FitchRatings

03 Sep 2014 12:13 PM EST

# Fitch Rates Florida Power & Light Co's First Mortgage Bonds 'AA-'

Fitch Ratings-New York-03 September 2014: Fitch Ratings has assigned an 'AA-' rating to Florida Power & Light Company's (FPL) issue of $500 million 4.05% series first mortgage bonds due Oct. 1, 2044. The Rating Outlook is Stable. FPL plans to use the net proceeds from this offering along with general funds on hand to repay a portion of its outstanding commercial paper borrowings, which stood at $461 million as of Aug. 29, 2014, and for other general corporate purposes.

FPL's ratings reflect the predictable nature of cash flows from regulated electric operations, a favorable 2012 rate order that provides for at least four years of regulatory certainty, recovering electric sales in its service territory after a prolonged trough, management focus on O&M cost containment that is expected to drive returns close to the upper end of the authorized ROE range, and a strong balance sheet and liquidity profile. The ratings also reflect high capex investments over 2014-2016 as the utility spends on new generation and other infrastructure improvements.

KEY RATING DRIVERS:

Base Rate Increases: The outcome of FPL's 2012 base rate case filing was quite constructive, in Fitch's opinion. In addition to a $350 million base rate increase effective January 2013, FPL was granted a four-year GBRA mechanism that automatically adjusts base rates on commercial operations of its new generation plants in 2013, 2014 and 2016, and reflects an approximately $600 million incremental base rate increase over 2013-2016. While the rate order spans a four-year term (till December 2016), FPL could potentially delay filing a rate case for a longer period by proactively managing its costs, in Fitch's opinion. A favorable turnaround in the regulatory climate in Florida and an extended period of regulatory certainty is a key credit positive for FPL.

Recovering FL Economy: A recovering Florida economy could drive FPL's electric sales growth rates above national averages over Fitch's forecast period. Adjusted for weather, FPL's retail kWH (kilowatt hour) sales grew 1.8% in 2012 and 1.0% in 2013. Increase in the average number of customer accounts was 0.6% in both 2012 and 2013 and 1.9% for the six months ended June 30, 2014. Fitch's financial forecasts for FPL are based on a 1% cumulative annual growth rate over 2014-2016; any upside in sales growth would be positive for FPL's credit metrics. Conversely, a flat or declining growth environment could put pressure on FPL's financial performance. However, FPL's credit metrics are expected to be quite robust over 2014-2016, and there exists adequate headroom to withstand a long period of flat-to-negative growth, which is what Fitch has assumed in its stress case. This is also a key factor in the stability of FPL's ratings, since the utility cannot implement a base rate increase outside the GBRA mechanism before December 2016.

High Capex: Fitch expects FPL to spend over $9.7 billion in capex through 2016. This includes investment in the new generation projects, storm hardening, infrastructure, reliability improvements and maintenance expenditures. Fitch expects FPL to finance its capex needs using a mix of equity and debt so as to maintain its regulatory capital structure.

Robust Credit Metrics: FPL's forecasted funds from operations (FFO) credit metrics are expected to weaken from their current robust levels as benefits from bonus depreciation subside. Fitch expects the FFO fixed-charge coverage to be in the 7.0x - 9.0x range over the forecast period. The FFO adjusted leverage and adjusted debt/EBITDAR are expected to be 3.0x and 2.4x, respectively, by 2016. These metrics are quite robust compared to the 'A' rated financial profile for a regulated utility.

RATING SENSITIVITIES

Positive or negative rating actions for FPL look unlikely at this time. However, downward rating pressure could result from:

--Changes to Florida Regulations: Unfavorable changes in current Florida regulatory policies for timely recovery of utility capital investments, fuel and purchased power costs, and storm-related costs would adversely affect FPL's ratings.

--Increasing Parent Risk Profile: If FPL's parent, Nextera Energy, Inc.), increases its debt leverage or changes its corporate strategy such that its risk profile materially worsens, it could adversely affect FPL's ratings consistent with Fitch's Parent and Subsidiary Rating Linkage Criteria.

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Applicable Criteria and Related Research:

--'Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage' (May 28, 2014);

--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 19, 2013);

--'Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis' (Dec. 23, 2013);

--'Rating U.S. Utilities, Power and Gas Companies' (March 11, 2014).

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Rating U.S. Utilities, Power and Gas Companies (Sector Credit Factors)

**Additional Disclosure**

Solicitation Status

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