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INVESTORS SERVICE

CREDIT OPINION
16 August 2021

Update

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RATINGS

NextEra Energy Capital Holdings, Inc.

Domicile	Juno Beach, Florida, United States
Long Term Rating	Baa1
Type	Senior Unsecured - Dom Curr
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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NextEra Energy Capital Holdings, Inc.

Update to credit analysis

Summary

NextEra Energy Capital Holdings, Inc. (NEECH) is an intermediate holding company subsidiary of NextEra Energy, Inc. (NEE), one of the largest power and utility holding companies in North America. NEE owns Florida Power and Light Company (FPL), one of the largest and financially strongest regulated vertically integrated electric utilities in the US, which is supportive of its credit quality. NEECH's credit quality is closely linked to that of NEE due to the unconditional guarantee that NEE provides on all of its debt and payment obligations.

Consequently, NEECH's credit profile incorporates the consolidated financial strength of the entire NEE organization, which includes NextEra Energy Resources LLC's (NEER) power projects (45% of NEE's segment assets as of 31 March 2021), FPL combined with Gulf Power (52%), and corporate and other assets (3%). NEER holds a large, diverse portfolio of renewable assets with stable cash flow generation from projects with steady operating performance that are under long-term contracts with highly creditworthy counterparties. We expect NEECH's ratio of cash flow from operations pre-working capital (CFO pre-W/C) to debt to be in the 6-8% range, which is lower than historical levels as parent level debt has increased and it continues to invest heavily in new projects. For the 12-months ended 31 March 2021, NEECH's ratio of CFO pre-W/C to debt was roughly 6.5%. Given the relatively weak wholesale power market, NEECH continues to de-emphasize merchant power activities and focus on growing its lower-risk long-term contracted renewables and FERC regulated gas pipeline and electric transmission businesses.

This Credit Opinion focuses on NEE's assets not including FPL. Please refer to www.moodys.com for further discussion in the credit opinions of NEE and its regulated utilities, FPL and Trans Bay Cable.

Credit strengths

» Unconditional guarantee from parent, NextEra Energy

» Continued strong growth of clean-energy portfolio with emphasis on long-term contracted assets with highly creditworthy counterparties

» Further diversification into low-risk, regulated or contracted infrastructure (gas pipelines and electric transmission) businesses adds to diversity and strength of cash flows

Credit challenges

» Large negative free cash flow of $8.2 billion continues to require substantial debt issuance

» Holding company debt level is one of the highest within the sector, constraining the ratings of the corporate family

» Project execution risk remains at NEER as it continues to invest heavily through an elevated construction cycle

» Structural subordination to non-recourse project level debt

Rating outlook

NEECH's stable outlook reflects the unconditional guarantee provided by NEE on NEECH's debt and obligations, which we expect will remain in place without modification. The stable outlook also considers that, as new projects are placed in-service, NEECH's financial metrics will remain stable such that its ratio of CFO pre-W/C to debt will be in the 6-8% range. We expect NEECH's financial profile, coupled with the strong financial profile of FPL, will continue to support the overall credit quality of NEE. The stable outlook also reflects our expectation that NEECH will continue to reduce its business risk by focusing on growing its long-term contracted renewables business and limiting exposure to non-contracted merchant activities.

Factors that could lead to an upgrade

NEECH could be upgraded if NEE is upgraded. An upgrade of NEE is unlikely in the near future due to the high percentage of holding company debt, significant capital project investments, single state concentration of its principal utility exposed to extreme weather events, and the company's aggressive M&A appetite. Longer term, NEE could be upgraded if there is substantial debt reduction at NEECH such that the percentage of holding company debt declines substantially as a percentage of total debt and consolidated financial metrics improve such that NEE's ratio of CFO pre-W/C to debt is sustained above 22%.

