

## NextEra Energy, Inc. and NextEra Energy Capital Holdings, Inc.

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	A-	Stable	Affirmed 21 May 2018
Short-Term IDR	F2		Affirmed 21 May 2018
Senior Unsecured	A-		Affirmed 21 May 2018
Junior Subordinated Debt	BBB		Affirmed 21 May 2018
CP	F2		Affirmed 21 May 2018

### Financial Summary

(USDm)	Dec 2014	Dec 2015	Dec 2016	Dec 2017
Gross Revenue	16,945	17,414	16,081	17,121
Operating EBITDAR	7,215	7,791	7,600	8,540
Cash Flow from Operations	5,445	6,058	6,273	7,845
Capital Intensity (Capex/Revenue) (%)	41.4	48.1	59.9	62.7
Total Adjusted Debt With Equity Credit	27,204	28,878	29,273	33,209
FFO Fixed-Charge Coverage (x)	5.9	6.5	6.2	6.6
FFO-Adjusted Leverage (x)	3.9	3.9	3.9	3.9
Total Adjusted Debt/Operating EBITDAR (x)	3.8	3.7	3.9	3.9
Source: Fitch Ratings, Fitch Solutions.				

NextEra Energy Inc.'s (Nextera) continued shift from merchant businesses toward regulated investments and contracted nonregulated renewable assets is supportive of its credit profile. Driving the favorable shift in cash flow mix are significant base rate increases at Florida Power & Light Co. (FPL), planned investments in regulated solar generation projects, planned acquisition of Gulf Power Company, and the continued growth in contracted nonregulated solar and wind investments. On a fully consolidated basis, Fitch Ratings expects NextEra's adjusted debt/EBITDAR and FFO-adjusted leverage to be 3.6x–4.1x over 2018–2021. Fitch also expects FFO fixed-charge coverage to be between 5.5x and 6.0x over 2018–2021.

### Key Rating Drivers

**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. Driving the favorable shift in cash flow mix are significant base rate increases at FPL, proposed acquisition of Gulf Power Company (A-/Stable) and recently closed acquisition of Florida City Gas, planned investments in regulated solar generation projects, and the continued growth in contracted, nonregulated solar and wind investments. The acquisition of Gulf Power and Florida City Gas extends NextEra's regulated presence in Florida, which Fitch regards as a favorable regulatory jurisdiction and where FPL has established a successful track record of securing constructive regulatory outcomes. Pro forma for the acquisition of Florida assets, regulated EBITDA increases to approximately 70% by 2020, from the prior 68% forecast by Fitch. Within the nonregulated businesses, management's emphasis remains on long-term contracted renewable generation, specifically solar and wind. The adjusted EBITDA contribution from both regulated and contracted

businesses at NextEra was approximately 90% in 2017, and Fitch expects no material deviation from these levels over the next few years.

**Growth of Renewables Portfolio:** Fitch views positively the growth in NextEra's contracted renewable portfolio as it poses limited technology and construction risks while delivering a long stream of stable cash flows. NextEra expects to develop 4.9GW–8.0GW of wind and solar projects in 2017–2018, which includes repowering of the existing fleet of wind projects of 2.1GW–2.6GW. Against this target, the company has executed approximately 5.3GW of signed contracts as of June 30, 2018. The company has further outlined additional 5.2GW–8.5GW of wind and solar development opportunities, including 1.2GW–1.7GW of wind repowering, over 2019–2020. NextEra sees continued strong access to tax equity post tax reform and could gain market share at the expense of smaller developers.

**Resilient Credit Metrics:** On a fully consolidated basis and pro forma for the acquisition of Florida assets, Fitch expects NextEra's FFO-adjusted leverage to be 3.6x–4.1x and FFO fixed-charge coverage to be between 5.5x and 6.0x over 2018–2021.

**Tax Reform Offsets Storm Cost Recovery:** FPL plans to use tax reform benefits to offset the surcharge it had proposed to levy on customers to recover approximately \$1.3 billion in Hurricane Irma restoration costs. FPL expensed the \$1.3 billion Hurricane Irma restoration costs in fourth-quarter 2017 and used all available reserve amortization to offset the expense. FPL will replenish the depreciation reserve through tax savings. FPL will be able to further use tax reform benefits to extend rate certainty by up to two more years beyond 2020.

**Rebound in Customer Growth at FPL:** Florida's economy is recovering well, with most key indicators, such as housing starts, employment statistics and consumer sentiment, on an upward trend. Growth in customer accounts, which averaged 1.5%, 1.3% and 0.6% in 2015, 2016 and 2017, respectively, has offset weakness in underlying usage. During the first and second quarters of 2018, FPL experienced customer growth of 0.9% and underlying usage increased by 0.7% and 1.0%, respectively. Fitch's financial forecasts for FPL are based on a 0.5% cumulative annual growth rate in retail sales over 2018–2021.

**High Capex:** Fitch expects consolidated capex to be approximately \$41 billion over 2018–2021. Fitch expects FPL to spend approximately \$19.5 billion in capex from 2018–2021. The remaining capex will be spent primarily for nonregulated renewable businesses. At FPL, a significant portion will be spent on maintaining and upgrading existing infrastructure, including investments for storm hardening and grid reliability. The balance is earmarked for new generation capacity, which includes both natural gas combined cycle and utility scale solar generation, among other investments. Fitch expects FPL to finance its capex and dividend distribution in a balanced manner to maintain its regulatory capital structure.

## Rating Derivation Relative to Peers

### Rating Derivation Versus Peers

#### Peer Comparison

NextEra compares favorably with its peer parent holding companies, Southern Company (BBB+/Negative), Sempra Energy (BBB+/Stable) and Dominion Energy (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 will be approximately 70% once Gulf Power acquisition is complete. This proportion is less favorable compared to Southern (88%) and Sempra (80% pro forma for Cameron completion) but more favorable than that of Dominion (60%–65%). NextEra's forecast FFO-adjusted leverage metrics at 3.6x–4.1x are stronger than the projected metrics for Southern (4.75x–5.0x), Sempra (4.1x–4.6x) and Dominion (5.0x). All of NextEra's peers face project execution risk due to construction of large projects, albeit this risk has declined for Dominion as its Cove Point liquefied natural gas (LNG) facility has become operational. Compared to Dominion's Cove Point LNG project, Sempra's Cameron project has stronger offtakers but is experiencing delay. The project construction risk has diminished at Southern Company due to the cancellation of the Kemper IGCC project, but those related to Vogtle units 3 and 4 still remain. NextEra's ownership of NextEra Energy Partners L.P. (NEP) adds to complexity in organizational structure that Southern, Dominion (pro forma for the roll up of Dominion Midstream) and Sempra do not have.

Parent/Subsidiary Linkage	NextEra and FPL have moderate rating linkage, in Fitch's opinion. Hence, Fitch would generally limit the notching between the one to two notches. NextEra and NextEra Energy Capital Holdings' Issuer Default Ratings are the same due to strong legal rating linkages.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	Not applicable.
Source: Fitch Ratings.	

## Rating Sensitivities

### Developments That May, Individually or Collectively, Lead to Positive Rating Action

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

### Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Inability to achieve FFO-adjusted leverage of 4.0x–4.4x 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.

## Liquidity and Debt Structure

**Strong Liquidity:** Liquidity is robust, with \$8.6 billion of net available liquidity as of June 30, 2018, excluding limited recourse or nonrecourse project financing arrangements. NextEra's ratings reflect the company's strong access to the capital markets, CP market and to banks for both corporate credit and project finance.

## Debt Maturities and Liquidity at FYE

<b>Liquidity Summary</b>		
(USD Mil.)	12/31/2017	6/30/2018
Total Cash & Cash Equivalents	1,714	478
Short-Term Investments	0	0
Less: Not Readily Available Cash and Cash Equivalents	0	0
<b>Fitch-defined Readily Available Cash and Cash Equivalents</b>	<b>1,714</b>	<b>478</b>
Availability under Committed Lines of Credit	8,366	8,164
<b>Total Liquidity</b>	<b>10,080</b>	<b>8,642</b>
<b>LTM EBITDA</b>	<b>8,540</b>	<b>8,254</b>
<b>LTM FCF</b>	<b>(4,740)</b>	<b>(4,087)</b>

Source: Fitch Ratings, Fitch Solutions, NextEra Energy Inc.

