FitchRatings

01 OCT 2021

Fitch Affirms Ratings for NextEra and FPL; Outlook Stable

Fitch Ratings - New York - 01 Oct 2021: Fitch Ratings has affirmed NextEra Energy Inc.'s (NextEra) Long-Term Issuer Default Rating (IDR) at 'A-'. Fitch has also affirmed the IDRs of Florida Power and Light Co. (FPL) at 'A'/'F1' and NextEra Energy Capital Holdings, Inc. (Capital Holdings) at 'A-'/'F2'. NextEra provides full guarantee of Capital Holdings' debt and hybrids. Capital Holdings is the intermediate holding company that owns NextEra's nonregulated power generation and regulated electric transmission and natural gas businesses. The Rating Outlook is Stable for all entities.

NextEra's ratings reflect ownership of FPL, a regulated electric utility operating in a constructive regulatory environment, and its strong competitive position as the largest renewable generation company in the U.S. Significant rate base growth at FPL combined with regulated M&A has outpaced strong growth in NextEra's nonregulated renewable operations.

Fitch expects NextEra's consolidated FFO leverage to be elevated in 2021 reflecting FPL's decision to continue to operate under its 2016 settlement agreement through 2021 and high capex at the nonregulated renewable business. FFO leverage is expected to moderate to 4.5x in 2023 reflecting the terms contemplated in the filed settlement agreement in FPL's 2021 base rate case and conversion of $4.5 billion equity units issued in 2020.

Key Rating Drivers

KEY RATING DRIVERS FOR NEXTERA

Continued Pivot to Regulated and Contracted Assets: NextEra's continued shift from merchant businesses toward regulated investments and contracted nonregulated renewable assets is supportive of its credit profile. Base rate increases at FPL following a constructive 2016 rate order; the acquisition of Gulf Power Company, followed by its modernization; planned investments in regulated solar generation projects; and continued growth in contracted, nonregulated solar and wind investments are driving the favorable shift in cash flow mix. FPL and key intervenors recently filed a four-year settlement agreement in its 2021 base rate filing, which removes a major overhang.

Fitch expects the proportion of regulated EBITDA in the overall business mix to be between 70%-75% over the forecast period of 2021-2023. Within the nonregulated businesses, management's emphasis remains on long-term contracted renewable generation. Fitch expects the adjusted EBITDA contribution from both regulated and contracted businesses to be approximately 90%-95% over the next few years.

No Material Impact from the Coronavirus: NextEra has not been materially affected by the pandemic. Given its strong competitive position in renewables, NextEra enjoys significant clout with its supply chain vendors and tax equity investors, leading to minimal disruptions to its operations and large construction program. That said, persistent supply chain issues and rising commodity costs could begin to impede project returns.

A vast majority of NextEra's wind and solar portfolio is under long-term power purchase agreements (PPAs) with minimal volumetric risk. NextEra's PPAs counterparties are typically highly creditworthy, consisting of regulated utilities and public power entities. Only a small portion is corporates.

At its utility operations, growth in the higher margin residential segment has partially offset the impact from lower commercial sales due to work-from-home policies. FPL derives approximately 60% of its MWh sales from residential customers, 38% from commercial and 2% from industrial. There has been a modest increase in uncollectible expenses, which remains a small percentage of total revenues.

Leading Position in Renewables: Fitch considers NextEra to be strongly positioned to take advantage of the energy transition underway in the U.S. Fitch expects the recent extension of Production Tax Credits for wind projects that begin construction in 2021 at a rate of 60% to support continued wind development until 2025. Similarly, solar generation should benefit from the extension of 26% Investment Tax Credits for projects that begin construction in 2021 or 2022 and achieve COD by 2025. A Federal Clean Energy Standard, if implemented, will provide additional boost to renewable development. Accelerating trends in the deployment of battery storage and pairing of batteries with intermittent renewables to offer a firm product open up additional growth opportunities for NextEra.

Amidst a backdrop of the favorable renewable development environment, NextEra continues to experience strong origination growth in its nonregulated contracted business. The company commissioned approximately 5.8 gigawatts (GW) of wind, storage and solar projects in 2020 taking its total renewable and storage capacity to approximately 19.4 GW as of year-end 2020. The nonregulated portfolio is expected to more than double as NextEra aims to develop between 22.7 GW and 30 GW of renewable and battery storage projects over 2021-2024. Toward this goal, NextEra had originated approximately 16.7 GW of backlog by July 2021. NextEra has approximately $2.2 billion of safe harbor wind and solar equipment that could support approximately $45 billion of renewable and battery storage development over 2021-2024.

