



# **Fixed Income Investor Meeting Hybrid Securities, Spain and Lone Star Financings**

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## Agenda

- 
- **Review of Hybrid Securities**
  - Spain Project Financing
  - Lone Star Transmission Financing

# Hybrids are a popular financing tool across multiple industries, with over \$90 billion issued in the past 5 years

## Global Hybrid Issuances (\$MM)<sup>(1)</sup>

<u>Year</u>	<u>Banks</u>	<u>Insurance</u>	<u>Financial Services</u>	<u>Savings &amp; Loan</u>	<u>Power &amp; Pipelines</u>	<u>Annual Total</u>
<b>2007</b>	\$12,998	\$5,975	\$15,705	\$700	\$3,830	<b>\$39,228</b>
<b>2008</b>	13,154	5,770	1,815	0	1,165	<b>21,904</b>
<b>2009</b>	3,425	500	2,500	0	1,210	<b>7,635</b>
<b>2010</b>	3,943	0	6,046	0	0	<b>9,989</b>
<b>2011</b>	5,254	861	0	0	605	<b>6,720</b>
<b>2012</b>	<u>5,635</u>	<u>1,025</u>	<u>400</u>	<u>0</u>	<u>750</u>	<u><b>7,810</b></u>
<b>Total</b>	<b>\$44,409</b>	<b>\$14,131</b>	<b>\$26,466</b>	<b>\$700</b>	<b>\$7,560</b>	<b>\$93,266</b>

1) Source Morgan Stanley

# Many in the North American power industry have been active issuers of hybrids

## Recent Power Company Hybrid Issuances (1)

<u>Company Name</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount (\$MM)</u>
Puget Energy Inc	2007	2067	\$250
Enterprise Products Partners LP	2007	2068	700
Wisconsin Energy Corp	2007	2067	500
Exelon Corp	2008	2063	450
American Electric Power Co Inc	2008	2063	315
Xcel Energy Inc	2008	2068	400
SCANA Corp	2009	2065	150
Dominion Resources Inc/VA	2009	2064	685
DTE Energy Co	2011	2061	280
Southern California Edison	2011	Perpetuity Preferred	125
Southern California Edison	2012	Perpetuity Preferred	<u>350</u>
<b>Total</b>			<b>\$4,205</b>

1) Source: Morgan Stanley. Excludes \$1,755 MM of hybrid issued by NextEra since 2007 and \$1,600 MM of hybrid securities issued by pipeline and power companies outside the U.S.

# Ratings agencies have commented on the credit supportive characteristics of hybrids as a financing vehicle

## Rating Agency Comments on Hybrids

- **Standard and Poor's:**

*“Hybrid capital instruments have been developed with the goal of gaining recognition as being equity like—that is, being granted "equity content" by Standard & Poor's and by other rating agencies--and, in some cases, being treated as capital by regulators. At the same time, these instruments are generally more cost-effective (e.g., by being tax deductible) than common stock, and typically do not affect the earnings-per-share denominator”* (1)

1) Source: Standard & Poor's Ratings Direct - Hybrid Capital Handbook, May 12, 2008

# Ratings agencies have commented on the credit supportive characteristics of hybrids as a financing vehicle

## Rating Agency Comments on Hybrids (continued)

- **Moody's:**

*“The popularity of hybrid securities as a viable funding alternative to common equity continues to grow across all industries. Hybrids have a number of equity-like features including their relative permanence in the capital structure, flexibility in terms of making distribution payments, and deeply subordinated status in liquidation.” (1)*