<b>Scheduled Debt Maturities</b>	
(USD Mil.)	6/30/2018
Current Year	1,819
Plus 1 Year	1,596
Plus 2 Years	2,327
Plus 3 Years	2,756
Plus 4 Years	121
Thereafter	21,677
<b>Total Long-Term Debt Maturities</b>	<b>30,296</b>

Source: Fitch Ratings, Fitch Solutions, NextEra Energy Inc.

## Key Rating Issues

The Issue	Significant growth in renewables		
Our View	<p>The extension of renewable energy tax subsidies combined with technological and cost improvements are expected to drive significant growth in NextEra's renewables development program through to 2020. NEER, NextEra's nonregulated subsidiary, anticipates completing 4.9GW–8.0GW of additional renewable capacity in 2017–2018. This includes repowering of the existing fleet of wind projects of approximately 2.1GW–2.6GW. NEER expects to bring additional 5.2GW–8.5GW of renewable capacity online in 2019–2020. Wind projects continue to comprise a bulk of NEER's renewable growth over 2017–2020. Technological developments and falling costs of battery storage presents additional growth opportunities, since batteries can be paired with intermittent renewable sources to offer a firm product. Fitch views positively the expansion of this business line, as it poses limited technology and construction risks, while delivering a long stream of stable cash flows.</p>		
Timeline:	Medium term	Rating Impact:	Positive
The Issue	Governance changes at NEP		
Our View	<p>NextEra currently controls 100% of NEP's General Partner (GP) interest and approximately 65% of the Limited Partners (LP) interest. NextEra implemented certain corporate governance changes in August 2017 that have resulted in NextEra ceding control of NEP to the LP unit holders. Fitch views this as a positive development since it minimizes any potential conflict that can emerge with NextEra pursuing drop down of assets into NEP.</p>		
Timeline:	Short to medium term	Rating Impact:	Positive
The Issue	Constructive 2016 rate order		
Our View	<p>FPL secured a cumulative \$811 million retail base rate increase over January 2017–December 2020, which includes a \$200 million rate increase coinciding with the commercial operation date of the Okeechobee power plant (likely mid-2019). The rate increases are based on an authorized ROE of 10.55%, within a band of 9.6%–11.6%. In addition, FPL can implement base rate increases on investments associated with installation of up to 300MW of solar generation capacity annually over 2017–2020; the solar investments would be subject to a cost cap of \$1,750/kW. The settlement also allows FPL to amortize up to \$1 billion of depreciation reserve surplus and any excess depreciation reserve surplus remaining under the 2012 rate order to earn a regulatory ROE of 9.6%–11.6%.</p>		
Timeline:	Medium term	Rating Impact:	Positive
The Issue	High capex at FPL		
Our View	<p>FPL's capex has been high over the last few years, mostly driven by new generation additions. As part of its fleet modernization program, FPL constructed and placed into service the 1,210MW Cape Canaveral and 1,212MW Riviera Beach power plants in April 2013 and April 2014, respectively. The utility completed the modernization of its Port Everglades plant (1,240MW) in 2016. These projects have allowed FPL to lower its fuel and operating costs, improve the emissions profile of its fleet and keep customer bills low. FPL has also undertaken up rates at its nuclear facilities of St. Lucie and Turkey Point, which resulted in an incremental 522MW of capacity at these units. Through a generation base rate adjustment mechanism, FPL has been able to receive rate recovery of its modernization projects without filing for a rate case. The nuclear uprate costs are being recovered through the nuclear clause and base rates.</p> <p>Capex peaked in 2012 and has been moderating since, but is going to pick up again. Fitch expects FPL to spend approximately \$19.5 billion in capex in 2018–2021. A significant part of that capex will be spent on transmission and distribution investments, including for storm hardening and grid reliability. The balance is earmarked for new generation capacity, which includes the Okeechobee Energy Center to be operational in 2019. FPL is also seeking regulatory approval for the modernization of Dania Beach Energy Center, to be operational by 2022. In addition, FPL has placed into service 600MW of new utility scale solar and is finalizing sites for additional 600MW of utility scale solar to be operational over 2019–2020. Fitch expects FPL to finance its capex and dividend distribution in a balanced manner so as to maintain its regulatory capital structure</p>		
Timeline:	Short to medium term	Rating Impact:	Neutral

## Key Assumptions

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

- Annual retail sales growth of 0.5% at FPL over 2018–2021;
- Rate increases for FPL under 2016 rate order and retention of tax savings;
- O&M and other expenses growth at FPL relatively flat from 2018 to 2021;
- Capex at FPL and Capital Holdings of approximately \$41 billion over 2018–2021, split approximately 45/55 between the two businesses;
- Renewable projects growth toward the middle of management 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;
- Issuance of \$5.1 billion of debt at Capital Holdings to finance the acquisition of Florida assets;
- At Gulf Power, sales growth of 0.5% over 2019–2021, capex of \$300 million–\$400 million a year and rate changes reflecting the 2017 and 2018 rate orders.

## Financial Data

(USDm)	Historical			
	Dec 2014	Dec 2015	Dec 2016	Dec 2017
<b>Summary Income Statement</b>				
Gross Revenue	16,945	17,414	16,081	17,121
Revenue Growth (%)	12.8	2.8	-7.7	6.5
Operating EBITDA (Before Income from Associates)	7,215	7,791	7,600	8,540
Operating EBITDA Margin (%)	42.6	44.7	47.3	49.9
Operating EBITDAR	7,215	7,791	7,600	8,540
Operating EBITDAR Margin (%)	42.6	44.7	47.3	49.9
Operating EBIT	4,374	4,646	4,286	5,977
Operating EBIT Margin (%)	25.8	26.7	26.7	34.9
Gross Interest Expense	-1,368	-1,330	-1,275	-1,664
Pretax Income (Including Associate Income/Loss)	3,331	3,990	4,388	4,667
<b>Summary Balance Sheet</b>				
Readily Available Cash and Equivalents	577	571	1,292	1,714
Total Debt with Equity Credit	27,204	28,878	29,273	33,209
Total Adjusted Debt with Equity Credit	27,204	28,878	29,273	33,209
Net Debt	26,627	28,307	27,981	31,495
<b>Summary Cash Flow Statement</b>				
Operating EBITDA	7,215	7,791	7,600	8,540
Cash Interest Paid	-1,181	-1,143	-1,204	-1,298
Cash Tax	-46	-33	-91	-142
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0
Other Items Before FFO	-170	-349	18	250
Funds Flow from Operations	5,818	6,266	6,323	7,350
FFO Margin (%)	34.3	36.0	39.3	42.9
Change in Working Capital	-373	-208	-50	495
Cash Flow from Operations (Fitch Defined)	5,445	6,058	6,273	7,845
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	0
Capex	-7,017	-8,377	-9,636	-10,740
Capital Intensity (Capex/Revenue) %	41.4	48.1	59.9	62.7
Common Dividends	-1,261	-1,385	-1,612	-1,845
FCF	-2,833	-3,704	-4,975	-4,740
Net Acquisitions and Divestitures	0	0	658	1,632
Other Investing and Financing Cash Flow Items	606	195	2,422	-514
Net Debt Proceeds	755	1,444	2,079	3,441
Net Equity Proceeds	1,611	2,059	537	603
Total Change in Cash	139	-6	721	422
<b>Calculations for Forecast Publication</b>				
Capex, Dividends, Acquisitions and Other Items Before FCF	-8,278	-9,762	-10,590	-10,953
FCF After Acquisitions and Divestitures	-2,833	-3,704	-4,317	-3,108
FCF Margin (After Net Acquisitions) (%)	-16.7	-21.3	-26.8	-18.2
<b>Coverage Ratios</b>				
FFO Interest Coverage (x)	5.9	6.5	6.2	6.6
FFO Fixed Charge Coverage (x)	5.9	6.5	6.2	6.6
Operating EBITDAR/Interest Paid + Rents (x)	6.1	6.8	6.3	6.6
Operating EBITDA/Interest Paid (x)	6.1	6.8	6.3	6.6
<b>Leverage Ratios</b>				
Total Adjusted Debt/Operating EBITDAR (x)	3.8	3.7	3.9	3.9
Total Adjusted Net Debt/Operating EBITDAR (x)	3.7	3.6	3.7	3.7
Total Debt with Equity Credit/Operating EBITDA (x)	3.8	3.7	3.9	3.9
FFO-Adjusted Leverage (x)	3.9	3.9	3.9	3.9
FFO-Adjusted Net Leverage (x)	3.8	3.8	3.8	3.7

Source: Fitch Ratings, Fitch Solutions.