Factors that could lead to a downgrade

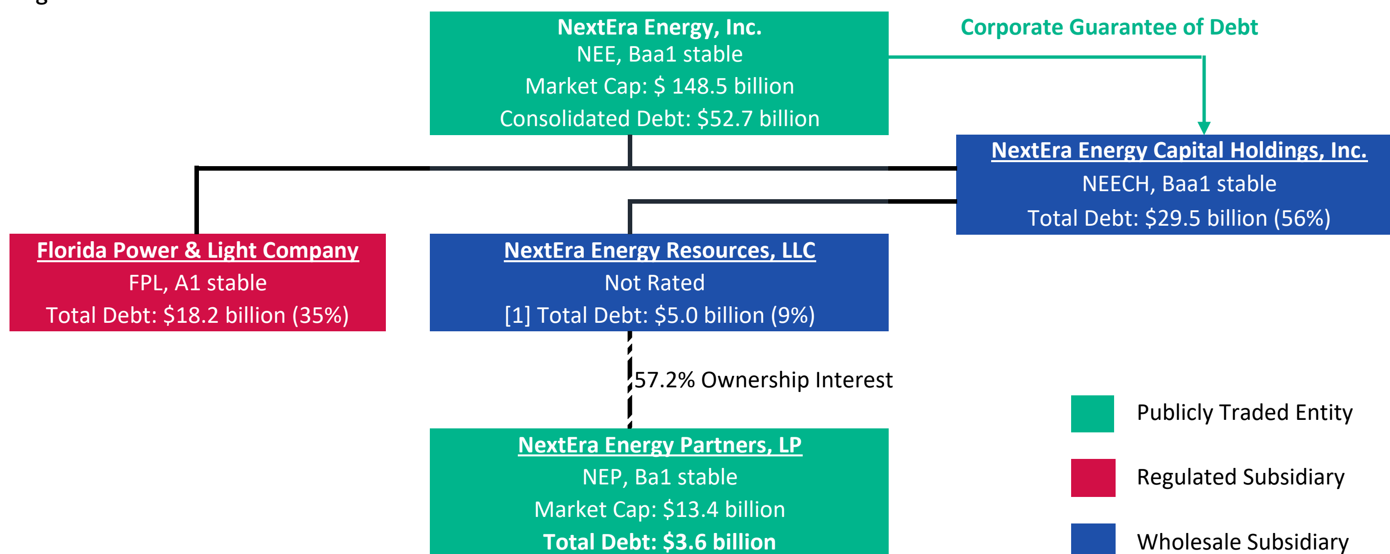
NEECH could be downgraded if NEE is downgraded or if the unconditional guarantee from NEE is modified or revoked. NEE could be downgraded if we expect its ratio of CFO pre-W/C to debt will be below 17% for an extended period. NEE could also be downgraded if the regulatory environment deteriorates in Florida, such that there is an adverse outcome of FPL's pending rate case or delays in cost recovery; or there are adverse tax or environmental policy developments that negatively affect NEER's renewable energy business. A downgrade could occur if NEE's business risk profile deteriorates meaningfully or if its holding company level debt increases from current levels. A downgrade of FPL could lead to a downgrade of NEE, due to the importance of the utility to the parent.

Profile

NextEra Energy Capital Holdings, Inc. is a guaranteed intermediate holding company subsidiary of NextEra Energy, Inc. (Baa1 stable), one of the largest power and utility holding companies in North America. NEE's principal operating utility is Florida Power and Light Company (FPL, A1 stable), one of the largest and financially strongest regulated vertically integrated electric utilities in the US and quite important to NEE's credit profile. NEECH is the principal debt financing vehicle for NEE’s businesses outside of the Florida utility and the holding company of NextEra Energy Resources (NEER, unrated). NEER is an intermediate holding company for NEE's independent power projects as well as its ownership interests in natural gas pipelines, and through a subsidiary also has an approximate 57.2% ownership interest in yieldco, NextEra Energy Partners, LP (NEP, Ba1 stable). NEECH’s other subsidiaries include NextEra Energy Transmission (NEET), which holds FERC regulated electric transmission assets.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Exhibit 1
Organizational Chart



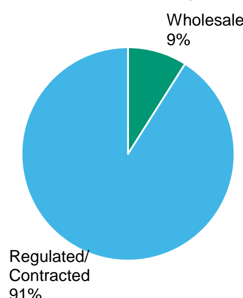
As of 31 March 2021, Market Capitalizations as of 14 July 2021
[1] Includes Lone Star Transmission Debt
Source: Company Filings, MarketWatch

Detailed credit considerations

NEER is a leader in the renewable energy sector with strong growth potential and a higher risk profile that is mitigated by long term contracts

NEER, which accounts for about 25% of NEE's EBITDA, continues to increase the contracted portion, currently about 85%, of its large portfolio of renewable assets and expects to be at about 90% by 2022. At the same time, NEE's regulated and contracted assets combined to account for about 91% of adjusted EBITDA in 2020.