1) Source Moody's New Instruments Committee – Hybrid Tool Kit, March 2008

# Ratings agencies have commented on the credit supportive characteristics of hybrids as a financing vehicle

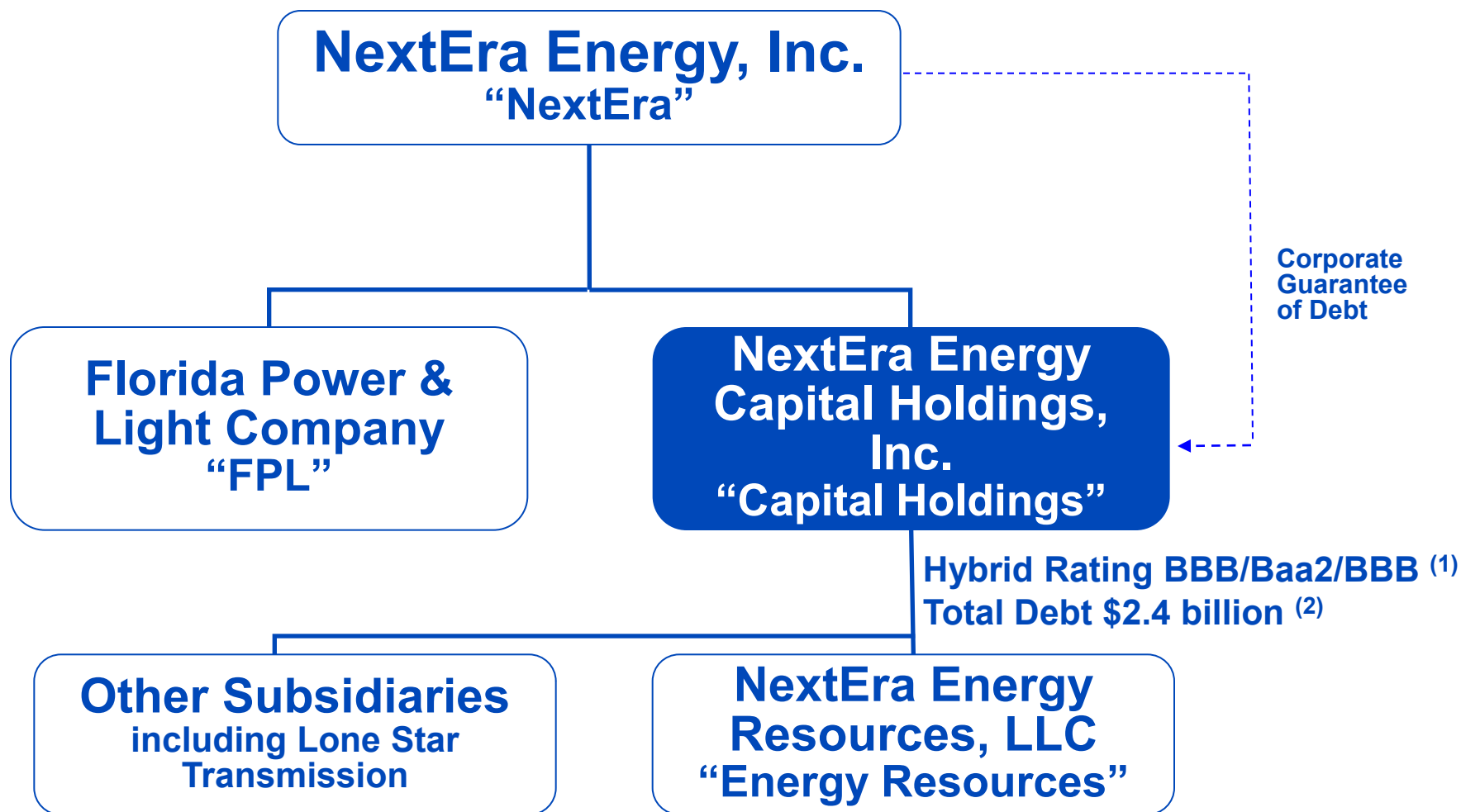
## Rating Agency Comments on Hybrids (continued)

- **Fitch Ratings:**

*“Corporates and REITs issue hybrid securities in order to access cost-effective financing that provides the added benefit of minimizing the risk of default as a going concern during periods of financial distress. Some hybrids are designed to provide a more tax efficient alternative to traditional equity. The avoidance of default can be achieved by eliminating or delaying the necessity to make any fixed payments, eliminating covenants and EODs, or forcing conversion into equity securities. Secondly, hybrid instruments are typically deeply subordinated to senior debt, and do not dilute the expected recoveries of senior creditors.”*<sup>(1)</sup>

1) Source: Fitch Rating – Treatment of Hybrids in Corporate & REIT Credit Analysis, July 11, 2011

# NextEra issues hybrid securities at the Capital Holdings level to fund its growth



1) Issuer ratings are S&P/Moody's/Fitch respectively as of April 13, 2012.

2) Junior Subordinated debt figures are as of 3/31/2012; source investor website. Excludes \$309 million of Trust Preferred.