**How to Interpret the Forecast Presented**

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

# NextEra Energy, Inc.

## Corporates Ratings Navigator US Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Business Profile				Financial Profile			Issuer Default Rating
			Management and Corporate Governance	Regulation	Market and Franchise	Asset Base and Operations	Commodity Exposure	Profitability	Financial Structure	
aaa										AAA
aa+										AA+
aa										AA
aa-										AA-
a+										A+
a										A
a-										A- <b>Stable</b>
bbb+										BBB+
bbb										BBB
bbb-										BBB-
bb+										BB+
bb										BB
bb-										BB-
b+										B+
b										B
b-										B-
ccc+										CCC+
ccc										CCC
ccc-										CCC-
cc										CC
c										C
d or rd										D or RD

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Regulation

a+	Degree of Transparency and Predictability	bbb	Generally transparent and predictable regulation with limited political interference.
a	Timeliness of Cost Recovery	a	Minimal lag to recover capital and operating costs.
a-	Trend in Authorized ROEs	a	Above-average authorized ROE.
bbb+	Mechanisms Available to Stabilize Cash Flows	bbb	Revenues partially insulated from variability in consumption.
bbb	Mechanisms Supportive of Creditworthiness	n.a.	

Asset Base and Operations

a+	Diversity of Assets	a	High-quality and/or large-scale diversified assets.
a	Operations Reliability and Cost Competitiveness	a	Track record of reliable, low-cost operations.
a-	Exposure to Environmental Regulations	a	No exposure to environmental regulations.
bbb+	Capital and Technological Intensity of Capex	bbb	Moderate reinvestments requirements in established technologies.
bbb			

Profitability

a-	Free Cash Flow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb+	Volatility of Profitability	bbb	Stability and predictability of profits in line with utility peers.
bbb			
bbb-			
bb+			

Financial Flexibility

a+	Financial Discipline	bbb	Less conservative policy, but generally applied consistently.
a	Liquidity	a	Very comfortable liquidity. Well-spread maturity schedule of debt. Diversified sources of funding.
a-	FFO Fixed Charge Cover	a	5.0x
bbb+			
bbb			

Management and Corporate Governance

a+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a	Governance Structure	a	Experienced board exercising effective check and balances. Ownership can be concentrated among several shareholders.
a-	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb+	Financial Transparency	a	High quality and timely financial reporting.
bbb			

Market and Franchise

aa-	Market Structure	bbb	Established market structure but some level of uncertainty in price-setting mechanisms.
a+	Consumption Growth Trend	a	Economically vibrant market or service territory with strong sales growth.
a	Customer Mix	a	Favorable customer mix.
a-	Geographic Location	a	Favorable location or high geographic diversity.
bbb+	Supply Demand Dynamics	a	Beneficial outlook for prices/rates.

Commodity Exposure

a-	Ability to Pass Through Changes in Fuel	bbb	Limited exposure to changes in commodity costs.
bbb+	Underlying Supply Mix	bbb	Low variable costs and moderate flexibility of supply.
bbb	Hedging Strategy	bbb	Long-term supply and sales contracts with creditworthy counterparties.
bbb-			
bb+			

Financial Structure

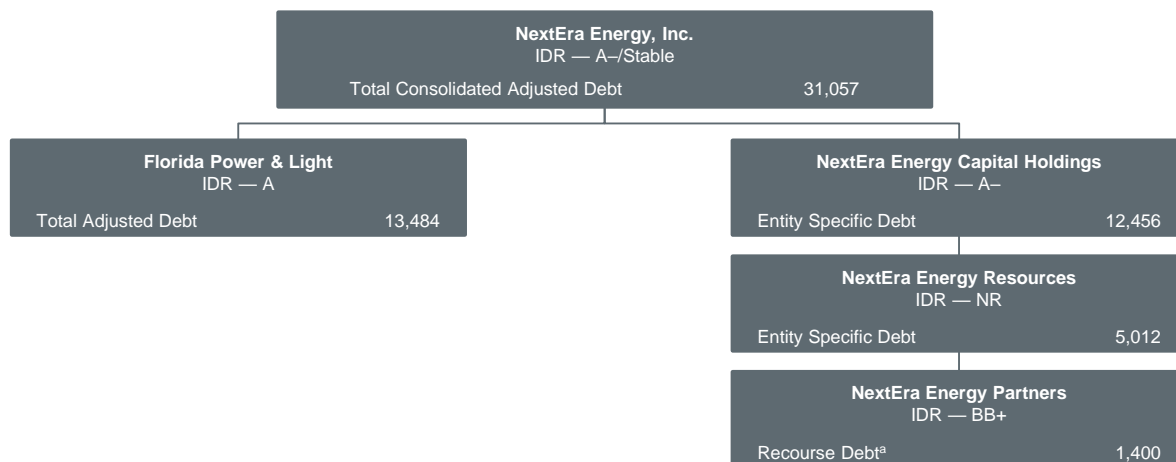
a+	Lease Adjusted FFO Gross Leverage	a	3.5x
a	Total Adjusted Debt/Operating	bbb	3.75x
a-			
bbb+			
bbb			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

## Simplified Group Structure Diagram

### Organizational Structure

(\$ Mil., As of June 30, 2018)



<sup>a</sup>NEP Recourse Debt is not consolidated at the NextEra Energy level. IDR – Issuer Default Rating. Note: 50% Equity Credit at NextEra Energy Capital Holdings for Junior Subordinated Debt.

Source: Fitch Ratings, Fitch Solutions, NextEra Energy Inc.

## Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue	Funds Flow From Operations	FFO Fixed Charge Coverage (x)	FFO Adjusted Leverage (x)	Total Adjusted Debt/Operating EBITDAR (x)
NextEra Energy, Inc.	A-						
	A-	2017	17,121	7,350	6.6	3.9	3.9
	A-	2016	16,081	6,323	6.2	3.9	3.9
	A-	2015	17,414	6,266	6.5	3.9	3.7
Sempra Energy	BBB+						
	BBB+	2017	11,207	3,398	4.4	4.5	5.1
	BBB+	2016	10,183	2,595	4.5	5.3	5.9
	BBB+	2015	10,231	2,457	4.5	4.7	4.7
Dominion Energy, Inc.	BBB+						
	BBB+	2017	12,586	4,795	4.5	6.1	5.8
	BBB+	2016	11,737	4,212	4.3	6.4	6.3
	BBB+	2015	11,683	4,152	4.8	5.5	5.5
Southern Company	BBB+						
	A-	2017	23,031	7,225	4.8	5.5	5.4
	A-	2016	19,896	4,395	3.7	8.0	5.6
	A-	2015	17,489	5,979	6.8	4.3	4.4
Source: Fitch Ratings, Fitch Solutions.							

## Reconciliation of Key Financial Metrics

(USD Millions, As reported)	31 Dec 2017
<b>Income Statement Summary</b>	
Operating EBITDA	8,540
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
<b>= Operating EBITDA After Associates and Minorities (k)</b>	<b>8,540</b>
<b>+ Operating Lease Expense Treated as Capitalised (h)</b>	<b>0</b>
<b>= Operating EBITDAR after Associates and Minorities (j)</b>	<b>8,540</b>
<b>Debt &amp; Cash Summary</b>	
<b>Total Debt with Equity Credit (l)</b>	<b>33,209</b>
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
<b>= Total Adjusted Debt with Equity Credit (a)</b>	<b>33,209</b>
Readily Available Cash [Fitch-Defined]	1,714
+ Readily Available Marketable Securities [Fitch-Defined]	0
<b>= Readily Available Cash &amp; Equivalents (o)</b>	<b>1,714</b>
<b>Total Adjusted Net Debt (b)</b>	<b>31,495</b>
<b>Cash-Flow Summary</b>	
<b>Preferred Dividends (Paid) (f)</b>	<b>0</b>
Interest Received	81
<b>+ Interest (Paid) (d)</b>	<b>(1,298)</b>
<b>= Net Finance Charge (e)</b>	<b>(1,217)</b>
<b>Funds From Operations [FFO] (c)</b>	<b>7,350</b>
+ Change in Working Capital [Fitch-Defined]	495
<b>= Cash Flow from Operations [CFO] (n)</b>	<b>7,845</b>
<b>Capital Expenditures (m)</b>	<b>(10,740)</b>
<b>Multiple applied to Capitalised Leases</b>	<b>8.0</b>
<b>Gross Leverage</b>	
<b>Total Adjusted Debt / Op. EBITDAR* [x] (a/j)</b>	<b>3.9</b>
<b>FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))</b>	<b>3.9</b>
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)</b>	<b>3.9</b>
<b>Net Leverage</b>	
<b>Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)</b>	<b>3.7</b>
<b>FFO Adjusted Net Leverage [x] (b/(c-e+h-f))</b>	<b>3.7</b>
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))</b>	<b>-10.9</b>
<b>Coverage</b>	
<b>Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)</b>	<b>6.6</b>
<b>Op. EBITDA / Interest Paid* [x] (k/(-d))</b>	<b>6.6</b>
<b>FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))</b>	<b>6.6</b>
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
<b>FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))</b>	<b>6.6</b>
<i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch, based on information from company reports.	

