation

86 / 100

A higher score indicates better sustainability

Component Scores

Environmental Profile			Social Profile			Governance Profile		
Sector/Region Score		33/50	Sector/Region Score		27/50	Sector/Region Score		31/35
	Greenhouse gas emissions	Strong		Workforce and diversity	Good		Structure and oversight	Good
	Waste and pollution	Good		Safety management	Strong		Code and values	Strong
	Water use	Strong		Customer engagement	Leading		Transparency and reporting	Strong
	Land use and biodiversity	Strong		Communities	Strong		Financial and operational risks	Neutral
	General factors (optional)	-2		General factors (optional)	0		General factors (optional)	None
Entity-Specific Score		36/50	Entity-Specific Score		41/50	Entity-Specific Score		46/65
E-Profile (30%)		69/100	S-Profile (30%)		68/100	G-Profile (40%)		76/100

ESG Profile (including any adjustments)

72/100

This figure is subject to rounding

Preparedness Summary

NEE's best-in-class preparedness reflects how it has distinguished itself as a leader in developing and executing innovative strategies that anticipate and capitalize on the energy transition. By leveraging its large scale, deep renewable expertise, and investments in cutting-edge technologies, NEE has been able to drive systemic environmental benefits that enable cross-sector decarbonization and support its resilience to disruptive trends. Moreover, its focus on innovation and sustainability is deeply rooted in its culture, which enables it to execute effectively, while NEE's executives and board demonstrate excellent awareness of potential future disruptions that helps it oversee and adapt its strategy as the industry evolves.

Capabilities

Awareness	Excellent
Assessment	Good
Action plan	Excellent
Embeddedness	
Culture	Excellent
Decision-making	Excellent

Preparedness Opinion (Scoring Impact)

Best in class (+14)

ESG Evaluation

86/100

Environmental Profile

69/100

Sector/Region Score (33/50)

NEE operates primarily in the U.S. electric grid (which S&P estimates at ~60% EBITDA) and power generator (~40%) sectors. The energy transition is the most material environmental risk, which involves power and grid upgrades for clean energy and ensuring asset resilience for climactic events. Fossil fuel plants are a major source of GHGs and air and water pollutants, while nuclear plants generate hazardous waste. Renewables and grid infrastructure require large land areas that often intersect with biodiversity. Water scarcity can be disruptive for thermal plants.

Entity-Specific Score (36/50)



NEE’s renewable and battery storage strategy is more expansive than peers. It is the leading wind, solar, and battery storage developer with ~30 gigawatts (GW) of installed capacity across 38 states and 13.6 GW of renewables under development. This capacity enables grid decarbonization across the U.S., including in states with no renewable targets. We expect GHG intensity will continue to outperform peers given 48% of its generation is carbon free, renewable capacity is growing rapidly, and it targets Scope 1 intensity declines of 67% by 2025 from 2005 levels. While we believe the target is achievable (52% reductions as of 2019), it is less advanced than peers using a science-based approach. In our view, the Gulf Power acquisition will not hamper its GHG performance given it has executed plans to retire or convert coal plants and interconnect to the FPL system. Substation upgrades and undergrounding of lines also help limit grid related emissions. The score is constrained by its reliance on natural gas (48% generation), but its investments in green hydrogen, while still nascent, are more advanced than peers.

NEE’s nuclear fleet exposes it to nuclear waste risk but the company has a strong track record on air pollution and recycling. In our view, nuclear waste management is a material risk given its long half-life and evolving long-term storage options. While U.S. nuclear waste standards are stringent, the lack of viable disposal options constrains the score, despite not having experienced any significant recorded incidents and retiring one of its nuclear assets early. Coal closures reduced air emissions to below industry averages and recycling rates exceed peers.

Advanced biodiversity protection strategies help NEE mitigate impacts from renewable development. Biodiversity risk is especially heightened in hot spots of Florida and California, where NEE has a large presence. However, NEE’s biodiversity approach is more sophisticated than peers given its use of software to optimize siting, renewable development prioritized on degraded land, and advanced technologies to track and avoid impact to threatened species.

