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## NextEra Energy Inc.

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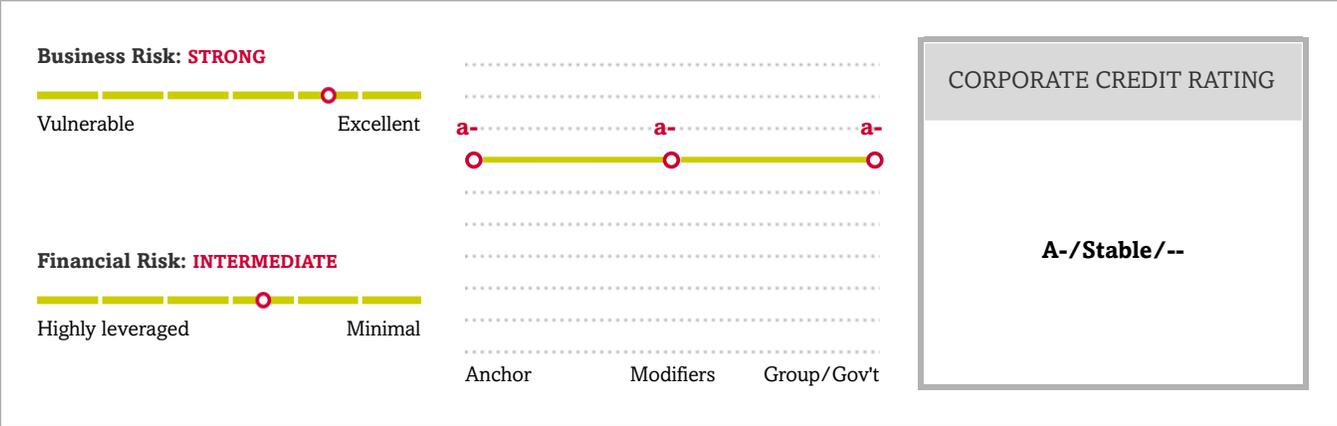
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**OPC 009853  
FPL RC-16**

# NextEra Energy Inc.



## Rationale

Business Risk: Strong	Financial Risk: Intermediate
<ul style="list-style-type: none"> <li>• Primary subsidiary Florida Power &amp; Light Co. (FPL) is a high-quality electric utility that generates steady earnings and cash flows</li> <li>• Low regulatory risk in Florida</li> <li>• Healthy service territory with good customer growth prospects and a predominantly residential and commercial base</li> <li>• Unregulated merchant energy activities detract from consolidated business risk profile despite active efforts to reduce commodity price risk</li> <li>• Diversification in and among competitive energy businesses offsets some of the weakness they bring to the credit profile</li> <li>• Aggressive capital spending plans depress financial measures</li> <li>• Dependence on natural gas to generate electricity in Florida could raise regulatory risk in a rising price environment</li> </ul>	<ul style="list-style-type: none"> <li>• Credit measures that support our assessment of the financial risk profile and that we project will likely improve</li> <li>• High capital spending and substantial common dividends create a persistent condition of negative discretionary cash flow that highlights reliance on external funding</li> </ul>

**Outlook: Stable**

Our rating outlook on NextEra and its subsidiaries is stable and reflects a business profile that is less affected by higher-risk merchant energy activities than in the recent past and a utility that presents a much better credit profile than its peers.

We also base the stable outlook, in part, on Standard & Poor's baseline forecast that NextEra will experience improved bondholder protection measures, attaining adjusted funds from operations (FFO) to debt approaching 25%, and adjusted debt to EBITDA of about 3.3x over the next few years and stabilizing thereafter. Although year-to-year fluctuations in weather (including hurricanes), fuel cost recovery, and burdensome spending on renewable projects could temporarily affect measures, we expect the company to adapt its financial risk management and the pace of its capital spending to account for these and other factors so it can achieve these measures.