## Fitch Adjustment Reconciliation

	Reported Values 31 Dec 17	Sum of Fitch Adjustments	Adjusted Values
<b>Income Statement Summary</b>			
Revenue	17,195	(74)	17,121
Operating EBITDAR	7,359	1,181	8,540
Operating EBITDAR after Associates and Minorities	7,359	1,181	8,540
Operating Lease Expense	0	0	0
Operating EBITDA	7,359	1,181	8,540
Operating EBITDA after Associates and Minorities	7,359	1,181	8,540
Operating EBIT	4,730	1,247	5,977
<b>Debt &amp; Cash Summary</b>			
Total Debt With Equity Credit	35,081	(1,872)	33,209
Total Adjusted Debt With Equity Credit	35,081	(1,872)	33,209
Lease-Equivalent Debt	0	0	0
Other Off-Balance Sheet Debt	0	0	0
Readily Available Cash & Equivalents	1,714	0	1,714
Not Readily Available Cash & Equivalents	0	0	0
<b>Cash-Flow Summary</b>			
Preferred Dividends (Paid)	0	0	0
Interest Received	81	0	81
Interest (Paid)	(1,184)	(114)	(1,298)
Funds From Operations [FFO]	5,918	1,432	7,350
Change in Working Capital [Fitch-Defined]	495	0	495
Cash Flow from Operations [CFO]	6,413	1,432	7,845
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	(10,740)	0	(10,740)
Common Dividends (Paid)	(1,845)	0	(1,845)
Free Cash Flow [FCF]	(6,172)	1,432	(4,740)
<b>Gross Leverage</b>			
Total Adjusted Debt / Op. EBITDAR* [x]	4.8		3.9
FFO Adjusted Leverage [x]	5.0		3.9
Total Debt With Equity Credit / Op. EBITDA* [x]	4.8		3.9
<b>Net Leverage</b>			
Total Adjusted Net Debt / Op. EBITDAR* [x]	4.5		3.7
FFO Adjusted Net Leverage [x]	4.8		3.7
Total Net Debt / (CFO - Capex) [x]	-7.7		-10.9
<b>Coverage</b>			
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	6.2		6.6
Op. EBITDA / Interest Paid* [x]	6.2		6.6
FFO Fixed Charge Coverage [x]	5.9		6.6
FFO Interest Coverage [x]	5.9		6.6
*EBITDA/R after Dividends to Associates and Minorities			
Source: Fitch, based on information from company reports.			

## Related Research & Criteria

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[Parent and Subsidiary Rating Linkage \(July 2018\)](#)

[Corporate Rating Criteria \(March 2018\)](#)

[Corporates Notching and Recovery Ratings Criteria \(March 2018\)](#)

## Analysts

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## Summary:

# NextEra Energy Inc.

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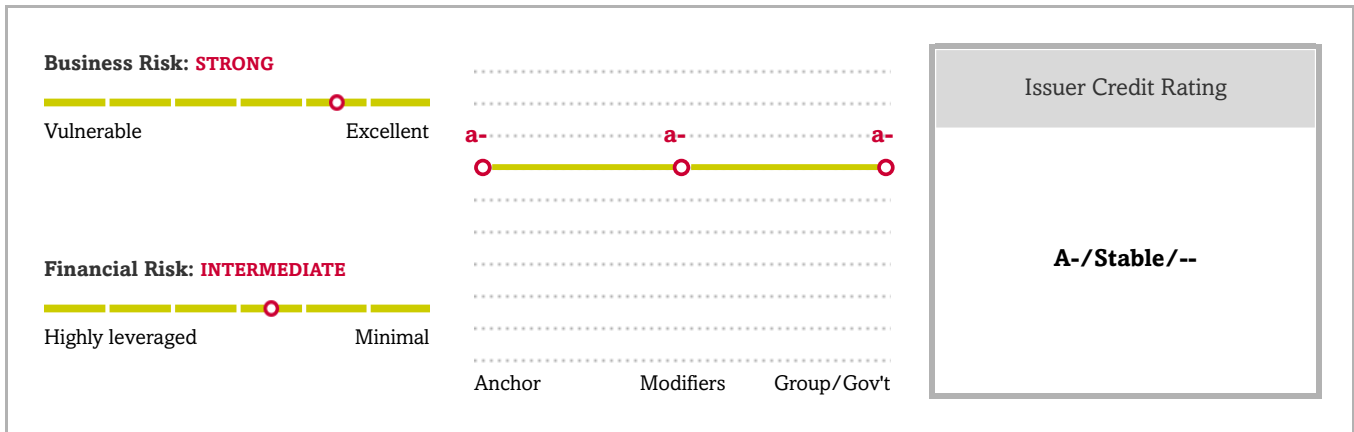
Ratings Score Snapshot

Issue Ratings--Subordination Risk Analysis

Related Criteria

# Summary:

## NextEra Energy Inc.



### Rationale

Business Risk: Strong	Financial Risk: Intermediate
<ul style="list-style-type: none"> <li>• Lower-risk regulated electric utility operations is about two-thirds of the company's consolidated EBITDA, partially offset by about one-third exposure to higher-risk nonregulated merchant generation;</li> <li>• The company continues to execute on its long-term strategy to decrease business risk through growth of its low-risk regulated utility operations and contracted assets;</li> <li>• Management of regulatory risk that is generally above average compared to peers; and</li> <li>• Large utility service territory that benefits from a constructive regulatory framework.</li> </ul>	<ul style="list-style-type: none"> <li>• We assess the company's financial measures using more relaxed financial benchmarks compared to those used for the typical corporate issuer, reflecting its mostly lower-risk electric utility operations and effective management of regulatory risk;</li> <li>• Financial metrics are consistent with the lower half of the range for its financial risk profile category;</li> <li>• Robust capital spending; and</li> <li>• Reliance on asset sales and monetization of tax benefits to meet funding needs.</li> </ul>

**Outlook: Stable**

The stable outlook reflects NextEra Energy Inc.'s (NEE) marginally improving business risk profile as a result of the proposed acquisition as well as its consistent strategy in gradually improving its consolidated business risk profile through growth in its regulated businesses and incrementally reducing risk in its nonregulated operations. The outlook also reflects S&P Global Ratings' projections that consolidated financial measures will remain in the lower end of the range for its financial risk profile category.

**Downside scenario**

We could lower ratings on NEE and its subsidiaries if business risk worsens due to slower growth at NEE's regulated operations or growth and risk appetite increases at its nonregulated operations. Weaker credit protection measures, such as funds from operations (FFO) to debt that drops consistently below 23%, could also prompt a downgrade, absent an improvement to the business risk profile.

**Upside scenario**

We could raise ratings on NEE and its subsidiaries by one notch if FFO to debt is consistently at or above 29%. Alternatively, we could also raise the rating if the business risk improves enough to justify an excellent business risk profile and the company maintains FFO to debt consistently at or above 27%.

**Our Base-Case Scenario**

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>• 100% debt financing of proposed acquisition of Gulf Power Co. (Gulf Power);</li> <li>• Write-off of Hurricane Irma storm restoration costs partially offsets modestly negative cash flow impacts of tax reform;</li> <li>• Robust cash flow generation at the company's regulated and nonregulated operations;</li> <li>• Benefits from monetization of tax benefits and asset sales;</li> <li>• Capital spending averaging about \$11 billion annually;</li> <li>• Dividend payments of about \$2 billion annually; and</li> <li>• Negative discretionary cash flow.</li> </ul>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	
	FFO to debt (%)	25.5	22-25	22-25
	Debt to EBITDA (x)	3.0	3-3.5	3-3.5
	FFO cash interest coverage ratio (x)	6.3	5-6	5-6
A-Actual. E-Estimate. FFO-Funds from operations.				

## Company Description

NEE is a large, vertically integrated regulated utility holding company with regulated utility operations contributing to about two-thirds of the company's operation and about one-third exposure to higher-risk nonregulated merchant generation. Through its utility subsidiary, Florida Power & Light Co. (FPL), NEE provides electric services to nearly 5 million customers throughout most of the east and lower west coasts of Florida. NEE's nonregulated operations focus largely on merchant electric generation, generally hedged or contracted long term, with an emphasis on renewable energy projects with some fossil and nuclear generation.

