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INVESTORS SERVICE

CREDIT OPINION

3 August 2018

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

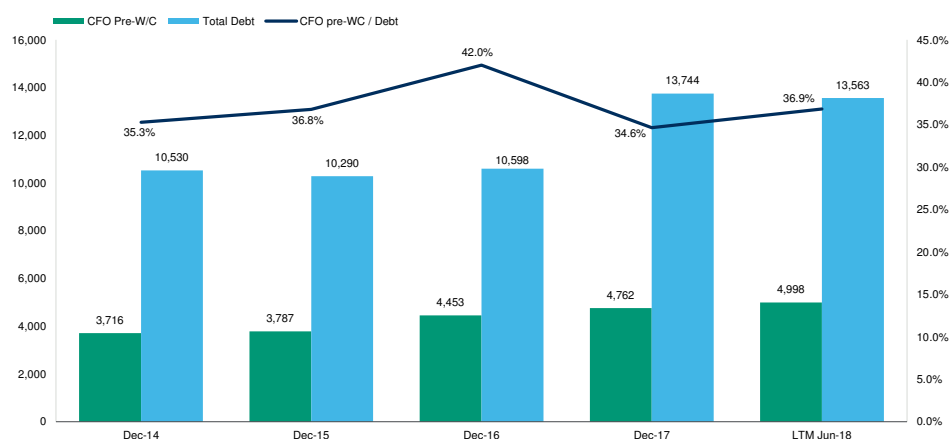
Summary

Florida Power and Light Company's (FPL) credit profile reflects its strong financial profile and the highly credit supportive Florida regulatory environment. FPL is the principal subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest hybrid power and utility companies in the US. FPL is the largest vertically integrated regulated utility in Florida, with almost 26,600 megawatts (MW) of generating capacity and 4.9 million customer accounts.

FPL's credit profile reflects the stable and predictable Florida political and regulatory environment that is supportive of credit quality. The utility is authorized to use timely cost recovery mechanisms that enables it to consistently maintain a strong financial profile. 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 will increase earnings growth potential.

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 supportive of utility credit quality
- » Very strong financial metrics
- » Relatively solid customer and load growth compared to the national average

Credit challenges

- » Large capex program, mostly for natural gas fired generation and renewables
- » Geographic concentration in Florida prone to event risk from hurricanes
- » High percentage of holding company debt (approx. 39%) constrains rating

Rating outlook

The stable rating 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, or if holding company debt declines to about 20% 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 to Florida's credit supportive regulatory and cost recovery framework, 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 NextEra could also result in a downgrade of FPL, due to its affiliation with a weaker parent.

Key indicators

Exhibit 2

KEY INDICATORS [1]

Florida Power & Light Company

	Dec-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
CFO pre-WC + Interest / Interest	9.5x	9.5x	10.8x	10.9x	10.7x
CFO pre-WC / Debt	35.3%	36.8%	42.0%	34.6%	36.9%
CFO pre-WC – Dividends / Debt	20.6%	30.0%	29.8%	24.1%	29.1%
Debt / Capitalization	34.5%	30.8%	29.8%	38.5%	36.1%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Financial Metrics™

Source: Moody's Financial Metrics

Profile

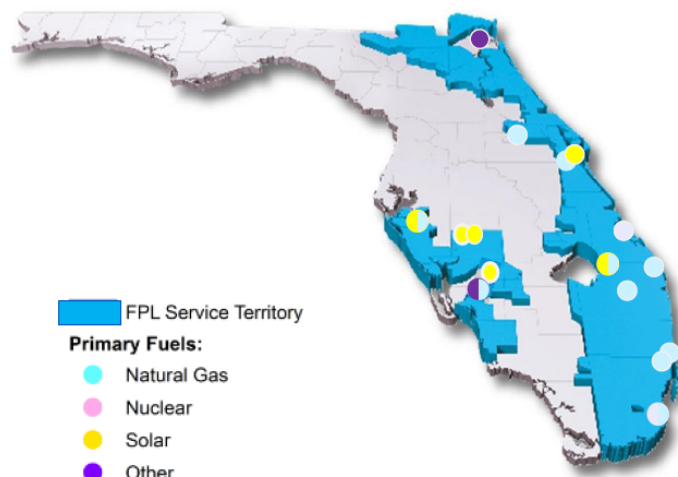
Headquartered in Juno Beach, Florida, Florida Power & Light Company is one of the largest regulated electric utilities in the US and the principal subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest hybrid power and utility companies in North America. FPL serves about 10 million people in Florida and has almost 26.6 gigawatts (GW) of generation capacity. For 2017, FPL had about \$12