**Downside scenario**

We could lower ratings if financial measures do not improve and we think they will remain resiliently at less-supportive levels, including an FFO-to-debt ratio that averages less than 23%. We could also lower ratings if regulatory risk permanently deteriorated or investment decisions demonstrated a shift in risk appetite.

**Upside scenario**

We could raise ratings if cash flow measures considerably improve, such that FFO to debt averages above 30%. In addition, we would expect debt to EBITDA of less than 2.5x. We could also consider a higher rating if the company were to reduce exposure to higher-risk business activities to a degree that resulted in a higher assessment of its business risk profile.

**Standard & Poor's Base-Case Scenario**

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>Revenue growth based on rate increases at FPL to cover new rate base investments and new projects underway at NextEra Energy Resources (NER)</li> <li>Gross margins remain steady</li> <li>Capital spending more than \$7 billion in 2014 then tapering to the recent historical pace of about \$6 billion per year</li> <li>New common equity in 2014</li> <li>Debt maturities met with new issuances, plus new debt to cover projected capital spending not funded with internal cash flow or asset sales</li> </ul>	<b>2013A</b>	<b>2014E</b>	<b>2015E</b>	
	FFO/debt (%)	25.7	24-26	24-26
	Debt/EBITDA (x)	3.4	3.1-3.4	3.1-3.4
A--Actual. E--Estimate. FFO--Funds from operations.				

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## Company Description

NextEra is a large, diversified energy holding company that owns an integrated electric utility and electric transmission companies; develops and operates merchant generating facilities, mostly renewable; and invests in natural gas production ventures. Trading operations engage in risk management activities as well as speculative trading electricity and natural gas markets.

## Business Risk: Strong

NextEra's business risk profile is anchored by the company's core electric utility operations in Florida, which exhibit proficiency in almost every area of analysis. The service territory has historically fared better than most of the rest of the country despite its lagging performance during the recession, the customer mix is mostly residential and commercial, costs and rates are low, and reliability and customer satisfaction are high. While Florida is not immune to overall economic trends, we expect the state to attract new residents and jobs over the long term and resume an above-average growth trajectory. NextEra's large and growing reliance on natural gas to fuel utility generation could eventually turn from an advantage (because of its favorable environmental status and currently low prices) to a weakness if gas prices are erratic over time. Regulatory risk, the most important risk a utility faces, is well managed.

NER, the main subsidiary under unregulated NextEra Energy Capital Holdings Inc., engages in electric generation, transmission, marketing, and trading throughout the U.S. and Canada. NER's focus is on geographic and fuel diversity and on developing environmentally advantageous facilities that benefit from public policy trends. The merchant generator's capacity of over 18,000 megawatts consists of more than half wind turbines, one-quarter natural-gas-fired stations, and the rest mainly nuclear facilities. More than three-quarters of the wind projects and over 60% of the total portfolio operate under largely fixed-price, long-term contracts. The rest of the portfolio, including one nuclear plant, is merchant capacity that can be exposed to market prices for its output. While a policy of actively hedging the commodity price risk of plant inputs and outputs helps to reduce the risks associated with merchant energy activities, NER faces an inherent level of commodity price risk. In addition, NER's extensive project financing (approximately half of installed capacity) of its assets diminishes its cash flow quality, but this is offset by lower financial risk. NER's risks hinder NextEra's credit quality, especially in light of the influence that marketing and high-risk proprietary trading results have on NER's earnings and cash flows.

### S&P Base-Case Operating Scenario

- The company maintains its low regulatory risk in Florida.
- The company effectively manages the pace and risk profile of its unregulated investments.
- The company's balance sheet does not increase in complexity.
- Large construction projects continue to be well-managed and are completed on time and on budget.

