

CREDIT OPINION

2 August 2019

Update

✓ Rate this Research

RATINGS

Florida Power & Light Company

Domicile	Juno Beach, Florida, United States
Long Term Rating	A1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Florida Power & Light Company

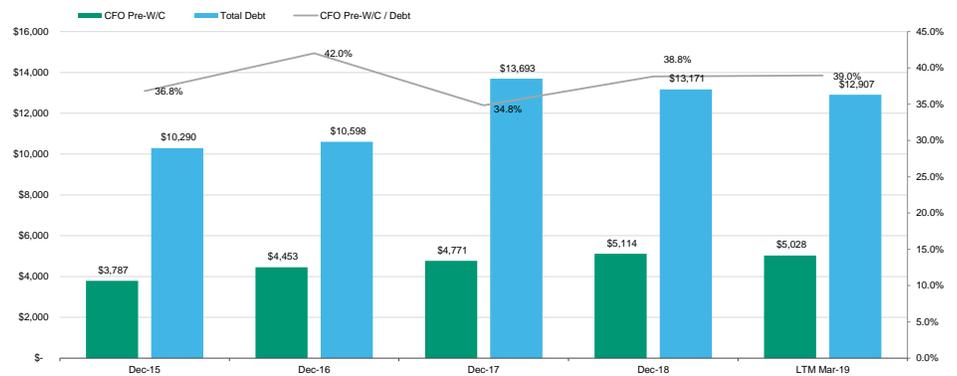
Update to credit analysis

Summary

Florida Power and Light Company's (FPL) credit quality reflects its strong financial profile and the highly supportive Florida political and regulatory environment. FPL is the principal subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest power and utility companies in North America. FPL is the largest vertically integrated regulated utility in Florida, with almost 27,000 megawatts (MW) of generating capacity and over 5 million customer accounts.

FPL is authorized to use timely cost recovery mechanisms that enable it to generate predictable and stable cash flows and consistently maintain strong financial metrics. Its large, mainly residential service territory benefits from solid economic expansion that leads to organic sales growth and a need for continued infrastructure investments. To meet these needs, FPL continues to make substantial capital investments in its rate base, which provides steady earnings and cash flow growth potential, and uses financing that maintains the utility's targeted capital structure allowed by regulators.

Exhibit 1  
Historical CFO pre-W/C, Total Debt and ratio of CFO pre-W/C to Debt (\$ MM)



Source: Moody's Financial Metrics

## Credit strengths

- » Stable regulatory environment that is highly supportive of utility credit quality
- » Very strong financial metrics
- » Solid customer and load growth compared to the national average

## Credit challenges

- » Large capex program, mostly for natural gas fired generation and renewables, will require sizable debt financing
- » Geographic concentration in Florida prone to weather event risk from storms and hurricanes
- » Subject to potential pressures from Florida's political environment, including a pending industry deregulation initiative
- » High percentage of holding company debt constrains rating

## Rating outlook

The stable outlook reflects our expectation that FPL will continue to operate within a highly credit supportive Florida regulatory environment that includes timely cost recovery mechanisms. The stable outlook also reflects our view that FPL will maintain strong financial metrics including a ratio of CFO pre-W/C to debt of around 30%.

## Factors that could lead to an upgrade

FPL's rating is constrained by its geographic concentration in Florida, a state that is prone to event risk from hurricanes, and its parent's high percentage of holding company debt. FPL's rating also considers the three notch differential compared to its parent, NEE's Baa1 rating. Over the longer term, FPL could be upgraded in conjunction with an upgrade of NEE, and if NEE's holding company debt declines to less than 25% of NEE's consolidated debt.

## Factors that could lead to a downgrade

A downgrade could be considered if there are significant cost disallowances or other changes that would weaken Florida's credit supportive regulatory and cost recovery framework, if a pending industry deregulation initiative is successful, or if there is a sustained decline in financial metrics, such that its ratio of CFO pre-W/C to debt declines below 25%, or there is an increase in debt-to-capitalization above the 40% range. A downgrade of NEE could also result in a downgrade of FPL, due to the utility's affiliation with a weaker parent.