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billion of operating revenue, which accounted for about 70% of NextEra's consolidated revenues, and ended the year with over \$50 billion of assets.

Exhibit 3

Service Territory



Source: Company Filings

Detailed credit considerations

STABLE REGULATORY ENVIRONMENT VERY 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 expected in mid-2019 when the Okeechobee Clean Energy Center natural gas power plant achieves commercial operation. FPL's authorized return on equity (ROE) is 10.55% with a range of 9.6% to 11.6% and an equity ratio of about 59%.

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. 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. 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 it also has various clauses that 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.

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. Over the last three years ending 30 June 2018, FPL's cash flow interest coverage ratio and ratio of CFO pre-W/C to debt have averaged 10.7x and 38.0%, respectively. These financial metrics position it strongly for its current credit profile.

Recent changes to the US tax law are not expected to have a material impact on FPL's financial metrics. FPL is using the federal tax savings arising from tax reform to replenish the \$1.25 billion reserve amortization, which was used to offset the approximately \$1.3 billion of storm restoration costs arising from Hurricane Irma's destruction in September 2017. In addition to avoiding a Hurricane Irma surcharge, FPL may be able to use future federal tax savings to continue operating under the current rate agreement and potentially avoid a general base rate increase for customers for at least another year beyond 2020.

The company's debt-to-capitalization ratio was of 36.1% for the period ending 30 June 2018, 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 low 30% range on a Moody's adjusted basis.