## Peer comparison

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Table 1

## NextEra Energy Inc. -- Peer Comparison

## Industry Sector: Energy

	NextEra Energy Inc.	Wisconsin Energy Corp.	Dominion Resources Inc.	Entergy Corp.	Sempra Energy
Rating as of July 9, 2014	A-/Stable/--	A-/Negative/A-2	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
<b>--Average of past three fiscal years--</b>					
<b>(Mil. \$)</b>					
Revenues	14,520.8	4,417.3	13,530.7	10,851.6	10,080.0
EBITDA	5,259.6	1,501.7	5,001.8	4,035.0	3,433.6
Funds from operations (FFO)	4,518.0	1,232.4	3,920.1	3,087.6	2,558.8
Net income from cont. oper.	1,851.3	545.5	1,173.7	988.8	1,072.3
Cash flow from operations	4,316.7	1,221.3	3,452.1	2,739.5	2,065.1
Capital expenditures	7,220.7	738.1	3,886.3	3,170.2	2,724.0
Free operating cash flow	(2,904.0)	483.2	(434.2)	(430.7)	(658.9)
Discretionary cash flow	(4,038.1)	185.8	(1,701.1)	(1,031.8)	(1,237.4)
Cash and short-term investments	95.3	6.3	55.5	163.8	135.9
Debt	19,621.3	5,599.6	21,697.2	14,630.5	14,738.1
Equity	19,229.0	4,375.7	12,590.3	9,407.9	10,941.0
<b>Adjusted ratios</b>					
EBITDA margin (%)	36.2	34.0	37.0	37.2	34.1
Return on capital (%)	7.7	9.6	9.4	7.4	8.1
EBITDA interest coverage (x)	6.1	5.1	4.6	4.1	4.3
FFO cash int. cov. (X)	4.6	5.9	5.1	7.0	6.1
Debt/EBITDA (x)	3.7	3.7	4.3	3.6	4.3
FFO/debt (%)	23.0	22.0	18.1	21.1	17.4
Cash flow from operations/debt (%)	22.0	21.8	15.9	18.7	14.0
Free operating cash flow/debt (%)	(14.8)	8.6	(2.0)	(2.9)	(4.5)
Discretionary cash flow/debt (%)	(20.6)	3.3	(7.8)	(7.1)	(8.4)

## Financial Risk: Intermediate

We use the medial volatility table, reflecting the company's moderately low risk related to its majority electric utility businesses.

We assess financial risk profile as "intermediate", reflecting our expectation that the core financial measures will slowly rise to a solid position in the range for the category.

**S&P Base-Case Cash Flow And Capital Structure Scenario**

- Reported EBITDA of more than \$2.8 billion
- EBITDA improves in 2015 and 2016 driven by rate increases, modest load growth, and new projects coming on line
- Increasing consolidated debt, supporting the higher capital spending
- No increase in consolidated leverage
- Continued negative discretionary cash flow
- New common equity issued in 2014