**Our hybrids are a market accepted security that we use to fund investments in a credit-sensitive manner**

## **Characteristics of NextEra's Hybrids**

- **60-year maturity with 5-year par call for retail transactions and 10 year par call for institutional transactions**
  - Call dates provide considerable flexibility
- **Subordinated debt with coupon deferral**
- **Tax deductible structure**
- **Hybrids receive equity credit on an adjusted basis**
  - S&P and Fitch: 50%
  - Moody's: 25%
- **Most recent issue (Series G/5.70%) includes a rating agency event call at 102% during the first five years**
- **Hybrids will represent a limited portion of our capital structure**

# NextEra has sought to build a modest segment of the capital structure in hybrids

## Capital Holdings Junior Subordinated Debentures<sup>(1)</sup>

<u>Issue</u>	<u>Market</u>	<u>Coupon (%)</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount (\$MM)</u>
Series A	Retail	6.60	2006	2066	\$350
Series B	Institutional	6.35	2006	2066	339
Series C	Institutional	6.65	2007	2067	380
Series D	Institutional	7.30	2007	2067	250
Series E	Retail	7.45	2007	2067	350
Series F	Retail	8.75	2009	2069	375
Series G	Retail	5.70	2012	2072	<u>400</u>
<b>Total</b>					<b>\$2,444</b>

**Currently hybrid securities account for approximately 6% of NextEra's total capital structure**

## Agenda

- Review of Hybrid Securities
- **Spain Project Financing**
- Lone Star Transmission Financing



# Energy Resources' solar thermal project in Spain capitalizes on a core strength of the company in an attractive market for renewables

## Spain Solar Strategic Rationale

- **Spain is one of the biggest and most attractive markets for renewables in the world**
  - Supported by feed-in tariff structure
- **Opportunity to invest based on our experience in solar**
  - Same technology as our SEGs facility which we have operated since the 1980s
- **Financeable, long-term revenue stream**
- **Risk limited to equity requirements under project financing**

**Equity investment accounts for approximately 2% of NextEra Energy's market capitalization**

# Our solar thermal project is located in Extremadura, Spain one of Europe's sunniest areas

## Spain Project Overview

- 99.8 MW solar thermal project, consisting of two separate 49.9 MW units
- Parabolic trough technology augmented by gas and thermal energy storage
- Located in Extremadura, Spain
- Located in one of Europe's sunniest areas



250 km Southwest of Madrid, Spain

# Construction is on schedule for our Spain solar project

## Spain Solar Project Update

- Transmission facilities complete and in service
- 2012 focus is on meeting all construction milestones
- Construction is over 80% and 50% complete on Unit 1 and Unit 2, respectively
- Expected Commercial Operations Dates:
  - Unit 1 – Q1 2013
  - Unit 2 – Q3 2013



# **We have obtained construction and term financing while mitigating tariff risk**

## **Key Objectives of the Financing**

- **Provide Liquidity**
  - Construction financing provides an efficient source of funds for the Project
  - Upon construction completion in 2014, automatic conversion to a term loan ending December 2030
- **Limit Tariff Risk**
  - Banks share change of tariff risk from financial close
- **All loans denominated in Euros**
  - Mitigates foreign currency exposure
- **VAT loan to bridge gap until value added tax is refunded**
- **Euro denominated corporate loan supports planned equity contributions**

**The Spain Solar Financing raised €799 MM (approximately US\$1.2 B<sup>1</sup>) to finance the construction of the Spain Solar Project**

**The €589 MM construction and term loan is used to finance a portion of the costs to build the project**

## **Construction and Term Loan**

- **Euro denominated, limited-recourse variable rate loan facility used to fund the cost associated with constructing the Spain Solar Project**
- **Facility size – €589 MM (~\$875 MM<sup>1</sup>)**
  - Thirteen banks from Spain, France, Germany, Italy and Japan
- **Maturity Date – December 31, 2030**
- **Pricing based on Euribor + specified margin**
  - Euribor exposure has been hedged
- **Debt and equity funded monthly on a pro rata basis**
- **Project completion and reliability are guaranteed by NextEra Energy Capital Holdings**
- **Banks accept risk of changes in tariff**



**The €40 MM VAT Loan is used to finance the value added taxes incurred during the construction of the project**

## **VAT Loan Facility**

- **Euro denominated, revolving loan facility that is used to finance ongoing value added tax (VAT) payments associated with the construction of the Spain Solar Project**
- **Working capital facility to fund tax until refund received**
- **Facility size – €40.0 MM (~\$60 MM<sup>1</sup>)**
  - Three Spanish banks and one French bank
- **Maturity date – April 2015**
  - Principal repaid as VAT reimbursements are received from the Spanish government
- **Pricing – based on Euribor + specified margin**