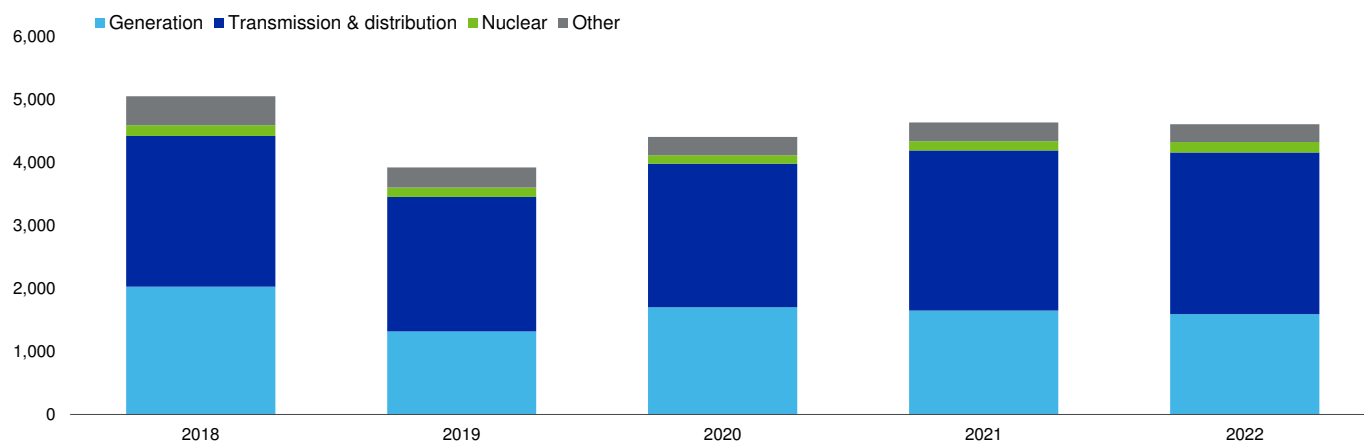
LARGE CAPEX PROGRAM FOR MOSTLY GAS-FIRED POWER GENERATION

FPL has modernized its generation portfolio to be predominantly gas and highly efficient, a strategy which has lowered customer rates and minimized the environmental risks related to coal. FPL has continued this strategy by 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 previously acquired another coal plant (the Indiantown Cogeneration plant for \$451 million in late 2016) which it has mothballed this year. The company had higher-cost power purchase agreements with Indiantown, and it plans to replace this supply with lower-cost gas-fired generation. In 2017, the majority of FPL's energy was generated from natural gas (71%), with the remainder coming from nuclear (23%), coal (4%) 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 December 2017, approximately 1% of FPL's 26,600 MW of generation capacity was solar. In its 2017 10-year power plant site plan, FPL is projecting an additional 2,086 MW of solar power by the end of 2023, which equates to adding roughly 300 MW each year. FPL is allowed timely recovery of up to 300 MW annually of new solar generation through the SoBRA mechanism.

FPL expects to invest approximately \$22.6 billion of new capital from 2018 - 2022. Almost half of the \$4-\$5 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 40% 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. In 2018, capex is expected to be elevated due to the installation of 596 MW of solar generation in its service territory as well as the construction of the Okeechobee natural gas plant (\$1.2 billion project, 1,750 MW, in-service expected mid-2019).

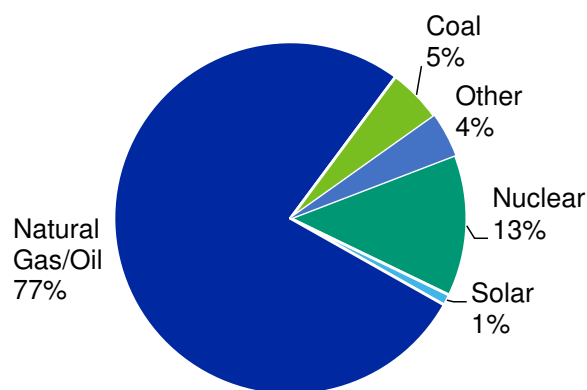
Exhibit 4

**Projected annual capital expenditure at FPL
(\$ millions)**

Source: Company Filings

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 MWAs of December 31, 2017
Source: Company Filings**GEOGRAPHIC CONCENTRATION IN FLORIDA PRONE TO EVENT RISK FROM 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 material load growth, benefiting from migration into the state that has increased the number of FPL's retail customers (0.6% in 2017). Growth in the service territory has also necessitated additional investments in the utility's infrastructure, on which FPL will earn a return.

With its service territory concentrated around the eastern and southern coasts of Florida, FPL is exposed to weather risk from 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 facilities damage and additional costs due to a severe weather event, such as hurricanes.

Liquidity analysis

FPL maintains ample liquidity through stable and strong cash flow generation and from its \$4.7 billion of bank credit facilities. As of 30 June 2018, FPL had net available liquidity of about \$3.7 billion, which included \$4.7 billion of bank revolving line of credit facilities that also backstop its commercial paper (CP) program of which about \$1 billion was outstanding. It would also support \$920 million 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 \$1.75 billion of bilateral revolving credit facilities and about \$38 million of cash on hand.

Owing to its strong credit profile, FPL also 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 2023. 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 30 June 2018, which it does not disclose.

In the last twelve months ended 30 June 2018, FPL generated \$3.8 billion of cash flow from operations, invested \$5.1 billion in capital expenditures, and made a net distribution of \$1.1 billion 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. FPL's next significant debt maturity is \$750 million of floating rate notes due in November 2020. The company has a \$500 million revolving credit facility that expires in May 2019.