NEE has relatively low exposure to water scarcity risks. Its thermal assets are largely concentrated in Florida, which does not face water scarcity issues. Additionally, nearly 80% of water withdrawals are from seawater sources, limiting reliance on freshwater basins. Its expansion of renewables and coal plant retirements will also support lower water consumption.

NEE faces long-term sea level rise exposure at its Turkey Point nuclear reactors on Florida’s coast, which have the option to operate through 2052-2053, but it has invested in flood defences.

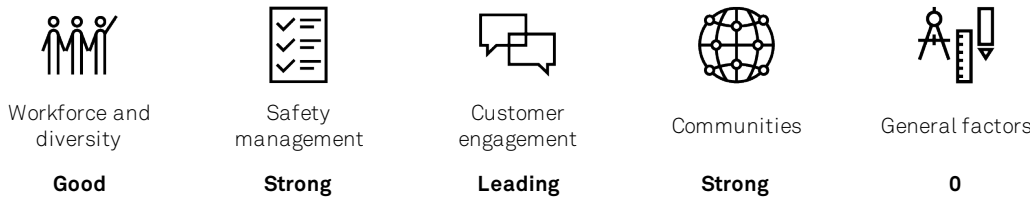
Social Profile

68/100

Sector/Region Score (27/50)

Maintaining reliable, affordable, and accessible power for customers are the most material social drivers. Safety is generally well managed, but high-impact events can be detrimental. Strikes from largely unionized workforces, aging talent, low gender diversity, and skills shortages related to the energy transition also pose risks. Renewable and grid expansions can also prompt community opposition. We adjust the score for social standards risks in the U.S.

Entity-Specific Score (41/50)



NEE has leading customer engagement practices supported by low customer bills and high grid reliability. FPL’s average customer bills are around 30% lower and grid reliability is over 60% better than the U.S. average, which support high customer satisfaction and have resulted in industry awards. NEE is also more advanced than peers in its use of smart grid technology, which supports more responsive and effective customer engagement while still ensuring high levels of data privacy. In our view, it’s undergrounding of lines, investments in storm hardening of overhead electric grid facilities, and shift to steel or concrete poles will support better resilience to extreme weather events, including hurricanes, which are a significant risk in Florida and could undermine customer relationships. Its use of drones and image recognition software to spot faulty equipment to prevent service interruptions is also more advanced than peers.

Safety metrics are better than global industry peers. This is supported by an effective safety management training and implementation framework applicable across its value chain, and safety goals embedded in performance objectives. Its recorded incidence rate has improved and is better than the U.S. industry average. Moreover, its renewable investments are likely to reduce its operating exposure to safety risks. However, high-impact safety events at its nuclear plants present risk, although this is mitigated to some extent by \$300 million investments in plant upgrades and efforts to revalidate safety systems, procedures, and emergency training. We expect NEE will continue to apply its approach to rates, reliability, and safety to Gulf Power, which will support high customer satisfaction and safe operations across its expanded footprint.

Workforce development is extensive while diversity metrics are average. NEE’s training builds key skills for the energy transition and emphasizes knowledge for the future. Employees average over 50 hours of training, which exceeds many peers. However, diversity metrics are in line with peers and while recruitment emphasizes improving diversity, we anticipate that metrics will remain similar to peers in the industry in the near-term.

NEE has a proactive and effective approach to community engagement. Renewable development presents community opposition risks but NEE’s approach for managing community concerns is more sophisticated than peers. For example, NEE’s engagement with local tribes, where it actively works with those near projects to avoid and resolve issues while educating its workforce on tribal customs, is illustrative of a commitment to build relationships and is more thoughtful than many peers. It also leverages its scale to support local suppliers (\$740 million), including woman-, minority-, and veteran-owned, which has cascading community benefits.