**The Euro revolving loan is used to fund the project level equity contributions and provide a hedge against movement in foreign exchange rates**

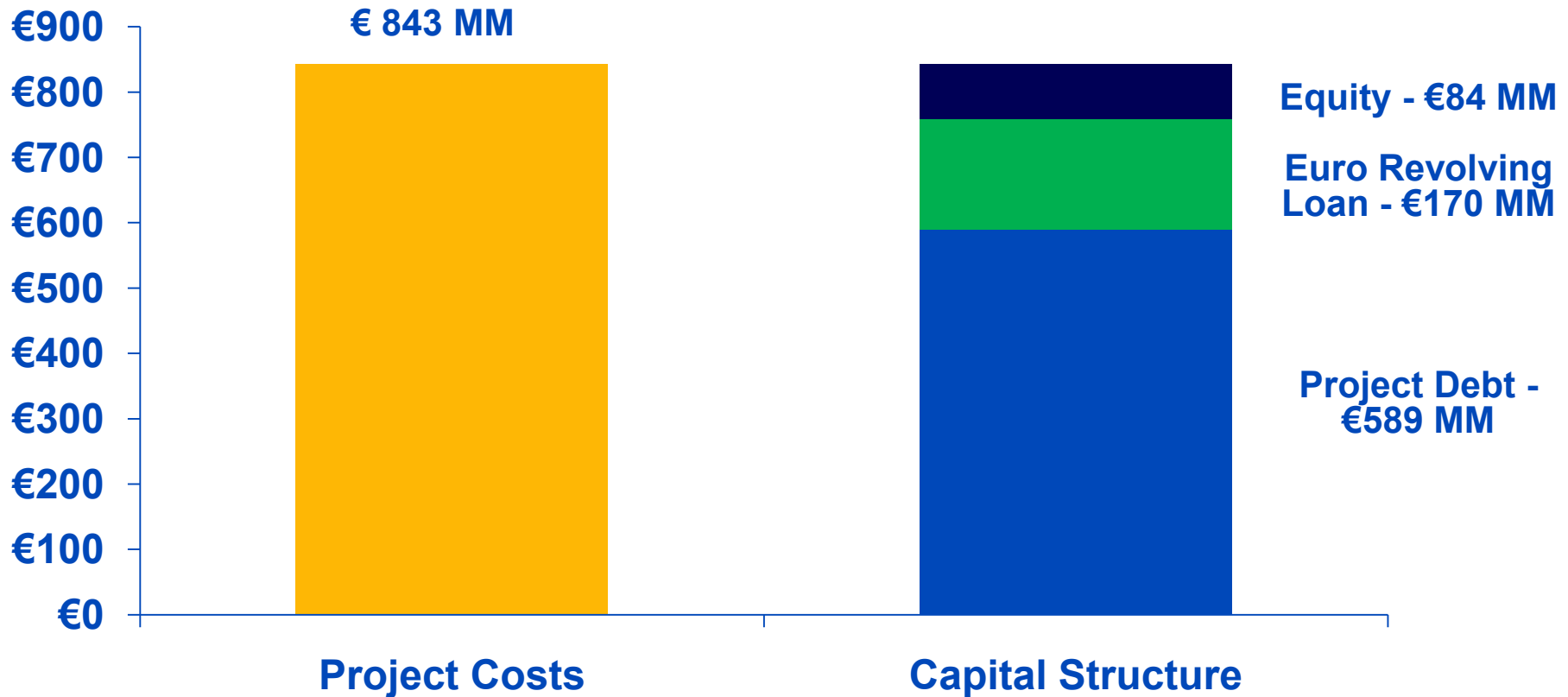
## **Euro Revolving Loan**

- **Euro denominated loan facility that is used to finance project level equity contribution requirement for the Spain solar project**
- **Borrowers – NextEra Capital Holdings and NextEra Energy España**
- **Facility size – €170 MM (~\$250 MM<sup>1</sup>)**
  - One Japanese lender
- **Maturity date – April 2014**
- **Pricing – based on Euribor + specified margin**
- **Once the project is operational, distributions from the project would be used to pay down the loan**

1) Estimated based on exchange rates at the time of closing

# NextEra has funded the majority of its investment in the Spain Solar project through Euro denominated sources of fund

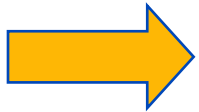
## Spain Solar Capital Costs and Capital Structure (1)



19 1) Capital costs exclude refundable VAT. As of March 31, 2012.