**Financial summary****Table 2****NextEra Energy Inc. -- Financial Summary****Industry Sector: Energy**

	--Fiscal year ended Dec. 31--				
	2013	2012	2011	2010	2009
Rating history	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--	A-/Stable/--
<b>(Mil. \$)</b>					
Revenues	14,757.7	13,877.9	14,926.7	15,009.0	15,423.4
EBITDA	5,916.5	4,858.6	5,003.6	5,180.6	4,274.8
Funds from operations (FFO)	5,159.3	4,044.2	4,350.6	4,667.9	3,586.3
Net income from continuing operations	1,720.0	1,911.0	1,923.0	1,935.5	1,615.0
Cash flow from operations	5,157.9	3,821.4	3,970.8	3,802.0	4,152.2
Capital expenditures	6,578.1	9,146.6	5,937.4	5,281.2	5,905.2
Free operating cash flow	(1,420.2)	(5,325.2)	(1,966.5)	(1,479.1)	(1,753.0)
Dividends paid	1,263.1	1,117.2	1,022.3	905.0	835.1
Discretionary cash flow	(2,683.3)	(6,442.3)	(2,988.8)	(2,384.1)	(2,588.1)
Debt	20,087.1	21,116.1	17,660.7	14,988.0	14,325.0
Preferred stock	3,427.1	3,279.5	1,929.5	1,176.5	1,176.5
Equity	21,467.1	19,347.5	16,872.5	16,390.5	14,493.5
Debt and equity	41,554.2	40,463.6	34,533.2	31,378.5	28,818.5
<b>Adjusted ratios</b>					
EBITDA margin (%)	40.1	35.0	33.5	34.5	27.7
EBITDA interest coverage (x)	6.3	5.4	6.7	7.3	6.0
FFO cash int. cov. (x)	4.9	4.2	4.6	5.6	4.9
Debt/EBITDA (x)	3.4	4.3	3.5	2.9	3.4
FFO/debt (%)	25.7	19.2	24.6	31.1	25.0
Cash flow from operations/debt (%)	25.7	18.1	22.5	25.4	29.0
Free operating cash flow/debt (%)	(7.1)	(25.2)	(11.1)	(9.9)	(12.2)
Discretionary cash flow/debt (%)	(13.4)	(30.5)	(16.9)	(15.9)	(18.1)
Net Cash Flow / Capex (%)	59.2	32.0	56.1	71.3	46.6
Return on capital (%)	7.5	7.3	8.4	8.7	7.7
Return on common equity (%)	8.7	10.7	12.0	13.5	12.1

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**Table 2**

NextEra Energy Inc. -- Financial Summary (cont.)					
Common dividend payout ratio (unadjusted) (%)	65.2	52.5	47.8	42.5	47.4

## Liquidity: Adequate

We consider liquidity, measured on a consolidated basis, to be "adequate" under our corporate liquidity methodology. Projected liquidity sources exceed uses by more than 1.1x. The company's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending or sell assets, sound bank relationships, solid standing in credit markets, and generally prudent risk management also support our assessment of its liquidity as adequate.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> <li>• FFO and cash of about \$5.7 million over the next 12 months</li> <li>• Assumed credit facility availability of about \$6.9 billion for the next 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• \$3.8 billion debt maturities over the next 12 months</li> <li>• Capital spending of at least \$6 billion over the next 12 months</li> <li>• Cash dividends of about \$1.3 billion</li> </ul>

### Debt maturities

- 2014: \$3.8 bil.
- 2015: \$2.4 bil.
- 2016: \$1.8 bil.
- 2017: \$2.1 bil.
- 2018: \$1.4 bil.

## Covenant Analysis

As of Mar. 31, 2014, the company had adequate cushion with its financial covenants.

Compliance Expectations
<ul style="list-style-type: none"> <li>• Covenant headroom is solid even if EBITDA decreased by 15%.</li> </ul>

## Other Modifiers

None.

## Group Influence

The group credit profile (GCP) is 'a-'. As the parent company with no insulated subsidiaries, NextEra's issuer credit

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rating is the same as its GCP. Senior unsecured debt at NextEra Energy Capital Holdings (NEECH), which is guaranteed by NextEra and is effectively holding company debt, is notched down to 'BBB+' because of structural subordination to priority obligations at Florida Power & Light. Although NEECH debtholders would have access to their own assets in liquidation, we notch down the debt to reflect the extensive use of project-level debt and the complexity of the financing arrangements throughout the balance sheet.

## Ratings Score Snapshot

### Corporate 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)
- **Liquidity:** Adequate (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** a-
- **Rating above the sovereign:** (no impact)

## Reconciliation

Table 3

## Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard &amp; Poor's Adjusted Amounts (Mil. \$)