## Key indicators

Exhibit 2

### Florida Power & Light Company [1]

	Dec-15	Dec-16	Dec-17	Dec-18	LTM Mar-19
CFO Pre-W/C + Interest / Interest	9.5x	10.8x	10.9x	10.5x	10.2x
CFO Pre-W/C / Debt	36.8%	42.0%	34.8%	38.8%	39.0%
RCF / Debt	31.5%	30.5%	25.8%	35.2%	34.5%

[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

## Profile

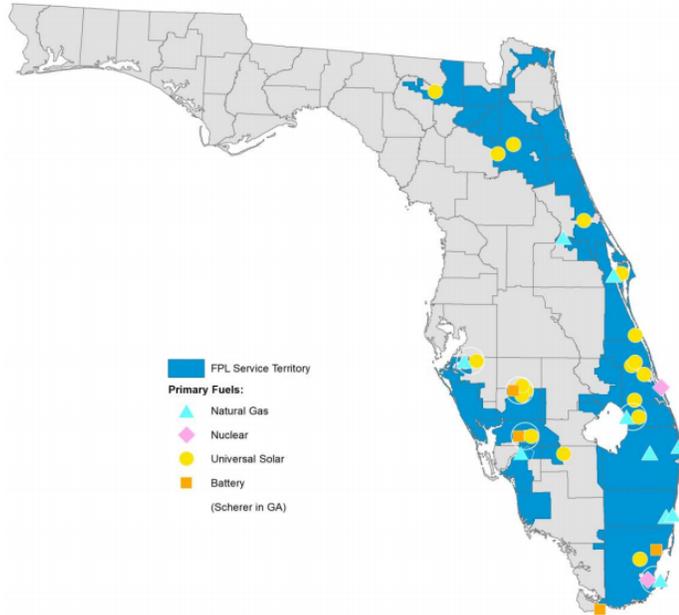
Headquartered in Juno Beach, Florida, Florida Power & Light Company is one of the largest regulated electric utilities in the US and the principal subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest power and utility companies in North America. FPL serves about 10 million people in Florida and has about 27 gigawatts (GW) of generation capacity. For 2018, FPL had about \$12 billion

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of operating revenue, which accounted for about 70% of NextEra's consolidated revenues, and ended the year with about \$54 billion of assets.

Exhibit 3

### Service Territory



Source: Company Presentations

## Detailed credit considerations

### STABLE REGULATORY ENVIRONMENT HIGHLY SUPPORTIVE OF UTILITY CREDIT QUALITY

The regulatory environment for investor-owned utilities in Florida remains highly credit supportive. In late 2016, the Florida Public Service Commission (FPSC) approved FPL's four-year rate case settlement that included a multi-year step rate increase from January 2017 through December 2020. The settlement agreement included a base revenue increase of \$811 million with increases of \$400 million in January 2017, \$211 million in January 2018 and \$200 million in March 2019 when the Okeechobee Clean Energy Center natural gas power plant went into commercial operation. FPL's authorized return on equity (ROE) is 10.55% with a range of 9.6% to 11.6% based on an equity ratio that FPL has consistently maintained at about 60%.

The 2016 rate settlement retained the cost recovery mechanisms that have allowed FPL to produce consistently above-average credit metrics. An example includes storm cost recovery provisions, which are important in Florida where hurricanes are prevalent. The settlement agreement also included the ability to recover up to 300 megawatts (MW) of solar generation annually through a Solar Base Rate Adjustment (SoBRA) mechanism as well as a 50 MW battery storage pilot with cost recovery for the latter being decided in the next rate case. This mechanism is similar to the Generation Base Rate Adjustment that allowed for FPL's three large gas plant modernization projects to be reflected in rates once they entered service.

The settlement agreement also provided FPL the flexibility to utilize up to \$1.25 billion of reserve amortization, which was ultimately used to offset the impact of Hurricane Irma in September 2017. The reserve amortization balance is expected to be replenished over the remaining term of the rate case settlement period.

FPL's current and previous rate settlements provide a high degree of rate certainty and its current plan is based on forward test years, in addition to having the ability to earn roughly 1% above its authorized ROE, which the company has been able to achieve through its reserve amortization mechanism and operating efficiency.

FPL earns the vast majority of its net income through its base rates but the various clauses 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.