## Business Risk: Strong

Our assessment of NEE's business risk reflects the strength and contribution of the company's regulated utility operations, partially offset by exposure to higher-risk nonregulated merchant generation.

NEE's regulated utility operations have lower business risk and account for about two-thirds of the company's operations, supporting cash flow stability and the company's overall business risk profile. Through its utility subsidiary, FPL, NEE provides electric services to nearly 5 million customers throughout most of the east and lower west coasts of Florida. The large, mostly residential customer base provides additional cash flow stability. NEE has a constructive regulatory framework that benefits from forward-looking test years and various constructive regulatory mechanisms that provides for timely investment and fuel cost recovery. We view the company's management of regulatory risk as above average compared to peers as demonstrated through its ability to consistently earn returns that are close to, or at, authorized levels.

We ascribe significantly higher business risk to NEE's nonregulated operations because they focus largely on merchant electric generation, generally hedged or contracted long term, with an emphasis on renewable energy projects with some fossil and nuclear generation. However, about 90% of NEE's nonregulated generation capacity is under long-term contracts, which offers greater cash flow stability than many generation-company peers. Most plants are project-financed, and the resulting weaker, residual cash flows suppress the business risk profile. Also raising business risk are smaller but higher-risk proprietary trading, retail supply, and wholesale full-requirements contracts, and natural gas exploration and production investments. These activities have significant liquidity needs and require diligent risk management and hedging against fluctuating commodity prices. Overall, due to the relatively large size of NEE's lower-risk regulated business and rising percentage of long-term renewables contracts, we assess the company at the higher end of the range of its business risk profile category compared to peers.

The company has gradually improved its business risk profile through growth of its low-risk regulated utility operations and we expect it will continue to do so. We view NEE's recent acquisition of Florida City Gas (FCG) and its agreement to acquire the regulated utility assets of Gulf Power as consistent with its long-term strategy to decrease business risk through growth of its low-risk regulated utility operations.

Table 1

NextEra Energy Inc.--Peer Comparison					
Industry Sector: Combo					
	NextEra Energy Inc.	AVANGRID Inc.	Exelon Corp.	Dominion Energy Inc.	Public Service Enterprise Group Inc.
Rating as of Aug. 27, 2018	A-/Stable/--	BBB+/Stable/A-2	BBB/Positive/A-2	BBB+/Negative/A-2	BBB+/Stable/A-2
--Fiscal year ended Dec. 31, 2017--					
<b>(Mil. \$)</b>					
Revenues	17,119.7	5,963.0	30,272.8	12,586.0	9,084.0
EBITDA	7,457.6	2,014.0	9,420.9	6,769.3	3,844.5
Funds from operations (FFO)	5,740.3	1,642.8	7,280.8	5,315.3	3,319.8
Net income from cont. oper.	5,378.0	381.0	3,770.0	2,999.0	1,574.0
Cash flow from operations	5,740.3	1,741.8	6,246.2	4,495.9	3,143.8
Capital expenditures	10,637.0	2,388.0	6,805.0	5,287.4	4,298.0
Free operating cash flow	(4,896.7)	(646.2)	(558.8)	(791.6)	(1,154.2)
Discretionary cash flow	(6,865.8)	(1,181.2)	(1,807.3)	(2,800.0)	(2,024.2)
Cash and short-term investments	1,714.0	41.0	881.0	120.0	313.0
Debt	22,547.7	7,598.2	35,914.5	35,802.7	15,139.7
Equity	33,426.0	15,096.0	29,186.0	21,774.9	13,847.0
<b>Adjusted ratios</b>					
EBITDA margin (%)	43.6	33.8	31.1	53.8	42.3
Return on capital (%)	8.4	4.7	6.9	6.9	5.0
EBITDA interest coverage (x)	4.4	5.1	4.2	4.4	7.3
FFO cash int. cov. (x)	6.3	8.8	3.9	5.5	10.0
Debt/EBITDA (x)	3.0	3.8	3.8	5.3	3.9
FFO/debt (%)	25.5	21.6	20.3	14.8	21.9
Cash flow from operations/debt (%)	25.5	22.9	17.4	12.6	20.8
Free operating cash flow/debt (%)	(21.7)	(8.5)	(1.6)	(2.2)	(7.6)
Discretionary cash flow/debt (%)	(30.5)	(15.5)	(5.0)	(7.8)	(13.4)

Source: S&amp;P Global Ratings.

## Financial Risk: Intermediate

We assess NEE's financial risk profile using more relaxed financial ratio benchmarks than those used for most corporate issuers due to the company's mostly lower-risk utility operations and its effective management of regulatory risk.

We assess NextEra Energy Partners L.P. (NEP) as an equity investment and deconsolidate NEP from our analysis of

NEE. This reflects the governance changes, which collectively has led NEE to lose control over NEP, and the overall reduced significance that NEP holds for NEE.

We remove the non-recourse project debt at NEER, reflecting our view that NEER has sufficient scale and diversity that no single project is critical to NEE. Furthermore, management's public statement that it would not support a failing project and the company's track record of walking away from a failing project in the past support our assessment.

Under our base-case scenario, we expect NEE's cash flow measures to modestly weaken from historical levels of FFO to debt of 25%-28% to levels more consistently at the lower end of the range for its financial risk profile category, with FFO to debt of 22%-25%. Our base-case scenario includes 100% debt financing of the proposed acquisition, tax reform, capital spending averaging about \$11 billion annually, dividend payments of about \$2 billion annually, robust cash flow generation at the company's regulated and nonregulated operations, and benefits from monetization of tax benefits and asset sales.

We note that the company's year-end 2017 metrics were lower than expected, reflecting a one-time write-off of storm-restoration costs related to Hurricane Irma. Under Florida regulation, FPL can recover storm-restoration costs through an interim surcharge. However, following the enactment of tax reform, FPL determined that it would not seek recovery of Hurricane Irma storm restoration costs and instead offset the surcharge against tax reform refunds.

Table 2

NextEra Energy Inc.--Financial Summary					
Industry Sector: Combo					
--Fiscal year ended Dec. 31--					
	2017	2016	2015	2014	2013
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
<b>(Mil. \$)</b>					
Revenues	17,119.7	16,079.3	17,412.8	16,948.8	15,062.7
EBITDA	7,457.6	7,313.9	7,116.2	6,150.3	5,918.5
Funds from operations (FFO)	5,740.3	6,149.2	5,902.6	5,410.6	5,203.1
Net income from continuing operations	5,378.0	2,912.0	2,752.0	2,465.0	1,720.0
Cash flow from operations	5,740.3	5,831.2	5,392.6	4,798.6	5,135.1
Capital expenditures	10,637.0	9,514.2	8,334.0	6,957.5	6,578.1
Free operating cash flow	(4,896.7)	(3,683.0)	(2,941.4)	(2,158.9)	(1,443.0)
Dividends paid	1,969.1	1,746.8	1,501.2	1,375.8	1,263.1
Discretionary cash flow	(6,865.8)	(5,429.8)	(4,442.6)	(3,534.7)	(2,706.0)
Debt	22,547.7	22,098.6	22,704.5	21,310.0	20,087.1
Preferred stock	3,928.0	3,930.0	2,689.0	3,239.0	3,427.1
Equity	33,426.0	29,261.0	25,801.0	23,407.0	21,467.1
Debt and equity	55,973.7	51,359.6	48,505.5	44,717.0	41,554.2
<b>Adjusted ratios</b>					
EBITDA margin (%)	43.6	45.5	40.9	36.3	39.3
EBITDA interest coverage (x)	4.4	6.0	5.3	6.6	6.3

Table 2

NextEra Energy Inc.--Financial Summary (cont.)					
Industry Sector: Combo					
	--Fiscal year ended Dec. 31--				
	2017	2016	2015	2014	2013
FFO cash int. cov. (x)	6.3	6.2	6.3	5.3	5.6
Debt/EBITDA (x)	3.0	3.0	3.2	3.5	3.4
FFO/debt (%)	25.5	27.8	26.0	25.4	25.9
Cash flow from operations/debt (%)	25.5	26.4	23.8	22.5	25.6
Free operating cash flow/debt (%)	(21.7)	(16.7)	(13.0)	(10.1)	(7.2)
Discretionary cash flow/debt (%)	(30.5)	(24.6)	(19.6)	(16.6)	(13.5)
Net cash flow/Capex (%)	35.5	46.3	52.8	58.0	59.9
Return on capital (%)	8.4	7.9	8.5	7.8	7.5
Return on common equity (%)	19.7	11.5	12.1	12.1	8.7
Common dividend payout ratio (un-adj.) (%)	34.3	55.4	50.3	51.2	65.2

Source: S&amp;P Global Ratings.