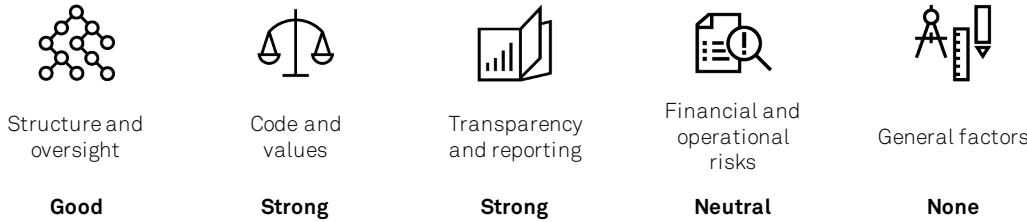
Governance Profile

76/100

Sector/Region Score (31/35)

We base the governance profile region score on NEE’s headquarters in the U.S., which we believe has relatively high governance standards characterized by a stable political system, strong rule of law, and respect for human rights.

Entity-Specific Score (46/65)



NEE’s governance structure is aligned with U.S. standards and operates effectively. The board is diverse in terms of gender (29%), race (14%), and relevant expertise. While 13 of 14 members are non-executives, six have long tenures (>10 years), which could affect their independence in our view. Separate Audit, Compensation, Governance and Nominating, and Nuclear committees are established, which is best practice, of which all are chaired by independent members, although two chairs have tenures greater than 10 years. The board features a combined CEO and chairman role, which we believe reduces the board’s ability to oversee the CEO and executive team. While the requirement for a lead independent director mitigates this risk somewhat, the current member has served on the board for 16 years, which influences our view of their independence. Nonetheless, the board is highly engaged (94% attendance) and has effectively overseen the company’s growth strategy and strong operating results.

NEE’s code and values framework reflect an effective framework rooted in integrity and ethical behavior. Its values are clearly articulated and focus on excellence, integrity, and respect for people and its strategy emphasizes these values through its focus on sustainable and affordable energy. NEE has a well-established code of conduct applied across its operations and supply chain and reinforced through systematic training, self-evaluations, and stakeholder engagement. This has translated into NEE being recognized as one of the most ethical companies globally. CEO compensation is mostly variable (90%), including 75% share-based (of which 13% is linked to sustainability targets such as service reliability and safety) and 15% is paid as an annual incentive (linked to financial and operational targets). This pay structure aligns with its clean and affordable energy strategy and performance measures go beyond short-term shareholder value, although financial targets are an important compensation driver. However, total CEO pay is 168 times the median employee pay, which is well above the global industry median.

NEE has comprehensive financial and sustainability disclosure. This includes a sustainability report that follows internationally recognized frameworks including the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI), which ensure effective disclosure of material sustainability issues. However, certain key metrics, such as Scope 2 emissions and other information on its generation business are not disclosed and some metrics are not clearly broken down by business unit, in our opinion. Nonetheless, detailed information is provided on board members and other governance standards.

Preparedness Opinion

Best in class
(+ 14)

Preparedness

Low

Emerging

Adequate

Strong

Best in class

NEE has distinguished itself as a leader in developing and executing innovative strategies that anticipate and capitalize on the energy transition. NEE's vision is to be the largest, most profitable clean energy provider in the world. Senior leadership anticipated secular trends in the energy industry ahead of many global peers, including decarbonization and the shift to clean energy, digitalization, and technological advancements. This enabled NEE to be a first mover in solar, wind, battery storage, and smart grid technology, and capitalize on this expertise as renewable economics improved and climate-related regulatory pressure mounted. Now, NEE is primed to be at the forefront of a fast transitioning sector by translating its expertise into additional growth opportunities as decarbonization accelerates across the industry, particularly through Next Era Energy Resources, its competitive generation business.