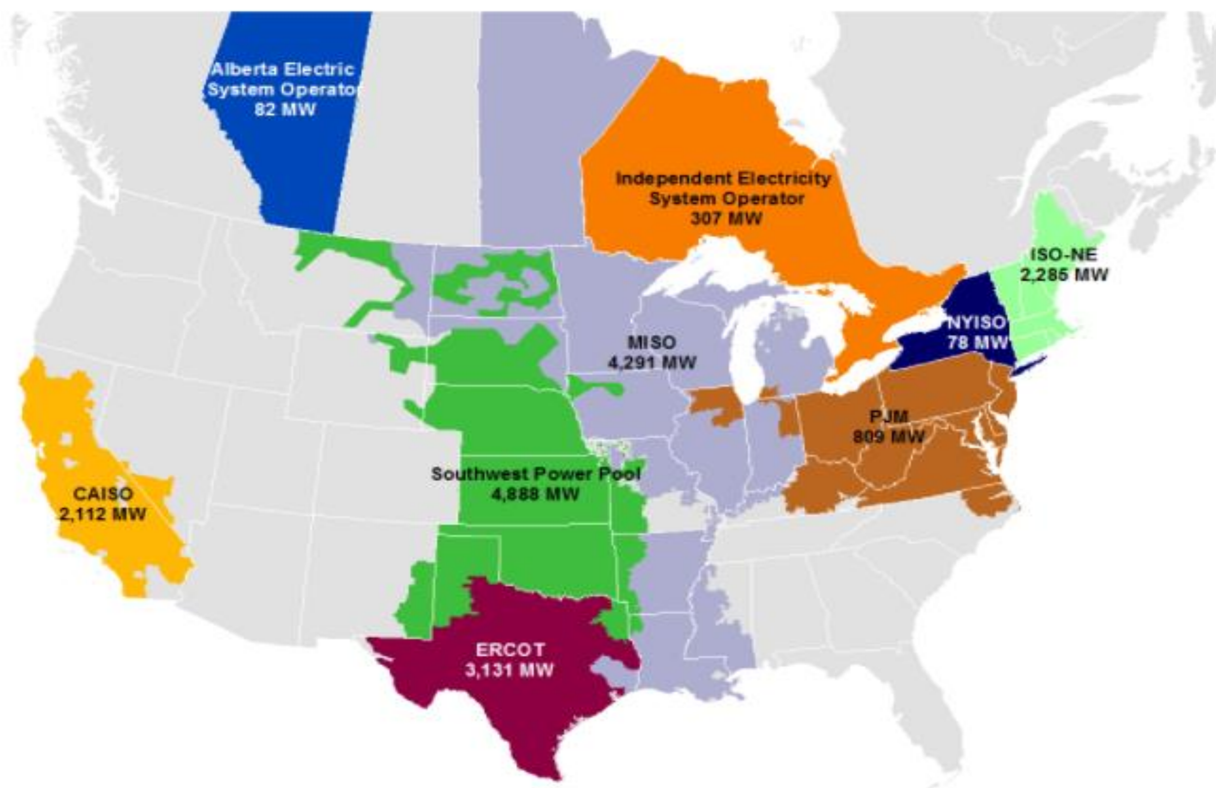
Exhibit 2
NextEra's 2020 business mix based on adjusted EBITDA



Regulated assets include FPL, FERC regulated transmission assets and pipelines.
Source: Company Presentations

NEER has a large, diverse portfolio of generation assets, and is the largest owner of wind and solar generation in North America. Strong demand for renewable energy provides NEER with growth opportunities to sell renewable power under long-term contracts, primarily to investment grade utilities that are attracted to the declining prices of renewable power and seeking to satisfy environmental mandates as well as meet customer preferences. The long term revenue visibility of contracted assets that are predominantly renewables, which entail no fuel risk or commodity price exposure, is in contrast to the typically higher risk associated with unregulated power companies that are exposed to wholesale merchant power sales and challenged coal and nuclear plants. Although NEER continues to invest heavily in development and project execution risk remains, NEER has a strong track record of completing projects on time and within budget.