Rating methodology and scorecard factors

Exhibit 6

Rating Factors				
Florida Power & Light Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]			Current LTM 6/30/2018	
Factor 1 : Regulatory Framework (25%)			Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework			A	A
b) Consistency and Predictability of Regulation			Aa	Aa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)			Measure	Score
a) Timeliness of Recovery of Operating and Capital Costs			Aa	Aa
b) Sufficiency of Rates and Returns			A	A
Factor 3 : Diversification (10%)			Measure	Score
a) Market Position			A	A
b) Generation and Fuel Diversity			A	A
Factor 4 : Financial Strength (40%)			Measure	Score
a) CFO pre-WC + Interest / Interest (3 Year Avg)			10.7x	Aaa
b) CFO pre-WC / Debt (3 Year Avg)			38.0%	Aa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)			28.6%	Aa
d) Debt / Capitalization (3 Year Avg)			33.0%	Aa
Rating:			Measure	Score
Grid-Indicated Rating Before Notching Adjustment				Aa3
HoldCo Structural Subordination Notching			0	0
a) Indicated Rating from Grid				Aa3
b) Actual Rating Assigned				A1

Moody's 12-18 Month Forward View As of Date Published [3]

Measure	Score
A	A
Aa	Aa
Aa	Aa
A	A
A	A
A	A
9.5x - 10.1x	Aaa
31% - 37%	Aa
25% - 30%	Aa
30% - 34%	Aa
	Aa3
0	0
	Aa3
	A1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 6/30/2018(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-14	Dec-15	Dec-16	Dec-17	LTM Jun-18
As Adjusted					
EBITDA	4,418	4,742	5,011	4,468	4,544
FFO	3,751	3,937	4,528	4,970	5,199
- Div	1,550	700	1,300	1,450	1,050
RCF	2,201	3,237	3,228	3,520	4,149
FFO	3,751	3,937	4,528	4,970	5,199
+/- ΔWC	(262)	127	(88)	(610)	(1,238)
+/- Other	(35)	(150)	(75)	(208)	(201)
CFO	3,454	3,914	4,365	4,152	3,760
- Div	1,550	700	1,300	1,450	1,050
- Capex	3,241	3,633	3,934	5,291	5,053
FCF	(1,337)	(419)	(869)	(2,589)	(2,343)
Debt / EBITDA	2.4x	2.2x	2.1x	3.1x	3.0x
EBITDA / Interest	10.1x	10.7x	11.0x	9.3x	8.8x
FFO / Debt	35.6%	38.3%	42.7%	36.2%	38.3%
RCF / Debt	20.9%	31.5%	30.5%	25.6%	30.6%

[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]

	Florida Power & Light Company A1 Stable			Alabama Power Company A1 Negative			Duke Energy Carolinas, LLC A1 Stable			Madison Gas and Electric Company A1 Stable			MidAmerican Energy Company (P)A1 Stable		
	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18	FYE Dec-16	FYE Dec-17	LTM Mar-18
(in US millions)															
Revenue	10,895	11,972	11,882	5,889	6,039	6,130	7,322	7,302	7,349	545	563	564	2,625	2,837	2,888
EBITDA	5,011	4,468	4,544	2,488	2,598	2,620	3,630	3,703	3,719	177	182	177	1,076	1,128	1,150
CFO pre-WC / Debt	42.0%	34.6%	36.9%	23.9%	25.0%	24.2%	26.6%	24.6%	23.4%	30.9%	29.6%	30.8%	29.4%	26.8%	25.9%
CFO pre-WC - Dividends / Debt	29.8%	24.1%	29.1%	13.6%	16.1%	15.3%	6.4%	18.6%	17.0%	19.5%	20.1%	24.1%	29.4%	26.8%	25.9%
Debt / EBITDA	2.1x	3.1x	3.0x	3.0x	3.1x	3.1x	2.7x	2.8x	3.0x	2.5x	2.6x	2.7x	4.2x	4.6x	4.8x
Debt / Capitalization	29.8%	38.5%	36.1%	39.6%	44.8%	44.2%	36.4%	41.6%	42.6%	31.8%	36.4%	36.0%	34.3%	39.4%	40.6%
EBITDA / Interest Expense	11.0x	9.3x	8.8x	7.9x	8.2x	8.2x	7.7x	7.8x	7.8x	8.2x	8.4x	8.2x	5.4x	4.8x	4.8x

[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
FLORIDA POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	A1
Bkd LT IRB/PC	Aa2
Senior Secured Shelf	(P)Aa2
Senior Unsecured	A1
Commercial Paper	P-1
Other Short Term	P-1
PARENT: NEXTERA ENERGY, INC.	
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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