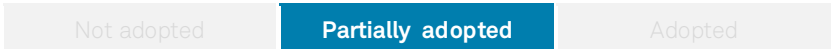
NEE's scale, expertise, and investments drive systemic environmental benefits that enable cross-sector decarbonization and support its resilience to disruptive trends. It has invested nearly \$100 billion in clean energy infrastructure over the past decade, which has enabled it to be the largest generator of wind and solar energy globally and hold the largest operational storage capacity of U.S. utilities, enabling significant climate mitigation benefits while maintaining low customer rates. It's ability to meet the dual objective of offering sustainable solutions while maintaining affordability distinguishes NEE among industry peers. Looking ahead, significant future capital spending is allocated to solar, wind, and storm hardening. This scale is a differentiator that NEE is able to leverage to advance new and innovative sustainability solutions. Indeed, NEE continues to invest in cutting-edge technologies that will be integral to the future of the energy industry. For example, its 20 MW green hydrogen pilot, which aims to produce hydrogen from water (using curtailed solar power) and feed its Okeechobee gas plant, offers a potential solution to decarbonize its large natural gas fleet as well as a growth opportunity for other hydrogen end uses within the energy, transport, and industrial sectors.

NEE's focus on innovation and sustainability is deeply rooted in its culture. Employees are empowered to drive sustainability efforts and focus on continuous improvement and innovation as core elements of their values. This is driven by business unit leaders and managers who are responsible for cultivating an innovation culture by encouraging employees to bring new ideas. Like other advanced peers, it hosts annual competitions where employees present ideas to senior management and those selected receive funding. Many have been successfully implemented, including the use of 3D printing for small wind components at remote sites and equipment to predict failing equipment, which have led to cost reductions and improved inventory management.

NEE's board demonstrates excellent awareness of potential future disruptions. This is supported by a dedicated risk management committee composed of key executives with diverse sources of input, including internal stakeholders and external companies from both within and outside the utility industry. This provides inclusive insights on the local and global level as well as cross-sector trends, which board members articulate with depth and fluency. NEE also leverages scenario analysis to explore the future of the energy industry, with a particular emphasis on the transition and physical impacts of climate change. Physical climate risks, in particular, are assessed annually using the best available climate projections that support long-term asset resilience. However, scenarios for other disruptive trends are not disclosed.

Climate-Related Financial Disclosure

TCFD Recommendations Alignment Assessment:



We assessed the extent to which the entity has adopted the Financial Stability Board's Taskforce on Climate-related Financial Disclosures' (TCFD) recommendations. We do not opine on the quality of the entity's disclosure or the climate change scenario assumptions, if any, but rather comment on the number of disclosures made, based on the TCFD's suggested disclosure list.

Based on the entity's publicly available information, in our opinion NextEra Energy Inc. has partially adopted some of the TCFD recommended disclosures.

The company describes how its clean energy strategy reflects climate change considerations. It also provides a high-level description of its sustainability governance framework and risk management process, but in our view it is not explicit on climate-related risks and opportunities nor as comprehensive as recommended by the TCFD in its guidance. For instance, NextEra's disclosure does not address climate related risks and opportunities or their potential financial impact within short, medium, and long-term time horizons. We also note that the company does not disclose any climate-related scenario analysis to illustrate the potential impact on its strategy and while renewable production goals are linked to executive remuneration, NEE does not explicitly disclose how this will help NEE manage climate related risks nor capitalize on climate-related opportunities. The company does disclose its scope 1 emissions and its emissions reduction target, including historical performance and performance against its target.

Governance	Strategy	Risk management	Metrics and targets
Description of the board's oversight of climate-related risks and opportunities.	Description of the climate-related risks and opportunities identified over the short, medium, and long term.	Description of the organization's processes for identifying and assessing climate-related risks.	Disclosure of the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
Not Adopted	Not Adopted	Not Adopted	Partially Adopted
Description of management's role in assessing and managing climate-related risks and opportunities	Description of the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.	Description of the organization's processes for managing climate-related risks	Disclosure of Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
Not Adopted	Partially Adopted	Not Adopted	Partially Adopted
	Description of the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	Description the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
	Not Adopted	Partially Adopted	Adopted

Sector And Region Risk

Primary sector(s)	Utility Networks
Primary operating region(s)	U.S.

