

Florida Power & Light Co.

Primary Credit Analyst:

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

Secondary Contact:

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

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Environmental, Social, And Governance

Group Influence

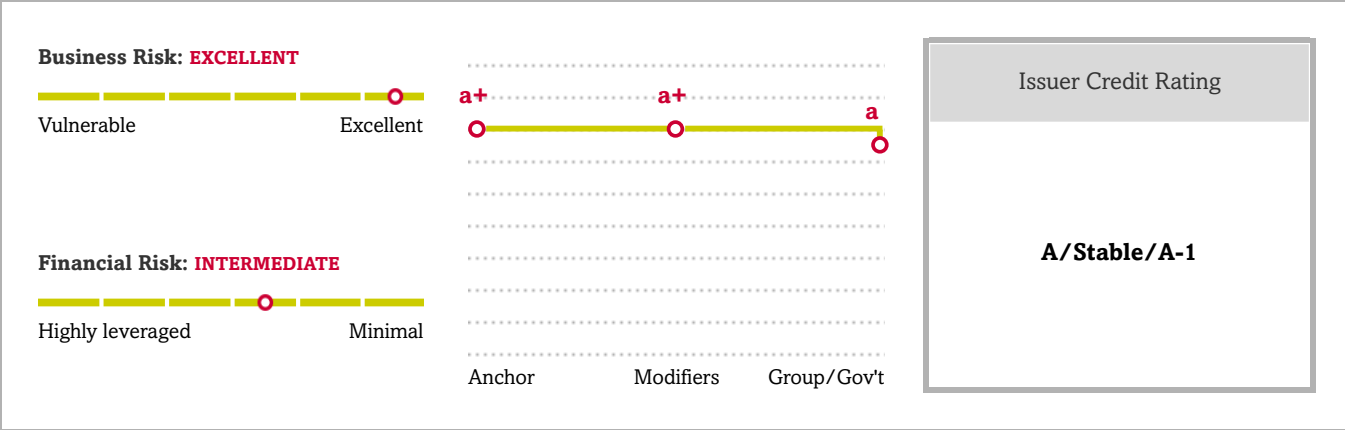
Issue Ratings - Subordination Risk Analysis

Issue Ratings - Recovery Analysis

Ratings Score Snapshot

Related Criteria

Florida Power & Light Co.



Credit Highlights

Overview	
Key strengths	Key risks
Lower-risk regulated electric utility operating under a largely constructive regulatory environment in Florida	Single-state utility, with limited geographic and regulatory diversity
Above-average management of regulatory risk compared with peers	Robust capital spending on grid hardening and renewable energy investment requires credit-supportive financing, despite supportive regulatory environment and cost recovery mechanisms
Large utility serving more than five million customers	
Increasing solar and other renewable generation adds to the company's fuel diversity	

Effective Jan. 1, 2021, Gulf Power (Gulf) merged with Florida Power & Light Co. (FPL) and ceased to exist as a legal entity. All of Gulf's assets and debts have been assumed by FPL. In 2021, Gulf will continue to serve as a separate operating division and serve customers under separate retail rates. We expect FPL and Gulf will file a combined rate case in the first quarter of 2021 with new rates effective 2022. We do not expect this merger will affect FPL's credit quality.

We expect FPL's financial measures to consistently reflect the middle of the range for the company's financial risk profile category. We expect funds from operations (FFO) to debt of about 29%-31%, despite the company's robust annual capital spending over \$6 billion. We expect discretionary cash flow to remain negative and for the company to remain dependent on consistent access to the capital markets.

The company's focus on renewable energy has a favorable impact on the generation diversity and the social impact. Recently, the Florida Public Service Commission (FPSC) approved a program to build 20 new solar projects with a cumulative capacity about 1.5 gigawatts (GW) that it expects to be fully in service in 2021. We expect this will more than double the size of the company's solar generation. Along with the planned retirement of its last remaining coal unit by early 2022 and ongoing solar and storage development effort, the company's generation portfolio will continue to decrease greenhouse gas (GHG) emissions. In addition, with a green hydrogen project under development, the company has been actively exploring hydrogen solutions to further help reduce GHG's emissions.

We assess the insulating measure as sufficient to insulate FPL from parent NextEra. We rate FPL one notch higher than its parent's group credit profile. This reflects our assessment of FPL's stand-alone credit profile and our view that the insulating measures are sufficient to rate FPL up to one notch above its parent. The insulating measures include the following:

- FPL 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 FPSC.
- FPL 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.
- FPL does not commingle funds, assets, or cash flows with parent NextEra Energy Inc. (NEE) or its other subsidiaries. Also, NEE does not have a money pool.
- We believe there is a strong economic basis for NEE to preserve FPL's credit strength, reflecting FPL's low-risk, profitable, and regulated utility business model. FPL is also a significant portion of NEE, reflecting more than 60% of the consolidated company's EBITDA.
- FPL 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 FPL.