--Fiscal year ended Dec. 31, 2013--

## NextEra Energy Inc. reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	28,426.0	18,040.0	15,136.0	5,704.0	3,241.0	1,121.0	5,704.0	5,290.0	1,122.0	6,682.0
Standard & Poor's adjustments	--	--	--	--	--	--	--	--	--	--
Interest expense (reported)	--	--	--	--	--	--	(1,121.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	78.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	76.0	--	--	--
Equity-like hybrids	(1,750.6)	1,750.6	--	--	--	(27.5)	27.5	27.5	27.5	--
Intermediate hybrids reported as debt	(1,676.5)	1,676.5	--	--	--	(113.5)	113.5	113.5	113.5	--
Postretirement benefit obligations/ deferred compensation	--	--	--	(74.0)	(74.0)	--	(68.2)	(10.7)	--	--
Surplus cash	(328.5)	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	167.0	(167.0)	(167.0)	--	(167.0)
Share-based compensation expense	--	--	--	93.0	--	--	93.0	--	--	--
Dividends received from equity investments	--	--	--	33.0	--	--	33.0	--	--	--
Nonrecourse debt	(5,162.0)	--	(305.0)	(305.0)	(305.0)	(305.0)	--	--	--	--
Securitized stranded costs	(386.0)	--	(73.3)	(73.3)	(20.3)	(20.3)	(53.0)	(53.0)	--	--
Power purchase agreements	766.7	--	--	116.8	53.7	53.7	63.1	63.1	--	63.1
Asset retirement obligations	--	--	--	64.0	64.0	64.0	22.4	(40.6)	--	--
Non-operating income (expense)	--	--	--	--	358.0	--	--	--	--	--
US decommissioning fund contributions	--	--	--	--	--	--	--	(65.0)	--	--
Debt - Accrued interest not included in reported debt	198.0	--	--	--	--	--	--	--	--	--
EBITDA - Other	--	--	--	358.0	358.0	--	358.0	--	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	300.0	--	--	--	--	--
D&A - Other	--	--	--	--	(358.0)	--	--	--	--	--
Total adjustments	(8,338.9)	3,427.1	(378.3)	212.5	376.4	(181.7)	(544.7)	(132.1)	141.1	(103.9)

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Table 3

## Reconciliation Of NextEra Energy Inc. Reported Amounts With Standard &amp; Poor's Adjusted Amounts (Mil. \$) (cont.)

Standard & Poor's adjusted amounts										
	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	20,087.1	21,467.1	14,757.7	5,916.5	3,617.4	939.3	5,159.3	5,157.9	1,263.1	6,578.1

## Related Criteria And Research

- Methodology and Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan 2, 2014.
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors for The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

## Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	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-

## Ratings Detail (As Of July 29, 2014)

## NextEra Energy Inc.

Corporate Credit Rating	A-/Stable/--
Junior Subordinated	BBB
Senior Unsecured	BBB
Senior Unsecured	BBB+

## Corporate Credit Ratings History

11-Mar-2010	Foreign Currency	A-/Stable/--
14-Jan-2010		A/Watch Neg/--
26-Oct-2006		A/Stable/--
11-Mar-2010	Local Currency	A-/Stable/--
14-Jan-2010		A/Watch Neg/--
26-Oct-2006		A/Stable/--

## Related Entities

## Florida Power &amp; Light Co.

Issuer Credit Rating	A-/Stable/A-2
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**Ratings Detail (As Of July 29, 2014) (cont.)**

Commercial Paper	
<i>Local Currency</i>	A-2
Preferred Stock	BBB
Senior Secured	A
Senior Secured	A/A-2
<b>FPL Energy American Wind LLC</b>	
Senior Secured	BB/Stable
<b>FPL Energy National Wind LLC</b>	
Senior Secured	BB/Stable
<b>FPL Energy National Wind Portfolio LLC</b>	
Senior Secured	B-/Stable
<b>FPL Energy Wind Funding LLC</b>	
Senior Secured	B-/Stable
<b>FPL Group Capital Trust I</b>	
Preferred Stock	BBB
<b>NextEra Energy Capital Holdings Inc.</b>	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Local Currency</i>	A-2
Junior Subordinated	BBB
Senior Unsecured	BBB+

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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