In late June 2019, the governor of Florida signed into law Senate Bill 796, which requires investor-owned utilities (IOUs) to submit storm protection plans to the FPSC that detail how the IOUs will harden their grids and make them more resilient during extreme weather events like hurricanes. The new law is credit positive for the state's utilities, particularly FPL, given that it is the state's largest, because it allows it to grow rate base through increased investments and obtain timely recovery of these investments, all in an effort to ensure customer reliability. It is also a sign that Florida regulators support proactive management of physical risks arising from climate change, which is expected to cause storms to be more frequent and more powerful over the long term.

There is an electricity deregulation measure currently being proposed in the state. The energy choice proposal needs 766,200 signatures by 1 February 2020 before it can appear on the Florida ballot. The measure would amend the constitution to declare that the Florida wholesale and retail electricity markets be fully competitive. It is too early to know the extent of the impact if the measure were to pass. However, in the event energy choice is implemented, power generation and supply functions would be deregulated and FPL would likely seek to divest some of its assets and avoid stranded asset costs through timely regulatory recovery.

### VERY STRONG FINANCIAL PROFILE

FPL has some of the strongest financial metrics in the US utilities sector because a high percentage of its revenues are recovered through cost recovery clauses and it is well capitalized. For the three-year period ending 31 March 2019, FPL's cash flow interest coverage ratio and ratio of CFO pre-W/C to debt have averaged 10.7x and 37.7%, respectively. These financial metrics position it strongly for its current credit profile.

Changes to the US tax law in December 2017 did not have a material impact on FPL's financial metrics. FPL used the federal tax savings arising from tax reform to offset approximately \$1.3 billion of storm restoration costs resulting from Hurricane Irma. In addition to avoiding a Hurricane Irma surcharge, in May the FPSC allowed FPL to use future federal tax savings to replenish its reserve amortization account, which was depleted from the Hurricane Irma storm costs. The FPSC also allowed FPL to keep the excess tax reform savings once the reserve account was replenished as long as the utility did not earn above its upper end of the range of 11.6% on its allowed ROE. Because of this decision, FPL may be able to file its next general rate case one year later than 2020, which was the date it originally intended.

The company's debt-to-capitalization ratio was 32.3% for the last twelve months ending 31 March 2019, putting it among the lowest leveraged utilities in the US, and it has a fully funded pension plan, which is unusual in the industry. FPL receives capital contributions from and distributes dividends to NEE, maintaining its reported equity ratio at just below 60%, consistent with its last approved capital structure. 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 ratio in the 30% range on a Moody's adjusted basis, which includes deferred income taxes.

### CAPITAL INVESTMENTS REMAIN ELEVATED FOR NATURAL GAS AND SOLAR POWER GENERATION AS WELL AS T&D UPGRADES

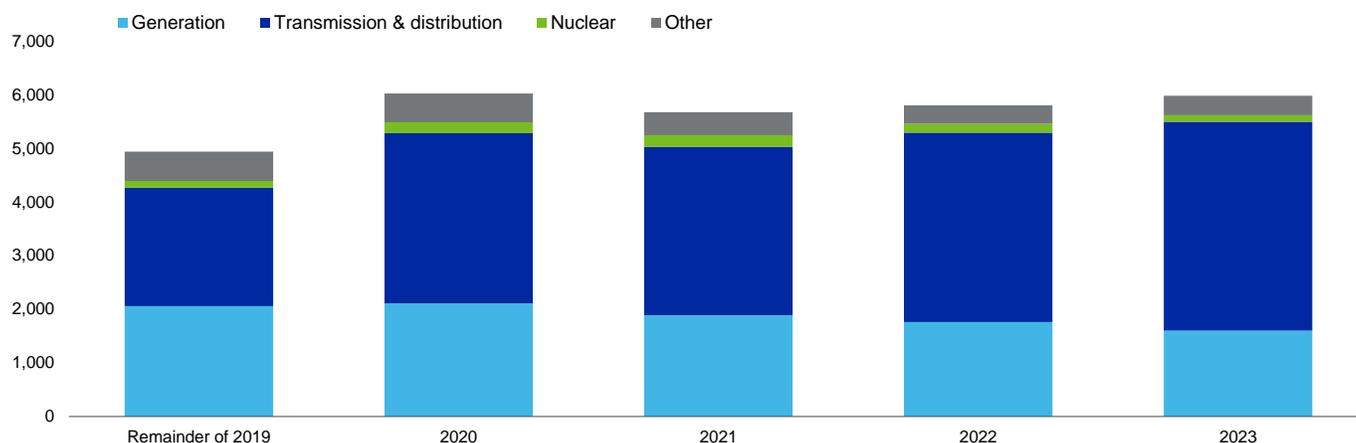
FPL has modernized its generation portfolio to be predominantly highly efficient gas-fired, a strategy which has lowered customer rates and minimized the environmental risks related to coal. FPL incorporated a strategy of buying coal plants with which it had above-market power purchase agreements, retiring those plants and replacing them with cleaner generation. In January 2018, FPL retired both units of its coal-fired St. John's River Park power plant. FPL had also acquired another coal plant, the Indiantown Cogeneration plant for \$451 million in late 2016, which it later mothballed in 2018. The company had higher-cost power purchase agreements with Indiantown, and has replaced this supply with lower-cost gas-fired generation such as its 1,750 MW Okeechobee combined cycle gas plant that came online in March 2019. FPL will eliminate its only remaining coal plant in Florida by the end of 2019. In 2018, the majority of FPL's energy was generated from natural gas (73%), with the remainder coming from nuclear (22%), coal (2%), solar (1%) and purchased power (2%).