Outlook

S&P Global Ratings' stable outlook on FPL is consistent with its stable outlook on parent NEE and its expectation that FPL's stand-alone financial measures will not materially weaken. The stable outlook on NEE incorporates our view that NEE will remain focused on expanding its regulated utility businesses and will continue to reduce risk at its competitive businesses by strategically growing through contracted assets. We expect NEE's regulated utility business will consistently reflect about 70% of consolidated EBITDA. We expect that NEE's consolidated financial measures will marginally weaken, reflecting FFO to debt at 21%-24%. We also expect that FPL's FFO to debt will continue to reflect the middle of the range for its financial risk profile category at 29%-31%.

Downside scenario

We could lower ratings on FPL if NEE were downgraded or if FPL's stand-alone financial measures materially weakened, such that FFO to debt were consistently below 19%.

Upside scenario

We could raise FPL's ratings by one notch if parent NEE were upgraded and FPL's financial measures continued to reflect the middle of the range for its financial risk profile category, reflecting FFO to debt consistently above 25%.

Our Base-Case Scenario

Assumptions

- Consistent rate case filings and use of existing regulatory mechanisms;
- Increased solar generation investment through Florida's SolarTogether program;

- Capital spending averaging about \$6.2 billion annually;
- Dividend payments or contributions consistent with the company's regulated capital structure; and
- Negative discretionary cash flows.

Key Metrics

	2019a	2020e	2021f
FFO to debt (%)	31.5	29-31	29-31
Debt to EBITDA (x)	2.6	2.5-3	2.5-3

a--Actual. e--Estimate. f--Forecast.

Company Description

FPL is a wholly owned regulated utility of NEE and is regulated by the FPSC. Before the merger, FPL stand-alone has a generating capacity of approximately 27,500 megawatts and serves approximately 5 million customers throughout the state of Florida. The company generated electricity from natural gas (74%), nuclear (22%), coal (2%), and solar (2%) in 2019.

Business Risk

FPL's business risk profile is further supported by its largely residential customer base, which accounts for about 55% of its operating revenue; its effective management of regulatory risk; and its above-average economic and customer growth, demonstrated by Florida outperforming the national GDP growth rate in the past six consecutive years and, consequently, strong energy demand. At the same time, Florida's economy continues to recover from the impacts of the ongoing COVID-19 pandemic, demonstrated by improvements in the unemployment rate and consumer confidence.

The FPSC regulates FPL. We view the regulatory environment in Florida as constructive and supportive of credit quality. FPL benefits from forecast test years, above-average authorized returns on equity (ROEs), multiyear rate settlements, and various regulatory mechanisms that enable the company to reduce its regulatory lag and support earnings without burdening customers, resulting in earned ROEs at the high-end of the authorized range. Further supporting our assessment of the company's business risk profile is the company's ability to consistently recover storm-related costs, protecting it from hurricanes that are common in its service territory and significantly reducing a key risk for the company. As such, our assessment of FPL's business risk is in the higher half of the range compared with peers.

The company is further enhancing its renewable energy footprint. In March 2020, FPSC voted to approve FPL's SolarTogether program to build 20 new solar projects with a cumulative capacity of roughly 1.5 GW and capital spending of approximately \$1.8 billion. The company expects the projects to be fully in service this year. Along with a green hydrogen project under development, ongoing solar plus battery storage development efforts, and a strong execution of its exit from coal generation, the company has been reducing its GHG emissions and environmental risks

more quickly than peers.