## Agenda

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- Spain Project Financing

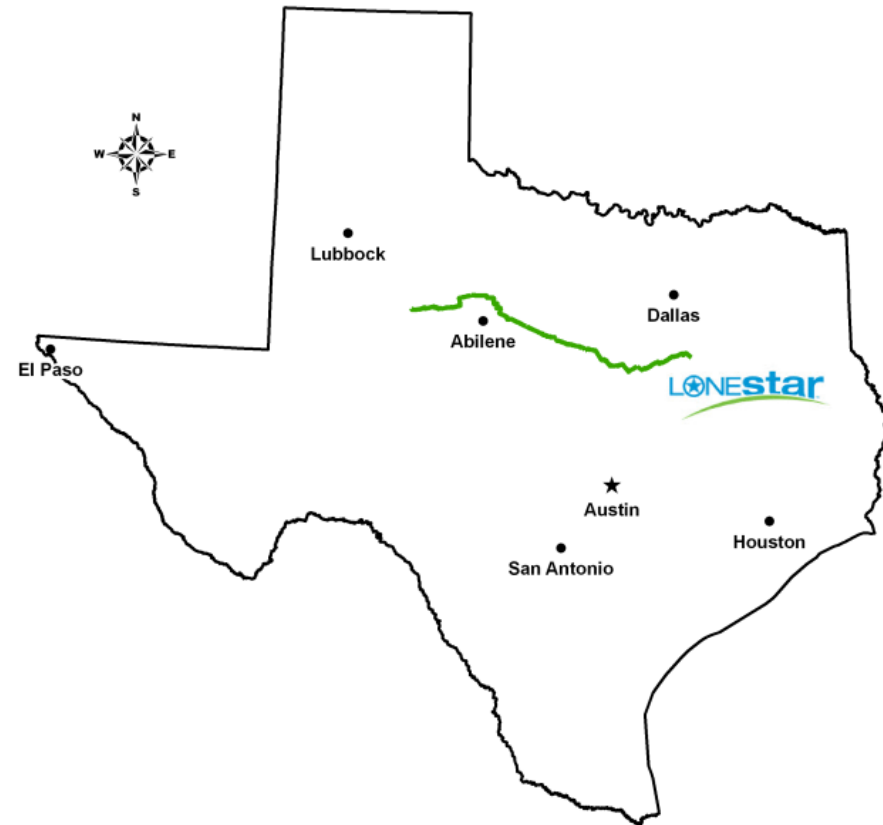


## **Lone Star Transmission Financing**

**With a large Competitive Renewable Energy Zone (CREZ) project under construction in Texas, Lone Star is the cornerstone of our growing transmission business**

## Lone Star Transmission

- ~320 mile, 345 kV CREZ transmission line and five substations in Texas
- Land acquisition is >90% complete and construction well underway
- On schedule to energize first two substations Q4 2012, and to complete project Q1 2013
- Total current cost estimate \$785 MM; rate case filed Q3 2012
- Lone Star will be a platform for further transmission investment in Texas



**As a regulated asset, Lone Star provides for an attractive investment opportunity that fits into our overall strategy**

## **Financing Overview**

- **\$387 million construction facility**
  - Closed on November 11; final maturity November 2016
  - Provided by a syndicate of banks
  - Repayment based solely upon future cash flows from the project
- **Debt limited to 48% of project costs**
  - Equity Contribution Agreement covers remaining cash equity commitment
  - Debt and equity funded monthly on a pro rata basis
- **Interest Rate**
  - LIBOR plus a specified margin
- **Interest Rate Hedging Requirements**
  - None during construction, option to hedge following term conversion

**Long-term financing will be arranged after the project is operational and rates have been established**

**There has also been significant financing activity regarding other assets in the CREZ build**

## **CREZ Summary**

- **Three other projects in the CREZ system obtained financing around the same time as Lone Star**
- **Over \$1.3 billion has been raised related to these projects**
  - Projects include over 800 miles of transmission lines and 9 substations
- **Similar interest rate structures using LIBOR plus a specified margin**
- **Financings cover both construction as well as a specified forward term**

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