## Liquidity: Adequate

NEE has adequate liquidity, in our view, and can more than cover its needs for the next 12 months even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed uses by more than 1.1x, the minimum threshold for this liquidity assessment under our criteria. Under our stress scenario, we do not expect the company to require access to the capital markets during that period to meet liquidity needs. In addition, NEE has sound relationships with banks and satisfactory standing in the credit markets. It could absorb a high-impact, low-probability event with limited need for refinancing.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>• FFO of about \$7 billion;</li> <li>• Credit facility of about \$11 billion; and</li> <li>• Cash on hand of about \$500 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Debt maturities of about \$4 billion, including commercial paper borrowings;</li> <li>• Maintenance capital spending of about \$7 billion; and</li> <li>• Dividends of about \$2 billion.</li> </ul>

## Group Influence

Under our group rating methodology, we assess NEE as the parent of Florida Power & Light Co. (FPL) and NextEra Energy Capital Holdings Inc. (NEECH). We view both entities as core businesses of NEE because they are highly unlikely to be sold, possess a strong long-term commitment from the parent's management, are successful, are

significant contributors to the group, and are closely linked to the parent's reputation.

We assess NEP as a non-strategic subsidiary whose rating reflects its stand-alone credit profile and which rating is not influenced by any relationship to NextEra. This is based on the limited amount of distributions from NEP relative to NextEra's total cash flow, and the declining ownership interest indicate NEP's increasingly reduced significance to NextEra and NextEra's diminishing motivation to help NEP during a period of financial distress. At the same time, efforts by NextEra to provide any measure of support to NEP, including through direct or indirect financial support or through the commitment of additional designated assets to be sold to NEP, could adversely affect NextEra's credit profile.

## Ratings Score Snapshot

### Issuer Credit Rating

A-/Stable/--

### Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

### 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-

## Issue Ratings--Subordination Risk Analysis

### Capital structure

NEE's current capital structure consists of about \$33 billion total debt of which about \$14 billion is outstanding at NextEra Energy Capital Holdings Inc. (NEECH), about \$13.5 billion is outstanding at FPL, and about \$5 billion of non-recourse debt is outstanding at project subsidiaries of NextEra Energy Resources LLC.

**Analytical conclusions**

- We rate the hybrid equity units at NEE two notches below the issuer credit rating, one notch for deferability and one notch for subordination.
- The unsecured debt at NEECH guaranteed by NextEra is rated one notch below the issuer credit rating because it ranks behind significant debt issued by subsidiaries in the capital structure.
- Junior subordinated notes and hybrid equity units at NEECH are rated two notches below the issuer credit rating, one notch for deferability and one notch for subordination.
- Secured debt at FPL benefits from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a '1+' recovery rating and an issue-level rating one notch above the issuer credit rating.
- Unsecured debt at FPL is rated the same as the issuer credit rating because it is a qualifying investment-grade regulated utility.
- The commercial paper program at both NEECH and FPL is rated 'A-2', consistent with the issuer credit ratings.

**Table 3****Reconciliation Of NextEra Energy Inc. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. \$)**

--Fiscal year ended Dec. 31, 2017--

<b>NextEra Energy Inc. reported amounts</b>										
	<b>Debt</b>	<b>Shareholders' equity</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>Operating income</b>	<b>Interest expense</b>	<b>EBITDA</b>	<b>Cash flow from operations</b>	<b>Dividends paid</b>	<b>Capital expenditures</b>
Reported	35,081.0	28,208.0	17,195.0	7,018.0	4,215.0	1,558.0	7,018.0	6,413.0	1,845.0	10,740.0
<b>S&amp;P Global Ratings' adjustments</b>										
Interest expense (reported)	--	--	--	--	--	--	(1,558.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	81.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	(188.0)	--	--	--
Equity-like hybrids	(2,200.0)	2,200.0	--	--	--	(41.4)	41.4	41.4	41.4	--
Intermediate hybrids reported as debt	(1,728.0)	1,728.0	--	--	--	(82.8)	82.8	82.8	82.8	--
Postretirement benefit obligations/ deferred compensation	--	--	--	(151.0)	(151.0)	--	(114.3)	(30.3)	--	--
Surplus cash	(1,714.0)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	114.0	(114.0)	(114.0)	--	(114.0)
Share-based compensation expense	--	--	--	105.0	--	--	105.0	--	--	--
Dividends received from equity investments	--	--	--	160.0	--	--	160.0	--	--	--
Securitized stranded costs	(144.0)	--	(75.3)	(75.3)	(9.3)	(9.3)	(66.0)	(66.0)	--	--

**Table 3**

<b>Reconciliation Of NextEra Energy Inc. Reported Amounts With S&amp;P Global Ratings' Adjusted Amounts (Mil. \$) (cont.)</b>										
Power purchase agreements	64.5	--	--	15.5	4.5	4.5	11.0	11.0	--	11.0
Asset retirement obligations	--	--	--	148.0	148.0	148.0	44.1	(89.9)	--	--
Non-operating income (expense)	--	--	--	--	795.0	--	--	--	--	--
Non-controlling Interest/Minority interest	--	1,290.0	--	--	--	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	--	(37.0)	--	--
Debt - Accrued interest not included in reported debt	174.0	--	--	--	--	--	--	--	--	--
Debt - Issuance cost	380.0	--	--	--	--	--	--	--	--	--
Debt - Other	(7,365.8)	--	--	--	--	--	--	--	--	--
EBITDA - Valuation gains/(losses)	--	--	--	436.0	436.0	--	436.0	--	--	--
EBITDA - Other	--	--	--	(198.6)	(198.6)	--	(198.6)	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	446.0	--	--	--	--	--
D&A - Other	--	--	--	--	(272.0)	--	--	--	--	--
OCF - Other	--	--	--	--	--	--	--	(470.6)	--	--
Total adjustments	(12,533.3)	5,218.0	(75.3)	439.6	1,198.6	133.1	(1,277.7)	(672.7)	124.1	(103.0)
<b>S&amp;P Global Ratings' adjusted amounts</b>										

	<b>Debt</b>	<b>Equity</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from operations</b>	<b>Cash flow from operations</b>	<b>Dividends paid</b>	<b>Capital expenditures</b>
Adjusted	22,547.7	33,426.0	17,119.7	7,457.6	5,413.6	1,691.1	5,740.3	5,740.3	1,969.1	10,637.0

Source: S&amp;P Global Ratings.

## Related Criteria

- 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
- Criteria - Corporates - Industrials: Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, 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

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

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

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## CREDIT OPINION

2 August 2019

Update

 Rate this Research

### RATINGS

#### NextEra Energy Capital Holdings, Inc.

Domicile	Juno Beach, Florida, United States
Long Term Rating	Baa1
Type	Senior Unsecured - Fgn 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 a guaranteed subsidiary of NextEra Energy, Inc. (NEE, Baa1 stable), one of the largest power and utility holding companies in North America. NEE owns Florida Power and Light Company (FPL, A1 stable), one of the largest and financially strongest regulated vertically integrated electric utilities in the US, and Gulf Power Company (Gulf Power, A2 stable), a small regulated vertically integrated utility that NEE acquired in January 2019. NEECH's credit profile reflects NEE's unconditional guarantee of 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 (41% of NEE's segment assets before corporate and other items), FPL (50% of NEE's assets) and Gulf (5% of NEE's assets). NEER holds a large, diverse portfolio of renewable assets with strong and 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 remain around 10% as it continues to invest in new projects. Given the weak wholesale power generation 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 and Gulf Power. For further detail, please refer to [www.moodys.com](http://www.moodys.com) for research on NEE for discussion of the consolidated entity and its regulated utilities, FPL and Gulf Power.