Peer comparison

Table 1

Florida Power & Light Co.--Peer Comparison					
Industry sector: electric					
	Florida Power & Light Co.	Virginia Electric & Power Co.	Georgia Power Co.	Alabama Power Co.	Duke Energy Carolinas LLC
Ratings as of Jan. 12, 2021	A/Stable/A-1	BBB+/Positive/A-2	A-/Negative/A-2	A-/Negative/A-1	A-/Negative/A-2
	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--	--Fiscal year ended Dec. 31, 2019--
(Mil. \$)					
Revenue	12,115.4	8,108.0	8,408.0	6,125.0	7,395.0
EBITDA	6,036.6	4,175.3	4,103.0	2,757.0	4,026.8
Funds from operations (FFO)	4,913.0	3,352.8	3,522.6	2,398.5	3,437.3
Interest expense	719.6	711.5	742.7	502.5	732.5
Cash interest paid	579.6	550.5	470.4	332.5	467.5
Cash flow from operations	4,966.0	2,783.8	3,009.6	1,811.5	2,721.5
Capital expenditure	5,739.0	2,766.8	3,475.0	1,738.0	2,684.0
Free operating cash flow (FOCF)	(773)	17.0	(465.4)	73.5	37.5
Discretionary cash flow (DCF)	(2,973)	(173.0)	(2,041.4)	(768.3)	(237.5)
Cash and short-term investments	77.0	17.0	52.0	894.0	18.0
Debt	15,611.0	15,120.0	17,563.6	8,067.1	13,585.9
Equity	21,398.0	13,989.0	15,200.0	9,203.5	12,811.0
Adjusted ratios					
EBITDA margin (%)	49.8	51.5	48.8	45.0	54.5
Return on capital (%)	9.8	10.3	9.0	10.6	9.5
EBITDA interest coverage (x)	8.4	5.9	5.5	5.5	5.5
FFO cash interest coverage (x)	9.5	7.1	8.5	8.2	8.4
Debt/EBITDA (x)	2.6	3.6	4.3	2.9	3.4
FFO/debt (%)	31.5	22.2	20.1	29.7	25.3
Cash flow from operations/debt (%)	31.8	18.4	17.1	22.5	20.0
FOCF/debt (%)	(5.0)	0.1	(2.7)	0.9	0.3
DCF/debt (%)	(19.0)	(1.1)	(11.6)	(9.5)	(1.7)

Sources: S&P Global Ratings, company data.

Financial Risk

We assess FPL's stand-alone financial measures using our medial volatility financial benchmarks to reflect its lower-risk regulated electric utility operations and its effective management of regulatory risk. Our base case scenario assumes that the company will maintain its regulatory capital structure and authorized equity ratio of about 60%, a robust capital spending program, and timely recovery of costs through the use of constructive regulatory mechanisms. Overall, we expect the company's stand-alone FFO to debt to reflect 29%-31%, over the next three years, which is consistent with the middle of the range for the company's financial risk profile category.

Financial summary

Table 2

Florida Power & Light Co.--Financial Summary					
Industry sector: electric					
	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
(Mil. \$)					
Revenue	12,115.4	11,786.3	11,896.7	10,819.3	11,577.8
EBITDA	6,036.6	5,967.5	4,517.2	5,060.9	4,804.8
Funds from operations (FFO)	4,913.0	5,010.5	4,026.0	4,464.2	3,907.6
Interest expense	719.6	664.0	595.2	562.7	541.2
Cash interest paid	579.6	542.0	489.2	449.7	458.2
Cash flow from operations	4,966.0	4,165.5	3,736.0	4,282.2	3,278.6
Capital expenditure	5,739.0	5,118.5	5,280.0	3,924.2	3,637.6
Free operating cash flow (FOCF)	(773)	(953)	(1,544)	358.0	(359)
Discretionary cash flow (DCF)	(2,973)	(1,453)	(2,994)	(942)	(1,059)
Cash and short-term investments	77.0	112.0	33.0	33.0	23.0
Gross available cash	77.0	112.0	33.0	33.0	23.0
Debt	15,611.0	12,906.5	13,526.5	10,324.6	10,143.3
Equity	21,398.0	21,014.0	17,040.0	16,580.0	15,553.0
Adjusted ratios					
EBITDA margin (%)	49.8	50.6	38.0	46.8	41.5
Return on capital (%)	9.8	10.4	12.4	12.6	12.6
EBITDA interest coverage (x)	8.4	9.0	7.6	9.0	8.9
FFO cash interest coverage (x)	9.5	10.2	9.2	10.9	9.5
Debt/EBITDA (x)	2.6	2.2	3.0	2.0	2.1
FFO/debt (%)	31.5	38.8	29.8	43.2	38.5
Cash flow from operations/debt (%)	31.8	32.3	27.6	41.5	32.3
FOCF/debt (%)	(5.0)	(7.4)	(11.4)	3.5	(3.5)
DCF/debt (%)	(19.0)	(11.3)	(22.1)	(9.1)	(10.4)

Sources: S&P Global Ratings, company data.