Exhibit 3
NEER generation capacity by region



Source: Company filings

In late December 2020, the federal government passed a second stimulus package in response to the coronavirus pandemic. Among other things, the legislation extended tax credits related to solar and wind investment projects. The production tax credit (PTC) and investment tax credit (ITC) for onshore wind was extended one year to 2021 at 60% of the project's full value, the solar ITC at 26% was extended two years through 2025 while offshore wind projects were given a 30% ITC for projects through 31 December 2025. The new law followed previous legislation passed in December 2019 in which the federal government extended onshore and offshore wind tax credits.

Although many utilities have met or are close to meeting their near-term renewable portfolio standards, utilities continue to increase their carbon reduction goals longer term. In addition, it appears that the current presidential administration has a greater focus on reducing US carbon emissions and will continue to support renewable growth. At the same time, NEER continues its efforts to contract with large high creditworthy corporations to further diversify its customer base. The extension of tax credits for both wind and solar, continuous technological improvements and reduced costs, as well as overall strong renewable demand, should continue to be a positive for NEER's future business growth.

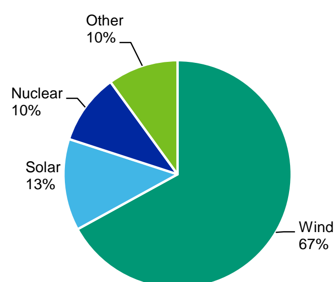
NEER's cash flow continues to increase as new generation capacity is constructed and long-term contracts are added. NEER generally manages the construction of renewable projects to make the most of the federal tax credits available. The company's capital expenditures remain elevated largely due to continued high demand for renewables. NEER has grown its renewable capacity from approximately 16 GW in 2016 to almost 20 GW in 2020.

Exhibit 4
NEER development program
(MW)

	2019-2020 in Service	2021-2022 Signed Contracts	2021-2022 Expectations	2023-2024 Signed Contracts	2023-2024 Expectations	2021-2024 Expectations
Wind	3,805	4,060	3,700 - 4,400	601	2,250 - 3,500	5,950 - 7,900
Solar	1,466	3,948	4,800 - 5,600	3,570	7,000 - 8,800	11,800 - 14,400
Energy Storage	20	1,361	1,650 - 2,000	1,343	2,700 - 4,300	4,350 - 6,300
Wind Repowering	2,611	409	375 - 700	-	200 - 700	575 - 1,400
Total	7,902	9,778	10,525 - 12,700	5,514	12,150 - 17,300	22,675 - 30,000
Build-Own-Transfer	674	110		380		

Source: Company Presentations

Exhibit 5
NEER's 2020 generation fuel mix by MW
Includes NEP



Source: Company Filings

Further diversification into low-risk regulated and contracted infrastructure assets strengthens business risk profile

As part of NEE's strategy to strengthen its overall business risk profile, NEER is investing in FERC regulated gas pipelines and electric transmission assets, which diversifies its portfolio beyond renewable projects. Additionally, the company continues to make modest but growing investments in energy storage, which is an emerging technology growth area in the renewable sector and will support further growth in wind and solar energy installation.

The $1.5 billion Sabal Trail (represents NEE's 42.5% ownership interest) and the related $500 million Florida Southeast Connection gas pipelines went into service in 2017. NEE has a 32% ownership interest in the approximately $6.2 billion Mountain Valley Pipeline (MVP), which continues to be delayed due to the pending receipt of certain state and federal permits. Similar to other gas pipeline construction projects, the Mountain Valley pipeline has experienced cost overruns and delays largely related to permitting and environmental concerns. The project is currently about 93% constructed and there is a chance for additional costs due to recent judicial decisions and regulatory changes. In January 2021, NEE announced a $1.2 billion after-tax write down in the value of its investment in MVP due to the current legal and regulatory challenges involved with the pipeline investment, as well as the substantial delays in reaching commercial operation and increased costs associated with those delays. MVP's in-service date is expected in 2022 although it will likely be further delayed. MVP, if completed, and other FERC regulated pipelines in operation are expected to generate stable cash flow under long-term contracts and will help support NEE's overall credit metrics.