In addition to modernizing its natural gas generation assets, FPL continues to incorporate cost effective renewables into its portfolio. As of 31 March 2019, approximately 3% of FPL's 27,000 megawatts (MW) of generation capacity was solar. In its 2019 10-year power plant site plan, FPL is projecting an additional 7,273 MW of solar power by the end of 2028, which equates to adding roughly 730 MW of solar per year. In its 2016 rate case settlement, FPL is allowed timely recovery of up to 300 MW annually of new solar generation from 2017 to 2020 through the SoBRA mechanism. In early 2019, the company announced its plan to install more than 30 million solar panels by 2030, which could more than double its stated goal of over 4,000 MW.

FPL expects to invest approximately \$24 billion of new capital from 2019 - 2022. Almost half of the \$5-\$6 billion in investments that FPL plans to spend annually over the next few years will be used towards improving its transmission and distribution network. About 30% of the projected spending is earmarked towards modernizing its generation portfolio by increasing its cleaner, more fuel-efficient power generation. Most of the new generation capacity will use natural gas in addition to the modest investments in solar power.

Exhibit 4

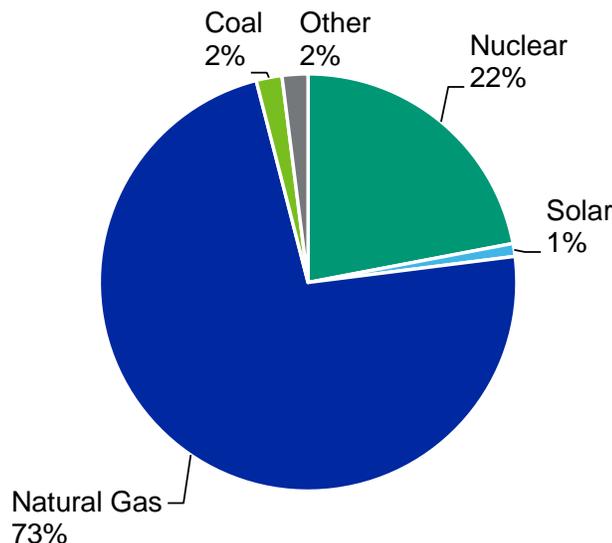
**FPL's elevated capital expenditures will continue to grow rate base and cash flows**  
(\$ millions)



Source: Company Filings

Furthermore, FPL is the principal offtaker of two pipelines that became operational in June 2017: Sabal Trail (42.5% owned by NEE, 50.0% by Spectra Energy, 7.5% by Duke Energy) and Florida Southeast Connection (100% owned by NEE). These new pipelines are beneficial in helping to secure more gas supply for FPL.

Exhibit 5

**FPL Generation fuel mix by MW**

As of December 31, 2018

Source: Company Filing

**GEOGRAPHIC CONCENTRATION IN FLORIDA PRONE TO EVENT RISK FROM STORMS AND HURRICANES**

Since FPL's service territory is solely in the state of Florida, the utility is entirely dependent on the Florida Public Service Commission (FPSC) for ratemaking decisions and is subject to the economic and political environment in the state.