## Credit strengths

- » Unconditional guarantee by parent, NEE
- » Growing clean-energy portfolio with emphasis on long-term contracted assets with highly credit-worthy counterparties
- » Diversification into low-risk, regulated or contracted infrastructure (gas pipelines and electric transmission) businesses strengthens risk profile

## Credit challenges

- » Large negative free cash flow of \$6.8 billion will require substantial debt financing
- » Project execution risk remains at NEER as it continues investing heavily through an elevated construction cycle
- » Significant structural subordination to non-recourse project level debt

## Rating outlook

The stable outlook reflects our expectation that the unconditional guarantee provided by NEE on NEECH's debt and obligations will remain in place. The stable outlook also considers that as new projects go in-service over the next few years NEECH's financial metrics will remain stable such that its ratio of CFO pre-W/C to Debt will remain about 10%. We expect NEECH's stable financial profile, coupled with the strong financial profiles of FPL and Gulf Power, 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 reducing its exposure to merchant activities.

## Factors that could lead to an upgrade

NEECH's rating could be upgraded if NEE's rating is upgraded. An upgrade of NEE's rating is unlikely in the near future due to the high percentage of holding company debt, significant capital projects, and aggressive M&A appetite. Longer term, substantial debt reduction at NEECH/NEER such that the percentage of holding company debt is less than 25% of consolidated debt and consolidated financial metrics improve such that NEE's ratio of CFO pre-W/C to Debt is sustained in the mid-20% range could put upward rating pressure on NEE.

## Factors that could lead to a downgrade

NEECH's rating could be downgraded if NEE's rating is downgraded or if the unconditional guarantee from NEE is modified or revoked. NEE's ratings could be downgraded if its ratio of CFO pre-W/C to debt declines below 18% for an extended period of time. The ratings could be downgraded if there is substantial regulatory contentiousness or changes (e.g. electricity deregulation) in Florida or there is a delay in cost recovery at FPL or there are adverse tax or environmental policy developments that negatively impact NEECH. Downgrades could also result if NEE's business risk profile deteriorates, if the holding company level debt is sustained above 50% of consolidated debt, or if the dividend payout increased and is sustained above 70%. A downgrade of NEE and NEECH could lead to a downgrade of FPL, due to affiliation with a weaker parent.

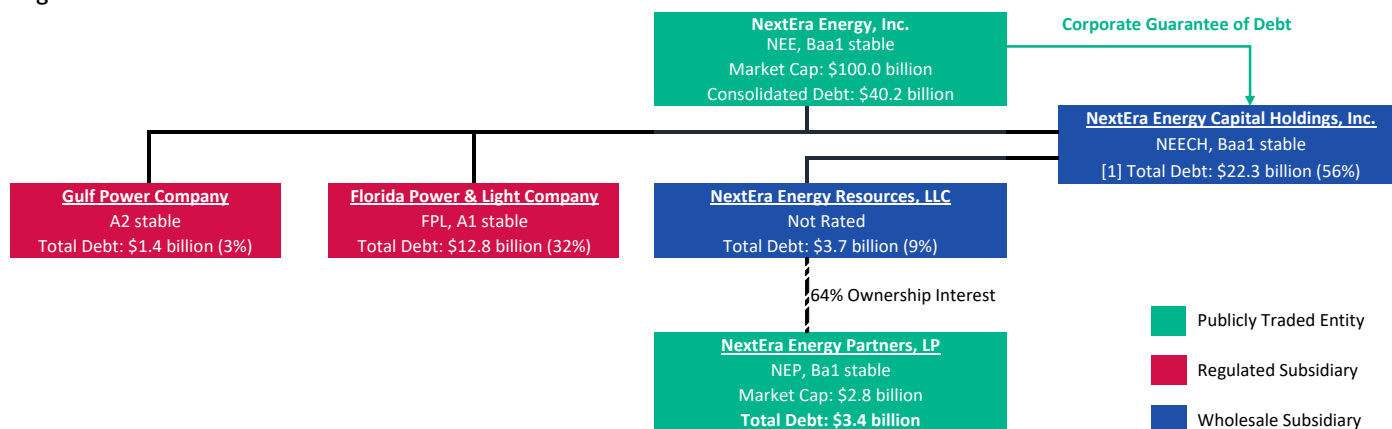
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Profile

NextEra Energy Capital Holdings, Inc. is a guaranteed subsidiary of NextEra Energy, Inc. (Baa1 stable), one of the largest power and utility holding companies in North America. NEE owns Florida Power and Light Company (FPL, A1 stable), one of the largest and financially strongest regulated vertically integrated electric utilities in the US, and Gulf Power Company (A2 stable), a small regulated vertically integrated utility that NEE acquired in January 2019. NEECH is the principal debt financing vehicle for NEE's non-utility businesses and an intermediate holding company of NextEra Energy Resources (NEER, unrated). NEER is an intermediate holding company for NEE's independent power projects as well as ownership interests in natural gas pipelines, and through a subsidiary also has 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.

Exhibit 1

### Organizational Chart



As of 31 March 2019, Market Capitalizations as of 15 July 2019

Source: Company Filings, MarketWatch

## Detailed credit considerations

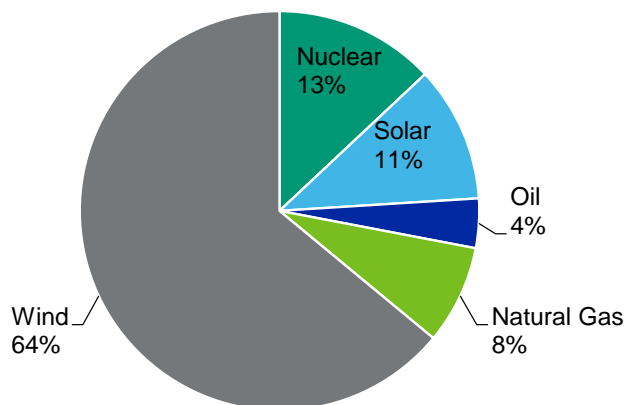
### NEER IS A LEADING PLAYER IN THE RENEWABLE ENERGY SECTOR WITH AN EMPHASIS ON GROWING LONG-TERM CONTRACTED ASSETS

NEER, which accounts for about 25% of NEE's EBITDA, has increased the contracted portion of its large portfolio of renewable assets to approximately 77% in 2018 and expects to increase it up to 80% by 2022. At the same time, we expect NEE's regulated and contracted assets combined will account for 90% of adjusted EBITDA by 2020.

NEER has a large, diverse generation portfolio, and is the largest owner of wind and solar power generation in North America. As of 31 March 2019, NEER owned approximately 24 gigawatts (GW) of generating capacity that was diversified across 36 states and 4 Canadian provinces. Of this capacity, 15% was located in Texas, 24% in the Midwest, 22% in western US, 10% in New England, 27% in the South, and 2% in Canada. NEER also owns about 100 megawatts (MW) of solar facilities in Spain. On 27 July 2018, NEER announced its decision to retire the Duane Arnold Energy Center (DAEC) nuclear facility in late 2020. NEER and Alliant Energy Corporation's (Baa1 negative) Iowa utility agreed to shorten the term of their existing power purchase agreement (PPA) for the output from DAEC by 5 years to 2020 from 2025 in exchange for a buyout payment. As part of the agreement, NEER will supply Alliant Energy's Iowa customers with 340 MW of wind energy under long-term PPAs.

Exhibit 2

## NEER Generation fuel mix by MW



As of December 31, 2018

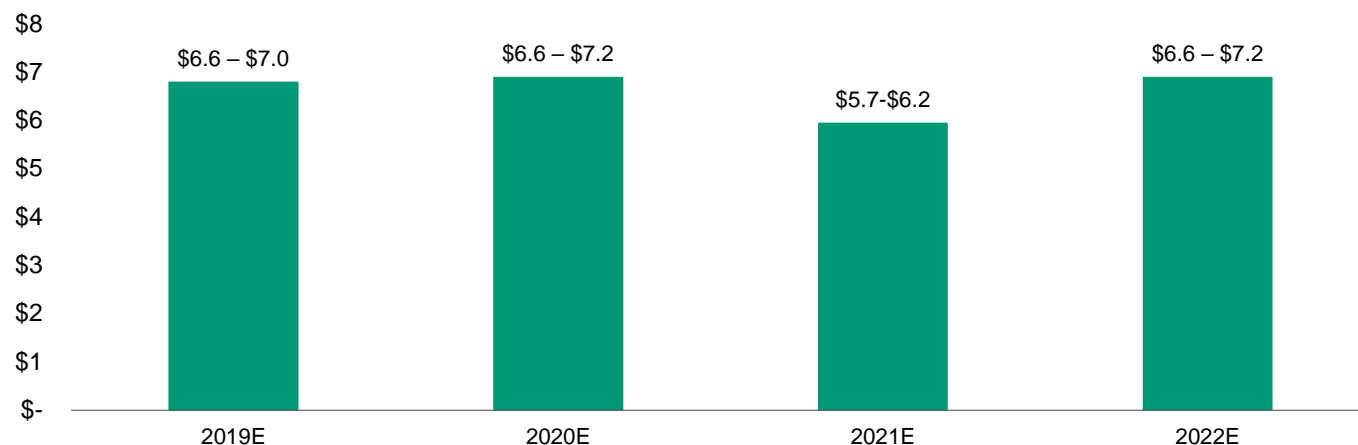
Source: Company Filings

Strong demand for renewable energy provides NEER with growth opportunities to sell renewable energy 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 from the contracted assets and the predominance of renewables, which typically entail little fuel risk or capital maintenance after construction, is in contrast to the typically higher risk associated with unregulated power companies that are exposed to merchant power sales and challenged coal and nuclear plants.