Elevated Capex: Fitch expects consolidated capex to be approximately $56 billion over 2021-2023, which is split roughly 60% at Capital Holdings and 40% at FPL. This reflects management hitting the top end of its renewable development program at Capital Holdings. The elevated capex at Capital Holdings, which at an annual average of $11 billion over 2021-2023 is significantly higher than the $6.9 billion capex spend in 2020, is expected to pressure the leverage metrics in the near term. Fitch assumes NextEra will continue to have strong access to capital markets, bank debt and tax equity to finance its growth.

Near-Term Weakening of Credit Metrics: On a fully consolidated basis (including nonrecourse project debt), Fitch expects NextEra's FFO leverage to remain elevated in 2021 and 2022 to reflect FPL's decision to continue to operate under its 2016 settlement agreement through 2021 and significantly high capex in 2022 at Capital Holdings. Fitch expects FFO leverage to moderate to 4.5x in 2023, benefiting from the conversion of $4.5 billion equity units issued in 2020. The investors in equity units are obligated to purchase stock at the end of three years. Fitch does not allocate any equity credit to the underlying debentures issued to collateralize the investors' forward stock purchase obligation.

Parent Subsidiary Linkage: Fitch considers rating linkages between NextEra and FPL, to be weak to moderate. Legal ties are considered weak due to the absence of guarantees and cross-default provisions. Other weak linkage considerations include an authorized regulatory capital structure provision, a maximum debt-to-capitalization ratio in debt indentures, and access to own utility financing that provide some level of ring-fencing around FPL. However, operational and strategic ties are expected to be strong.

Fitch has applied a bottom-up approach in rating FPL. Fitch considers FPL to be the stronger entity due to low business risk, nature of regulated operations, strength of the regulatory environment, and stronger credit metrics. Fitch has applied a consolidated approach to rate NextEra. Fitch would generally limit the notching between NextEra and FPL's IDRs to one to two notches. NextEra and Capital Holdings' IDRs are the same due to strong legal rating linkages. NextEra guarantees all debt at Capital Holdings.

KEY RATING DRIVERS FOR FPL

Constructive Settlement in Rate Case: FPL and key intervenors recently filed a four-year settlement agreement in its 2021 combined rate filing with Gulf Power. The settlement provides for $692 million base rate revenue increase in 2022 and $560 million rate increase in 2023. This compares with FPL's request of a $1.1 billion rate increase in 2022 and $607 million in 2023. The settlement also provides for a solar base rate adjustment for the recovery of up to approximately 900MW in new solar construction in each of 2024 and 2025 that would result in $140 million rate increase for each of those two years. The rate increases incorporated in the settlement are based on a 10.6% ROE (versus the company's proposed 11.5%).

The settlement also provides for continuation of the reserve amortization mechanism as well as the storm cost recovery mechanism. The settlement will unify the rates and tariffs for FPL and Gulf Power using a transition rider/credit to address the current differences, which would decline to zero over a five-year period. The Florida PSC is expected to render a final order in November. Fitch expects the final order to be consistent with the terms of the settlement.

Signs of Economic Recovery: Florida's economy is recovering well from the pandemic-driven slowdown. Most key indicators, such as housing starts, employment and consumer sentiment, are on an upward trend. The state continues to draw people from other parts of the country. Customer growth has varied between 0.6%-1.3% over 2017-2020, whereas customer usage has fluctuated from year to year. Fitch's financial forecasts for FPL are based on a 0.5% cumulative annual growth rate in retail sales over 2021-2023.

High Capex: FPL has outlined approximately $22 billion in potential capital investments over 2021-2023 for the combined FPL and Gulf entities. A significant portion will be spent to maintain and upgrade infrastructure, including investments for storm hardening and grid reliability. The balance is earmarked for new generation capacity, which includes utility scale solar generation and community solar investments as part of FPL's 30x30 plan to install 30 million solar panels in Florida by 2030. Other investments include battery storage, the Dania Beach natural gas combined cycle plant and Gulf Clean Energy Center. Fitch expects FPL to finance its capex and dividend distributions in a balanced manner to maintain its regulatory capital structure.

Robust Credit Metrics: Fitch forecasts FPL's credit metrics to remain robust over 2021-2023. Fitch expects FFO leverage to be 2.6x-3.1x and FFO fixed-charge coverage to be 10.0x-11.0x over this period.

Derivation Summary

NextEra compares favorably with peer parent holding companies The Southern Company (BBB+/Stable), Sempra Energy (BBB+/Stable) and Dominion Energy, Inc. (BBB+/Stable) given its ownership of a strong regulated utility in Florida, dominant position in contracted renewable business and superior credit metrics, offset by a smaller proportion of regulated utility operations in the overall business mix. NextEra's proportion of consolidated EBITDA generated from regulated utility subsidiaries is approximately 70%-75%, which is less favorable compared with Southern (80%), Sempra (80%) and Dominion (85%-90%). NextEra's projected FFO leverage of 4.5x by 2023 is stronger than projected metrics for Southern (5.0x) and Dominion (5.0x), but weaker than that for Sempra (4.0x).