FPL's service territory is among the few areas nationwide that continues to exhibit customer and load growth, benefiting from migration into the state that has increased the number of FPL's retail customers (up 0.9% in 2018). Growth in the service territory has also necessitated additional investments in the utility's infrastructure to maintain safety and reliability, and in which FPL will earn a return.

With its service territory concentrated around the eastern and southern coasts of Florida, FPL is exposed to weather event risk from storms and hurricanes. Although the company has mitigated this risk through investments in storm hardening and the ability to utilize storm recovery clauses and securitization as a potential financing tool, FPL could still incur substantial facility damage and additional costs due to a severe weather event, such as hurricanes.

**HOLDING COMPANY LEVERAGE IS ONE OF THE HIGHEST WITHIN THE SECTOR**

With the recent acquisition of Gulf Power at the beginning of 2019, we estimate NEE's holdco debt as a percentage of consolidated debt is currently about 51%, including the proportional consolidation of its ownership in NEP. Excluding NEP, NEE's holdco debt would be approximately 53% of consolidated debt. However, when allocating some parent debt to unlevered assets and excluding pre-funding of a bridge loan repayment, NEE's holdco debt percentage is roughly 44% of consolidated debt. As a result, NEE's holding company debt is the highest it has been in recent years, and one of the highest within the regulated utility sector, and is a constraint on the credit quality of the corporate family. At the same time, we do expect NEE's holdco debt percentage to decline over time.

**Liquidity analysis**

FPL maintains ample liquidity through stable and strong cash flow generation and from its \$3.9 billion of bank credit facilities. As of 31 March 2019, FPL had net available liquidity of about \$3.6 billion, which included \$3.9 billion of bank revolving line of credit facilities that also backstop its commercial paper (CP) program of which about \$396 million was outstanding. The credit facilities would also support \$1.0 billion of variable-rate pollution control revenue bonds if a scenario arises where the bonds were put back to the company and not remarketed. The utility had full availability on its \$1 billion of bilateral revolving credit facilities and about \$77 million of cash on hand.

Owing to its strong credit profile, FPL maintains unfettered access to the capital markets, which typically allows the utility to easily refinance its debt maturities. Commitments under the core revolver are laddered, with the vast majority terminating in 2024. FPL's credit facilities do not contain a material adverse change clause that could prevent borrowings and the company was in compliance with the debt-to-capitalization financial covenant contained in these agreements as of 31 March 2019, which it does not disclose.

In the last twelve months ended 31 March 2019, FPL generated about \$5 billion of cash flow from operations, invested \$5.1 billion in capital expenditures, and made a net distribution of \$500 million to NEE. The shortfall in funding cash outflows through internally generated cash flow was filled through short-term borrowings and long-term debt issuances. Going forward, we expect the company will use short and long-term debt as well as parent capital contributions to supplement internal cash flow generation to finance its large capital investment program and dividend distributions. We expect any financings will be done in a balanced manner that will maintain its regulated capital structure. FPL's next debt maturities are \$45 million of senior notes due in December 2020 and \$45.8 million of senior notes due in June 2021, however the company's next significant debt maturities are \$1 billion due in May 2022 and \$500 million due in June 2023. The company also has a \$150 million revolving credit facility that expires in September 2019 and \$125 million of revolving credit facilities expiring in December 2019.

## Rating methodology and scorecard factors

Exhibit 6

### Rating Factors

Florida Power & Light Company

Regulated Electric and Gas Utilities Industry Scorecard [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of Date Published [3]	
	Measure	Score	Measure	Score
<b>Factor 1 : Regulatory Framework (25%)</b>				
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Aa	Aa	Aa	Aa
<b>Factor 2 : Ability to Recover Costs and Earn Returns (25%)</b>				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	A	A	A	A
<b>Factor 3 : Diversification (10%)</b>				
a) Market Position	A	A	A	A
b) Generation and Fuel Diversity	A	A	A	A
<b>Factor 4 : Financial Strength (40%)</b>				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	10.7x	Aaa	8.5x - 9x	Aaa
b) CFO pre-WC / Debt (3 Year Avg)	37.7%	Aa	30% - 35%	Aa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	31.6%	Aa	20% - 25%	A
d) Debt / Capitalization (3 Year Avg)	33.8%	Aa	34% - 38%	A
<b>Rating:</b>				
Scorecard-Indicated Outcome Before Notching Adjustment		Aa3		Aa3
HoldCo Structural Subordination Notching		0	0	0
a) Scorecard Indicated Outcome		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 3/31/2019(L)

[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.