There is somewhat greater uncertainty longer term over environmental policy and supportiveness for renewables after the US exit from the Paris accords, the withdrawal of the Clean Power Plan, as well as changes related to tax reform. However, tax incentives for renewables remain in place for wind through 2023, while solar gradually declines to 10% by 2023 and remains at that level, which should continue to support growth for NEER over the near-term. With many utilities having met their near-term renewable portfolio standards, NEER is continuing its efforts to contract with large corporations to further diversify its customer base before utilities are expected to return to the market as major buyers in order to meet increasing renewable portfolio standards.

NEER's cash flow has risen from new generation capacity that has been added over the last several years. NEER generally manages the construction of renewable projects to make the most of the federal tax credits available. The company is in the midst of such a construction wave, with capex projected to be in the \$6.6-7.0 billion range in 2019 and \$6.6-7.2 billion in 2020, largely due to increased renewables investment. NEER has grown its contracted renewable capacity from approximately 16 GW in 2016 to about 20 GW as of 2018.

Exhibit 3

**NEER projected annual capital expenditures**  
(\$ billions)

Source: Company Presentations

**DIVERSIFICATION INTO LOW-RISK REGULATED OR CONTRACTED INFRASTRUCTURE BUSINESSES STRENGTHENS BUSINESS RISK PROFILE**

As part of the strategy to strengthen NEE's overall business risk profile, NEECH and NEER are investing in FERC regulated gas pipelines and electric transmission assets, which diversifies its growth beyond renewable projects. The company continues to make modest but growing investments in energy storage, which is not only an emerging technology growth area in the renewable sector, but it will also support further growth in wind and solar energy installations.

The \$1.5 billion Sabal Trail and the related \$500 million Florida Southeast Connection gas pipelines came on line in June of 2017, and the \$4.6 billion Mountain Valley pipeline, of which NEE has 31% ownership, is due to go in-service in 2020, depending on receipt of state environmental approvals and a final permit from the Army Corps of Engineers. We note that the Mountain Valley pipeline continues to experience cost overruns and delays related to permitting. These pipelines are expected to generate stable cash flow under 20-year contracts and will help support NEE's credit metrics.

NextEra Energy Transmission (NEET) has won federally regulated greenfield projects in Canada and California, as regulators have opened up transmission development to parties other than incumbent utilities. NEET will construct six projects resulting in a total of approximately \$700 million of awarded transmission investments. Five projects are located within the US, including two projects in California as well as one project in Ontario, Canada. On 16 July 2019, NEET closed on the acquisition of Trans Bay Cable, LLC (unrated), a transmission utility that owns a 53-mile, high-voltage direct current underwater transmission cable system providing power to the San Francisco region, for approximately \$1.1 billion.

**GOVERNANCE CHANGES ALLOWED NEE TO DECONSOLIDATE NEP FROM BALANCE SHEET BEGINNING IN 2018**

NEP, a yieldco formed by NEE in 2014, has a well-diversified portfolio of assets including by geography, by number of projects as well as by fuel-type. NEP has 4.6 GW of wind; 750 MW of solar and 4 bcf/day of gas pipelines (3 bcf/day with long-term contracts) spread over 48 projects and seven pipelines. The projects are located in three broadly diversified regions – the west coast, the southern great plains and the upper midwest. All projects benefit from long-term fixed-price contracts, the majority of which are with strong investment grade counterparties, with an average remaining life of about 16 years. The governance changes at NEP beginning on 1 January 2018, which included deconsolidation on a US GAAP accounting basis, have mixed credit implications, with features that both strengthen its attractiveness to investors but which also could reduce the benefit that NEP receives from being a part of NEE.

The yieldco sector can sometimes face challenging capital market conditions, especially volatile equity prices, which makes issuing equity on an accretive basis difficult. While NEP has been the best performing among all listed yieldcos to date, it also saw a 50% decline in its equity valuation from the peak in 2015 to the nadir in 2016. It took over two years for NEP's equity share price to return to its peak 2015 levels. The changes to NEP's IDR structure and other governance changes reflect an attempt to improve and maintain

strong access to the capital markets. It is worth noting 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 details about the credit considerations of NEP please refer to its Credit Opinion available on [www.moody.com](http://www.moody.com)

### **SIGNIFICANT STRUCTURAL SUBORDINATION RELATIVE TO PROJECT LEVEL DEBT; STABLE FINANCIAL METRICS**

As of 31 March 2019, NEECH had \$22.3 billion of total debt, which accounted for 56% of NEE's reported consolidated debt. NEE guarantees roughly \$21 billion of NEECH's holdco-level debt, which accounted for 51% of NEE consolidated debt, including the proportional consolidation of NEP. However, when allocating some parent debt to unlevered assets and excluding pre-funding of a bridge loan repayment, NEE's holdco debt percentage is roughly 44% of consolidated debt. We do expect NEE's holdco debt percentage to decline over time. Approximately \$4.1 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 roughly \$21 billion of NEECH holdco debt is structurally subordinated to the approximately \$4 billion of non-recourse debt, mostly at NEER's power projects. (NEECH holdco debt is also structurally subordinated to the approximately \$12.8 billion of debt at FPL and \$1.4 billion at Gulf Power.) Much of this 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 shareholder growth, and generate valuable tax benefits. However, NEE divests projects regularly, and at times has shown it would not support a non-recourse project, 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 significant entities with substantial amounts of debt outstanding, they do not file their own audited SEC financial statements, which would be useful in their credit analysis. 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.

We expect NEECH's financial metrics to remain stable as it continues to build and acquire new projects. Cash flow from operations has averaged about \$2.3 billion over the last five years, as more projects have been in construction while others have gone into service. Likewise, NEECH's ratio of CFO pre-WC to Debt has increased from 6% in 2012 to about 8.8% for the LTM 31 March 2019. Over the next few years, we expect NEECH's ratio of CFO pre-WC to Debt will remain about 10%. As such, we expect the stability of NEECH's financial profile, coupled with the strong financial profile of FPL and Gulf Power, will continue to support the overall credit quality of NEE.

### **Liquidity analysis**

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

NEECH's LTM March 2019 operating cash flow of \$1.9 billion would meet less than a third of its capex of \$6.8 billion for the LTM period. NEECH also paid out \$1.7 billion in dividends resulting in a negative free cash flow of \$6.8 billion. In addition, as of 31 March 2019, NEECH had \$9.9 billion of current debt due including \$1.9 billion of commercial paper borrowings, \$2.0 billion of other debt due at the NEECH holdco, and \$540 million of self-amortization of non-recourse project loans at NEER. NEECH also had \$4.5 billion of acquisition term loans outstanding to finance the acquisition of Gulf, but the loans were fully repaid in April 2019 using proceeds from the issuance of debentures and junior subordinated notes as well as borrowings from additional variable rate term loan agreements. Consistent with past financial policies, NEECH financed its negative free cash flow of \$6.8 billion through a combination of project finance debt, tax equity, long and short-term debt and by selling projects (outright or equity interests) to third parties and to NEP.

As of 31 March 2019, NEECH had \$4.6 billion of net available liquidity, which included \$842 million of cash and \$6.6 billion of availability on its revolving credit facilities, net against about \$2.8 billion of commercial paper borrowings. The largest component of the credit facilities is NEECH holdco'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 2024. In addition, NEER maintains

various loan facilities and revolvers for its construction projects including \$900 million of committed bilateral letter of credit facilities (with various maturities between August 2020 to January 2021) and \$1.15 billion of other revolving credit facilities (with various maturities between September 2019 and April 2021). NEECH does not have a material adverse change clause in its bank credit facilities, although it does have one financial maintenance covenant of a consolidated debt-to-capitalization ratio that it does not disclose. However, the company was in compliance as of 31 March 2019.

## Ratings

Exhibit 4

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