Some of NextEra's peers face project execution risk due to the construction of large projects, which include the Vogtle Units 3 and 4 nuclear units at Southern. NextEra also faces headwinds to its Mountain Valley Pipeline project, but this project is relatively less material for NextEra. NextEra's ownership interest in NextEra Energy Partners, LP (NEP) adds organizational structure complexity its peers do not have.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer Include:

--Annual retail sales growth of 0.5% at FPL over 2021-2023;

--Rate increases for FPL as per 2016 rate order, retention of tax savings and proposed settlement in 2021 rate case;

--O&M and other expenses growth at FPL relatively flat from 2021 to 2023;

--Capex at FPL and Capital Holdings of approximately $56 billion over 2021-2023 split approximately 40/60 between the two businesses;

--Renewable projects growth toward the top end of management's forecasts;

--Balanced funding mix at FPL and reliance on project debt and tax equity at Capital Holdings;

--Limited commodity exposure based on existing hedge position.

RATING SENSITIVITIES

NextEra

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating actions for NextEra appear unlikely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--FFO leverage above 4.5x on a sustainable basis;

--Any deterioration in credit measures that result from higher use of leverage or outsized return of capital to shareholders;

--An aggressive acquisition or financial strategy at NEP, rising conflict of interest between NextEra and NEP, or predominantly shareholder focused use of proceeds from the sale of assets to NEP;

--A change in strategy to invest in noncontracted renewable/pipeline/electric transmission assets, more speculative assets, or a lower proportion of cash flow under long-term contracts;

--Any change in current regulatory policies at Florida Public Service Commission and/or any weakness in the current business climate in Florida;

--Changes in tax rules that reduce NextEra's ability to monetize its accumulated production tax credits, investment tax credits and accumulated tax losses carried forward.

FPL

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating actions for FPL appear unlikely at this time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unfavorable changes in Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs;

--Increasing risk profile of its parent company from higher debt leverage or aggressive corporate strategy;

--Sustained FFO leverage above 4.0x.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: On a consolidated basis, NextEra had $11.6 billion of net available liquidity as of June 30, 2021, excluding limited recourse or nonrecourse project-financing arrangements. The company continues to have strong access to the capital markets and banks for both corporate credit and project finance.

Committed corporate credit facilities for NextEra and FPL aggregated to approximately $13.1 billion as of June 30, 2021. Included in that total is $3.8 billion in unsecured facilities available to FPL as loans, including $650 million available to issue LOCs.

FPL's bank revolving line of credit facilities are also available to support the purchase of $1,375 million of pollution control, solid waste disposal and industrial development revenue bonds, as well as repayment of approximately $882 million of floating-rate notes in the event of early redemption. Of FPL's $3.8 billion credit facility, $3.1 billion matures in 2026. Other credit facilities available to FPL include $1.98 billion of bilateral revolving credit facilities that mature over 2021-2024.

Issuer Profile

NextEra owns two principal businesses that consist of its regulated electric utility, FPL, and contracted renewable generation business via NextEra Energy Resources, LLC (NEER). FPL is the largest electric utility in the state of Florida serving 5.6 million customers. NEER is the world's largest operator of wind and solar projects. It owned approximately 23,900 MW of total net generating capacity at Dec. 31, 2020. NEER also owns and operates rate-regulated transmission facilities, primarily in Texas and California. NEER recently completed the acquisition of GridLiance Holdings, an operator of transmission lines in Midwest U.S. NextEra also owns approximately 57.0% Limited Partner interest in NEP, a growth-oriented limited partnership focused on owning contracted energy projects.

Summary of Financial Adjustments

Fitch provides equity credit to junior subordinated debt of Capital Holdings in accordance with Fitch's applicable criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Florida Power & Light Company	LT IDR	A	Affirmed		A
	ST IDR	F1	Affirmed		F1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior secured	LT	AA-	Affirmed		AA-
• senior unsecured	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1
NextEra Energy Capital Holdings, Inc. (formerly FPL Group Capital Inc.)	LT IDR	A-	Affirmed		A-
	ST IDR	F2	Affirmed		F2
• senior unsecured	LT	A-	Affirmed		A-
• junior subordinated	LT	BBB	Affirmed		BBB
• senior unsecured	ST	F2	Affirmed		F2
NextEra Energy, Inc.	LT IDR	A-	Affirmed		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	○	

Applicable Criteria

Corporate Rating Criteria (pub.21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09 Apr 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.26 Aug 2020)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Florida Power & Light Company	EU Endorsed, UK Endorsed
NextEra Energy Capital Holdings, Inc. (formerly FPL Group Capital Inc.)	EU Endorsed, UK Endorsed
NextEra Energy, Inc.	EU Endorsed, UK

Endorsed

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