Source: Moody's Financial Metrics

## Appendix

Exhibit 7

## Cash Flow and Credit Metrics [1]

CF Metrics	Dec-15	Dec-16	Dec-17	Dec-18	LTM Mar-19
As Adjusted					
FFO	3,937	4,528	4,979	5,131	4,954
+/- Other	(150)	(75)	(208)	(17)	74
CFO Pre-WC	3,787	4,453	4,771	5,114	5,028
+/- ΔWC	127	(88)	(612)	(640)	(60)
CFO	3,914	4,365	4,159	4,474	4,968
- Div	700	1,300	1,450	500	500
- Capex	3,633	3,934	5,291	5,135	5,072
FCF	(419)	(869)	(2,582)	(1,161)	(604)
(CFO Pre-W/C) / Debt	36.8%	42.0%	34.8%	38.8%	39.0%
(CFO Pre-W/C - Dividends) / Debt	30.0%	29.8%	24.3%	35.0%	35.1%
FFO / Debt	38.3%	42.7%	36.4%	39.0%	38.4%
RCF / Debt	31.5%	30.5%	25.8%	35.2%	34.5%
Revenue	11,651	10,895	11,972	11,862	11,860
Cost of Good Sold	4,332	3,347	3,583	3,301	3,319
Interest Expense	445	456	481	541	547
Net Income	1,549	1,670	1,823	2,022	2,126
Total Assets	42,523	45,501	50,254	53,484	54,324
Total Liabilities	27,084	29,029	33,319	32,602	32,603
Total Equity	15,439	16,472	16,935	20,882	21,721

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months  
Source: Moody's Financial Metrics

Exhibit 8

## Peer Comparison Table [1]

(in US millions)	Florida Power & Light Company			Alabama Power Company			Duke Energy Carolinas, LLC			Madison Gas and Electric Company			MidAmerican Energy Company		
	A1 Stable			A1 Stable			A1 Stable			A1 Stable			(P)A1 Stable		
	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-17	FYE Dec-18	LTM Mar-19
Revenue	11,972	11,862	11,860	6,039	6,032	5,967	7,302	7,300	7,281	563	560	570	2,837	3,049	3,145
CFO Pre-W/C	4,771	5,114	5,028	1,990	1,824	1,894	2,844	2,862	2,854	140	126	133	1,393	1,286	1,402
Total Debt	13,693	13,171	12,907	7,933	8,500	8,403	10,463	11,665	11,950	475	568	561	5,192	5,760	6,480
CFO Pre-W/C + Interest / Interest	10.9x	10.5x	10.2x	7.3x	6.1x	6.2x	7.0x	6.9x	6.9x	7.5x	6.4x	6.5x	7.0x	6.1x	6.3x
CFO Pre-W/C / Debt	34.8%	38.8%	39.0%	25.1%	21.5%	22.5%	27.2%	24.5%	23.9%	29.6%	22.2%	23.7%	26.8%	22.3%	21.6%
RCF / Debt	25.8%	35.2%	34.5%	17.9%	13.1%	12.9%	21.9%	20.4%	22.0%	20.3%	23.9%	25.9%	27.3%	22.3%	21.6%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade  
Source: Moody's Financial Metrics

## Ratings

Exhibit 9

Category	Moody's Rating
<b>FLORIDA POWER &amp; LIGHT COMPANY</b>	
Outlook	Stable
Issuer Rating	A1
First Mortgage Bonds	Aa2
Senior Secured	Aa2
Senior Unsecured	A1
Commercial Paper	P-1
Other Short Term	VMIG 1
<b>PARENT: NEXTERA ENERGY, INC.</b>	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured Shelf	(P)Baa1
Jr Subordinate Shelf	(P)Baa2
Pref. Shelf	(P)Baa3

Source: Moody's Investors Service

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