NextEra Energy Transmission's (NEET) portfolio includes operating assets in California, New Hampshire and Texas, as well as numerous projects under development in the United States and Canada. The company has won several federally regulated greenfield projects in Canada and California, as regulators have opened up transmission development to parties other than incumbent utilities. NEET has been able to secure almost $1.6B of greenfield transmission projects over the last decade and it plans to continue to bid into upcoming transmission competitive solicitations.

On 31 March 2021, a wholly owned subsidiary of NEET acquired GridLiance Holdco, LP and GridLiance GP, LLC (GridLiance), which owns and operates three FERC-regulated transmission utilities with approximately 700 miles of high-voltage transmission lines across six states, five in the Midwest and Nevada. The purchase price was approximately $502 million of cash consideration, and the assumption of approximately $175 million of debt. This acquisition followed NEET's July 2019 $1.1 billion acquisition of Trans Bay Cable, LLC (Baa2 stable), a transmission utility that owns a 53-mile, high-voltage direct current underwater transmission cable system providing power to the San Francisco region.

Although ownership interest in NEP continues to decline, NEER remains majority owner

NEP, a yieldco formed by NEE in 2014, has a diversified portfolio of assets by geography, by number of projects as well as by fuel type - with 4.9 GW of wind, 975 MW of solar and 4.3 bcf/day of gas pipelines (3.5 bcf/day with long-term contracts) spread over 55 projects and eight pipelines. The projects are located in 19 states over three broadly diversified regions – the west coast, the southern great plains and the upper midwest. All projects benefit from fixed price, long-term contracts, most with strong investment grade counterparties (average Baa2 credit quality), with an average remaining life of about 15 years.

The governance changes at NEP beginning on 1 January 2018, which included deconsolidation on a US GAAP accounting basis, had mixed credit implications, with features that strengthen its attractiveness to investors but which also could reduce the benefit that NEP receives from being a part of the NEE corporate family. NEE's current ownership interest in NEP is approximately 57.2%, down from about 60.8% in 2020. We expect NEE's ownership interest will gradually decline through equity dilution as new NEP equity is issued.

The yieldco sector can sometimes face challenging capital market conditions, especially volatile equity prices, which can make issuing equity on an accretive basis difficult. While NEP has been the best performing of all listed yieldcos to date, it also saw a 33% decline in its equity valuation during the heightened capital market volatility in February/March 2020 due to the coronavirus pandemic. The equity price has since recovered and exceeded its historical price levels prior to this market volatility. The changes to NEP's IDR structure in 2017 and other governance changes reflect the company's attempt to improve and maintain strong access to the capital markets, which it appears to have done. We note that a lack of growth through acquisition is not necessarily credit negative for yieldcos, unless management chooses to seek growth purely through the issuance of debt.

For more detail about the credit considerations of NEP please refer to its Credit Opinion available on www.moodys.com

Substantial holding company leverage constrains credit metrics when excluding FPL's cash flow

As of 31 March 2021, NEECH had roughly $29.5 billion of total debt, which we estimate accounted for about 53% of NEE's consolidated debt, including the proportional consolidation of its ownership in NEP. However, when allocating some parent debt to certain unlevered assets, NEE's holdco debt percentage would be roughly 49% of consolidated debt. NEE's holding company debt is one of the highest within the regulated utility sector, and is a constraint on the credit quality of the entire corporate family. Approximately $3.7 billion of the NEECH holdco obligations are junior subordinated hybrid debt, to which we assign a 25% equity credit in Moody's standard adjustments. The hybrid securities can be credit enhancing by providing a loss cushion for senior creditors.

The holding company debt includes $6 billion of debentures related to equity units issued in 2019 and 2020. These securities cause the issuance of equity in three years and proceeds are typically used to pay off holding company debt. When taking a forward looking view on the conversion of these equity units and assuming the company pays off debt with the proceeds as it has done historically with previous equity units, NEE's holdco debt would fall to approximately 41% of consolidated debt. We expect NEE's percentage of holding company debt to gradually decline over time.