Reconciliation

Table 3

Florida Power & Light Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

--Fiscal year ended Dec. 31, 2019--

Florida Power & Light Co. reported amounts (mil. \$)

	Debt	Revenue	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
	15,643.0	12,192.0	5,826.0	3,302.0	594.0	6,036.6	5,181.0	5,755.0
S&P Global Ratings' adjustments								
Cash taxes paid	--	--	--	--	--	(544.0)	--	--
Cash interest paid	--	--	--	--	--	(561.0)	--	--
Accessible cash and liquid investments	(77.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	18.0	(18.0)	(18.0)	(18.0)
Securitized stranded costs	--	(76.6)	(76.6)	(2.6)	(2.6)	2.6	(74.0)	--
Power purchase agreements	45.0	--	5.2	3.2	3.2	(3.2)	2.0	2.0
Asset-retirement obligations	--	--	107.0	107.0	107.0	--	--	--
Nonoperating income (expense)	--	--	--	67.0	--	--	--	--
U.S. decommissioning fund contributions	--	--	--	--	--	--	(125.0)	--
EBITDA: Other income/(expense)	--	--	175.0	175.0	--	--	--	--
Depreciation and amortization: Other	--	--	--	(175.0)	--	--	--	--
Total adjustments	(32.0)	(76.6)	210.6	174.6	125.6	(1,123.6)	(215.0)	(16.0)

S&P Global Ratings' adjusted amounts

	Debt	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
	15,611.0	12,115.4	6,036.6	3,476.6	719.6	4,913.0	4,966.0	5,739.0

Sources: S&P Global Ratings, company data.

Liquidity

We assess FPL'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

- Stand-alone credit facility availability of about \$4.5 billion as of Sept. 30, 2020,
- FFO of about \$5.4 billion, and
- Minimal cash and short-term investments assumed.

Principal Liquidity Uses

- Capital spending of about \$6.6 billion, and
- Current debt maturities of about \$79 million.

Environmental, Social, And Governance

FPL's credit quality is more enhanced than peers by its proactive management of its environmental and social risks, even though its assets are more exposed to hurricanes and physical climate change. The company has been proactively reducing its carbon emissions, despite Florida not having a renewable portfolio standard.

FPL's owns over 27 GW of generation capacity through its regulated utility operations. While a significant share of the company's generation capacity is from natural gas (about 74%), the company has successfully executed 1.2 GW of solar generation through a solar base rate adjustment mechanism and is continuing its effort through the SolarTogether program to build an additional 1.5 GW of community solar power. The remaining 22% of the company's generation mix stems from nuclear power, which, although carbon-free, exposes it to potentially higher operating risks and longer-term nuclear waste storage risks.

The company operates in Florida, a region prone to frequent hurricanes, which could increase the company's risk exposure because climate change is intensifying the severity and frequency of these natural disasters globally. However, the company minimizes these risks through storm hardening and effectively managing regulatory risk by allowing for the timely recovery of storm costs.

We also believe that FPL's management of social risks is consistently better than peers because it delivers safe and reliable services to customers while maintaining customer bills at 30% less than the national average. Furthermore, the company's intent to proactively lower customer bills while reducing its carbon footprint further demonstrates its commitment to local communities.

Group Influence

Under our group rating methodology, we assess FPL as a core subsidiary of its parent NEE, reflecting our view that it is highly unlikely to be sold, is integral to the group's overall strategy, possesses a strong long-term commitment from senior management, is a significant contributor to the group (accounting for about 60% of group EBITDA), and is closely linked to the parent's reputation.

Issue Ratings - Subordination Risk Analysis

We rate FPL's commercial paper 'A-1' based on our issuer credit rating of 'A' on the company.

Capital structure

FPL's capital structure consists of long-term debt of about \$16 billion, of which about \$13 billion is senior secured debt. FPL has assumed all long-term debt from Gulf, about \$1.8 billion.

Analytical conclusions

We rate FPL's senior unsecured debt at the same level as our long-term issuer credit rating because it is the debt of a qualified investment-grade utility.

Issue Ratings - Recovery Analysis

FPL's first-mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue-level rating one notch above the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A/Stable/A-1

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very 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:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a+

- **Group credit profile:** a-
- **Entity status within group:** Insulated (-1 notch from SACP)

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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of January 15, 2021)*	
Florida Power & Light Co.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of January 15, 2021)*(cont.)

Senior Secured		A+
Senior Unsecured		A
Issuer Credit Ratings History		
24-Dec-2019	<i>Foreign Currency</i>	A/Stable/A-1
11-Mar-2010		A-/Stable/A-2
14-Jan-2010		A/Watch Neg/A-1
24-Dec-2019	<i>Local Currency</i>	A/Stable/A-1
11-Mar-2010		A-/Stable/A-2
14-Jan-2010		A/Watch Neg/A-1
Related Entities		
Gulf Power Co.		
NextEra Energy Capital Holdings Inc.		
Issuer Credit Rating		A-/Stable/A-2
Commercial Paper		
<i>Local Currency</i>		A-2
Junior Subordinated		BBB
Senior Unsecured		BBB+
NextEra Energy Inc.		
Issuer Credit Rating		A-/Stable/--
Senior Unsecured		BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.