Sector Risk Summary

Environmental exposure

The regulated utility network sector's exposure to environmental risks stems from its infrastructure assets and exposure to the environmental characteristics of entities across value chains. These networks are generally viewed as having high responsibility for ensuring clean water and air and helping to transition to a lower carbon economy. While electric, gas, and water networks each have unique environmental risk drivers, the most material environmental risks facing these subsectors are the physical effects of climate change and mitigation policies. Each subsector also faces some land-use risk; as they grow, they risk encroaching on habitable or undeveloped lands that are more exposed to biodiversity issues in some parts of the world. Electric and gas utilities are exposed to significant energy transition risks, indirectly, through their upstream partners. These risks to networks are moderated, at least financially, by the regulatory support they enjoy and their ability to absorb costs through rate increases. However, less direct reputational effects can be significant given utilities' strong brand recognition. For electric transmission and distribution networks, the physical effects of climate change, including more frequent and severe wildfires, storms, hurricanes, and tornadoes, have the potential to disrupt the functioning of critical equipment and processes. Battery storage has its own set of environmental risks, stemming from mining and end-of-life disposals of materials used in battery units. For natural gas networks, we focus on gas explosions and leaks that emit highly potent greenhouse gases and may adversely affect local biodiversity, leading to costly penalties and reputational damage. For water networks, environmental risks are mainly water quality and availability, sometimes because of inefficient and aging infrastructure. Both water quality and availability--essential for this sector--can be impaired by climate-related factors, including droughts and floods.

Social exposure

The regulated utility network sector plays a crucial community role by providing essential services that must remain affordable and reliable to ensure conciliatory regulatory and customer relationships. This is the essence of utilities' social license to operate. However, as infrastructure ages, utilities must also ensure safety as leaks, explosions and fires can yield very material financial and reputational consequences. Water utilities may also face public health risks if they are unable to avoid drinking water contamination or stop wastewater from polluting supplies. Governments and regulators focusing increasingly on affordability, which we believe could create barriers to regulated networks' cost recovery. This is especially so in areas facing upward cost pressures from ongoing high investments in renewables and grid strengthening. Longer term, increased costs and improved solar and battery technology could result in some downstream residential, commercial, and industrial customers partially defecting from electric utilities. Utilities also face significant workforce issues. Amid an unrelenting energy transition, electric utilities, specifically, must develop employee bases with appropriate skills to operate the grid of the future, as well as retain employees. Given the sector's high unionization, companies have to focus on labor-relations management to avoid labor disruptions and related costs. Given that

utilities are local in nature, they play a prominent role in communities and have large numbers of local employees. This can often result in regulatory support, but also carries a responsibility to contribute to the community and support low income customers, as well as tactfully mitigating disputes around land use as they expand. Finally, given the social responsibility of providing continuous electricity, gas, and water supply, preventing any risk that could lead to a power blackout or water shortage is an important consideration. Cyber-attacks are therefore increased threats for the sector, more so than in many other sectors.

Regional Risk Summary

United States

With robust institutions and rule-of-law standards, the U.S. demonstrates many strong characteristics but lags several other countries with respect to ESG regulations and social indicators. Income inequality is higher than in other OECD countries and has been so for over a century. Social services are similarly less generous than in most wealthy countries. Governance is characterized by a very stable political system, strong rule of law, a powerful judiciary, and effective checks and balances. Conditions of doing business are generally high. The U.S. follows a rules-based approach to corporate governance focused on mandatory compliance with requirements from the major exchanges (NYSE and NASDAQ) as well as legislation. State corporate law is also a key source of corporate governance, particularly Delaware where over half over all U.S. listed companies and close to 70% of Fortune 500 companies are incorporated. Exchanges mandate high standards of corporate governance. The NYSE requires companies listing on its exchange to have boards made up of a majority of independent directors and have separate remuneration and nomination committees. However, formal requirements on ESG reporting are not as established as they are in European countries. While a growing number of companies have an independent chair, the combination of CEO and chair roles is still popular. This can undermine management oversight. Remuneration continues to be a contentious point because U.S. executive pay dwarves global pay levels. The CEO-to-worker pay ratio is ever-increasing, leading to social tensions and shareholder criticism.

Related Research

- Environmental, Social, And Governance Evaluation: Analytical Approach, Dec. 15, 2020
- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide, July 22, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

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