The roughly $29.5 billion of NEECH holdco debt is structurally subordinated to the approximately $5 billion of non-recourse debt, mostly at NEER's power projects. (NEECH holdco debt is also structurally subordinated to the approximately $18.2 billion of debt at FPL, which includes both Gulf Power debt and commercial paper, as of 31 March 2021). Much of the non-recourse debt is tied to NEE and/or NEECH in some way, either through sponsorship of the underlying projects; tax interrelationships including guarantees of production tax credits on wind projects; or cash traps at some projects that are tied to NEECH's ratings. These projects are important to NEE's growth initiatives and shareholder returns, and generate valuable tax benefits. However, NEE divests projects regularly, and at times has shown it would not support a non-recourse project that is not performing well as demonstrated in 2013 when NEE walked away from a $1 billion Spanish solar project after it defaulted when the government unexpectedly changed its tariffs.

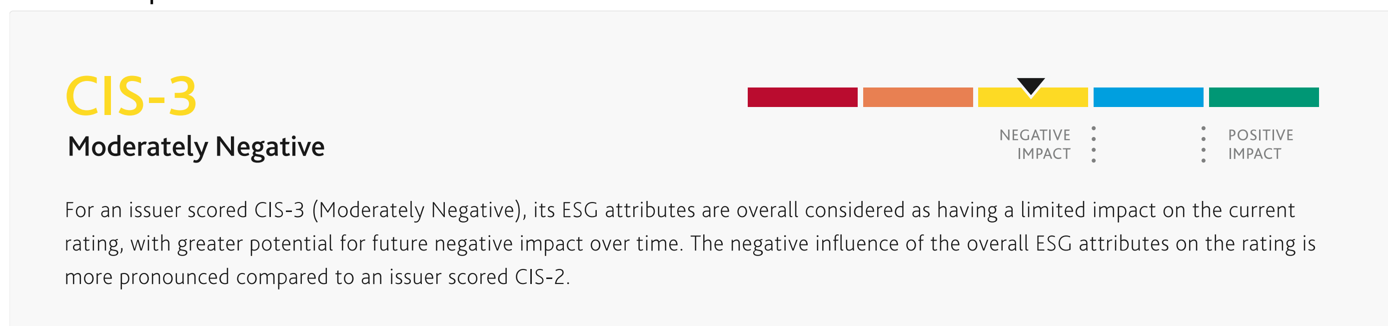
Although NEECH and NEER are entities of considerable size with substantial amounts of debt outstanding, they do not file their own audited SEC financial statements. NEE also does not file credit agreements with the SEC. NEE does publish consolidating financial statements that provide a condensed view of NEECH's stand-alone financial metrics.

NEECH's financial metrics are weaker than historical levels as the company has increased parent level debt and continues to invest heavily in its renewable energy business. For the 12-months ended 31 March 2021, NEECH's ratio of CFO pre-W/C to debt was roughly 6.5%, which is down from the 9-10% range a few years ago. Going forward, we expect NEECH's financial profile to remain relatively stable including a ratio of CFO pre-W/C to debt in the 6-8% range. Cash flow from operations has averaged about $2.5 billion over the last five years, as more projects have been in construction while others have gone into service. As such, we expect the stability of NEECH's financial profile, coupled with the strong financial profile of FPL, will continue to support the overall credit quality of NEE.

ESG considerations

NEE's ESG Credit Impact Score is CIS-3 (Moderately Negative).

Exhibit 6
ESG Credit Impact Score



Source: Moody's Investors Service

NEE's ESG Credit Impact Score is moderately negative (**CIS-3**) because its ESG attributes are considered as having an overall limited impact on the current rating, with potential for future negative impact over time. NEE's credit impact score reflects high environmental risk, along with moderately negative social risk and neutral-to-low governance risk.

Exhibit 7
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

NEE's high environmental risk (**E-4** issuer profile score) largely reflects high physical climate risks resulting from hurricanes and tropical storms in its core Florida market. NEE's carbon transition risk is neutral-to-low as it has a diverse portfolio of generation including minimal coal and growing renewable energy resources. The company's nuclear generation fleet adds risks of waste management and pollution. While NEE has not had any problems with its nuclear fleet or nuclear waste to date, it remains an inherent risk for nuclear operators in the industry. The fossil fuel generation is balanced by NEER ownership of the largest portfolio of renewable power projects in North America.

Social

NEE's exposure to social risks is moderately negative (**S-3** issuer profile score) as the operation of nuclear generation heightens risk of responsible production, while demographics and societal trends may increase public concern over environmental, social, or affordability issues that could lead to adverse regulatory or political intervention. NEE's social risks are somewhat offset by FPL's low customer rates that are approximately 30% below the national average, strong customer and load growth as well as the robust and independent regulatory framework in which it operates. The regulatory framework provides strong assurance that the company will be able to recover storm costs from customers, even where these can be politically controversial.

Governance

NEE's governance is broadly in line with other utilities and does not pose particular risk (**G-2** issuer profile). This is supported by neutral-to-low risk scores on financial strategy and risk management, management credibility and track record, and compliance and reporting; despite a relatively low number of independent directors and additional organizational complexity with its majority-owned affiliate, NEP.

Additional ESG considerations

When assessing NEECH's ESG considerations, we consider those of its parent and guarantor, NEE. As a holding company of predominantly regulated utilities and a large renewable energy developer and operator, one of NEE's primary goals is to provide customers with affordable, reliable and clean energy to power their homes and businesses, which are important social factors. From a governance perspective, policies that result in a strong financial position are important for managing the company's businesses, environmental and social risks, particularly amid the group's elevated capital expenditure program. We view NEE's governance as strong based on our assessment criteria.

NEE is strongly positioned for carbon transition within the utility sector because of its minimal coal exposure, although it does have substantial ownership of modernized and efficient natural gas-fired generation assets. NEE's coal exposure includes FPL's ownership of approximately 75% of Unit 4 (634 MW) at the Scherer coal facility in Georgia, expected to be retired by January 2022; as well as Gulf Power's 25% share of the Scherer Unit 3 (215 MW); and 50% ownership of the Daniel coal plant in Mississippi (500 MW), expected to be retired by Janaury 2024. The approximate 965 MW Gulf Clean Energy Center (formerly Plant Crist) in Florida was converted to a gas-fired facility in 2020.

Liquidity analysis

NEECH has a sufficient but somewhat constrained liquidity profile as a result of the need to finance its large capital investment program, refinance a substantial amount of debt maturities, and potentially provide for material contingent calls related to its hedging and marketing activities. However, NEECH has demonstrated an ability to manage its liquidity profile effectively, primarily through strong access to bank and debt capital markets.

NEECH's liquidity profile is impacted by its elevated capital investment program, particularly the growth and development of new renewable power projects, which typically results in substantial negative free cash flow balances. Its negative free cash flow position has ranged from roughly $3 billion to more than $8 billion over the last few years. For the LTM 31 March 2021, NEECH's cash flow from operations was $1.6 billion compared to capital expenditures of $9.3 billion and dividends of $603 million. Consistent with the company's historical financial policies, NEECH financed its negative free cash flow of $8.2 billion through a combination of project finance debt, tax equity, long and short-term debt and with proceeds from projects sold (outright or equity interests) to third parties and to NEP.

As of 31 March 2021, NEECH had $6.8 billion of net available liquidity, which included $1.4 billion of cash; $7.4 billion of availability on its revolving credit facilities, including full availability on $2.4 billion of bilateral revolving credit facilities; and about $1.9 billion of commercial paper borrowings outstanding. The company's cash balance is elevated compared to historical levels as the company issued debt to prefund certain debt maturities coming due. The largest component of the credit facilities is NEECH's approximately $5.3 billion of committed revolving credit facilities, which backstops NEECH's CP program. The commitments are laddered with the majority of the holdco facilities expiring in 2026. In addition, NEECH maintains $2.4 billion of other revolving credit facilities (with various maturities between 2021 and 2023). NEECH does not have a material adverse change clause in its bank credit facilities,

although it does have one financial maintenance covenant of a maximum consolidated debt-to-capitalization ratio that it does not disclose. The company has indicated that it was in compliance as of 31 March 2021.

NEECH has several near term maturities including a $425 million of debentures due 28 August 2021; $1.5 billion of debentures due 1 September 2021; and about $220 million of term loans due in August and December 2021. The company has about $2.4 billion of debt securities due in 2022. NEECH does not expect to have any difficulty paying off or refinancing its upcoming maturities.

Ratings

Exhibit 8

Category	Moody's Rating
NEXTERA ENERGY CAPITAL HOLDINGS, INC.	
Outlook	Stable
Bkd Senior Unsecured	Baa1
Bkd Jr Subordinate	Baa2
BACKED Pref. Shelf	(P)Baa3
Bkd Commercial Paper	P-2
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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