Platts 16th Annual Financing U.S. Power Conference

The Emerging Role of the Yieldco

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Good morning - and thank you for that kind introduction.

Before I start, I need to alert you that in the course of my remarks I will be making some forward-looking statements with regard to NextEra Energy and NextEra Energy Partners' respective financial outlooks. Those forward-looking statements are based on current expectations and assumptions, which are subject to risks and uncertainties. Actual results could differ materially from these forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in NextEra and NextEra Energy Partners' SEC filings.

This morning I want to offer a few thoughts about a relatively recent phenomenon in our industry, which is the emerging role of the yieldco. But before I directly address the so-called - and somewhat misnamed - yieldco, I want to start my story by going back a little bit in time and talking about something else. Master Limited Partnerships, or MLPs, have now been around for over thirty years – I'm told the first one was introduced in 1981. Today they are a well-accepted part of the oil & gas industry, and there are well over a hundred of them; but it took some years for them to become accepted. MLPs have a number of benefits, but a key benefit is the ability to isolate a set of cash flows and a risk profile from within a larger, more complex entity and to offer that simpler, but nevertheless still very interesting, set of cash flows to a particular group of investors. For example, to separate out the risks associated with developing, marketing and constructing a gas pipeline from the long term ownership of the resulting cash flows. These long term ownership cash flows are readily valued and can be very attractive to a particular set of investors.

Complexity can be very good, in that it can lead to all sorts of commercial opportunities, but there is always a price to pay for complexity. There is an abundance of academic research that confirms what everyday experience suggests, and that is that complexity leads to some degree of valuation discount relative to a sum-of-the-parts view of the pure-play elements of which a portfolio is composed. From the investor's viewpoint, separating out the different activities that a company undertakes can unlock hidden value by diminishing the degree of the complexity discount - also often known as a bundling discount. MLPs separate out certain activities and allow them to be valued independently.

The problem with separation in many cases is that it forces inefficiency by creating two entities, both of which end up being sub-scale. However, if the assets being isolated continue to be operationally managed by the sponsor, as is commonly the case in MLPs, this potential disadvantage goes away.

Like most innovations, MLPs took a while to become broadly adopted; but they are now a settled fact of competition in the oil & gas sector. A broad range of investors are now fully comfortable with them, and a degree of investor specialization has grown up. There are now enough generally comparable entities to justify focused research, and there exists a clear segment of retail investors for whom the nature of the risk-return positioning is attractive. While it may not be true that MLPs enjoy a cost of capital advantage - there is a nice academic debate to be had there - it definitely seems true that a sponsor without a MLP now risks being at a cost of capital disadvantage.

Only time will tell, but I believe we may be witnessing the emergence of something rather similar in the yieldco space - something that bears more than a passing resemblance to the MLP example, but is slightly different. Something that is both looser and simultaneously more flexible than the MLP. Something that may offer more challenges to investors, at least initially, to sort out, but something that may powerfully affect the power sector in just the same way that the development of MLPs has affected the oil & gas sector.

So what is a yieldco?

I suspect at this stage you could get lots of different answers to that question, depending on who you talk to. For our purposes here I will simply define it as a structured vehicle created by a sponsor to isolate a certain cluster of assets with broadly similar characteristics that are markedly different from the sponsor's other activities and that is focused on predictability, stability and growth of cash flows, coupled with a high payout ratio. In that sense it is a very simple concept - very much a "what you see is what you get" vehicle, from an investor's viewpoint. It is also potentially quite an elastic concept, in terms of the specific assets that may fit within a yieldco portfolio. Already, in the year or so that these companies have been in existence, we have seen a wide array of assets introduced to them, and there is the potential for them to spread their wings to encompass many more.

Broadly speaking, however, the types of assets that - at least so far - seem to be most suitable are those that come closest to the annuity model - highly predictable cash flows, preferably supported by a strong long-term contract; low operational risk; and limited need for reinvestment capital to sustain the cash flow stream. It is no coincidence that contracted renewables projects should predominate among the assets that yieldcos have so far acquired.

Let me take a moment to illustrate how separating out the long-term ownership of the cash flows associated with contracted renewables projects can make sense and reveal hidden value, at least for a company such as ours.

NextEra Energy has wide array of activities within the broad compass of the North American power business, but at least for the foreseeable future our value will be heavily tied to the prospects for Florida Power & Light, a traditional, vertically integrated, fully retail rate-regulated utility. And that's great. We like that. FPL is a great company, with a great history and, we think, an even better future ahead of it. But one consequence of our portfolio mix is that to a large extent investors value us on a comparative P/E basis. The utility sector has a strong,

focused following among investors, and a comparative P/E approach historically has made a lot of sense.

Now the relationship between earnings and cash flow for a regulated utility, which has large, ongoing capital reinvestment needs, is different from that for a contracted renewables portfolio, which, once it is up and running, has very low ongoing capital requirements. Thus, if you apply a typical utility-industry P/E to a contracted renewables portfolio earnings stream you will come up with a value that is lower than if you value that same portfolio on a cash flow basis.

So by isolating the contracted renewables portfolio and making it and its cash flows visible to investors we get the potential to realize more value than is implicit when it is bound up in the larger NextEra Energy portfolio. And by separating out the early-stage activities of development and construction and commissioning from the long-term ownership of the resulting cash flow stream we can offer to the yieldco investor a very clean, low-risk portfolio. Of course, it is impossible to remove all risk, but I think the ‘cleaner’ and more straightforward the yieldco cash flows are, the easier it will be for investors to put an appropriate value on them, and the more likely it is that this valuation will be reflected back in the share price of NextEra Energy, the sponsor.

So, I’ve suggested to you that yieldcos and MLPs may turn out to be alike in many respects. Well, I’m sure many of you are saying to yourselves “yes, but wait a minute – MLPs have a structural advantage - they occupy a privileged position in the tax code, and that must give them a big advantage that yieldcos don’t have.” It is certainly true that there is a tax-related difference, but it may not be as much as it appears at first sight, particularly if the yieldco has a strong element of renewables in its portfolio.

This is because the acquisition of an asset by a yieldco creates a step-up in tax basis based on the acquisition value, which in turn creates a new depreciation tax shield. If the assets acquired are renewable assets they are entitled to an accelerated depreciation schedule. Thus, the pattern of taxable income may look very different from the pattern of operating cash flows. If the yieldco is growing, and depending upon the valuation of the specific assets acquired, this can effectively defer any corporate tax liability for a long time. Thus, when taxes are viewed on a present value basis, the advantage of the MLP diminishes considerably.

Moreover, when a sponsor sells an asset to the yieldco or MLP there will generally be a corresponding taxable event for the sponsor. If the sale is for cash, taxable income will be realized to the extent of the difference between the prior tax basis and the sale price. Thus, to the extent that the future freedom from corporate tax is capitalized into the asset value the sponsor will actually end up implicitly paying some tax today on the future preferential tax position. Again, depending upon the specific situation of the sponsor, this can further reduce any tax advantage of the MLP.

Against this, the yieldco structure is inherently more flexible. MLPs are limited to certain types of assets, as dictated by the tax code; yieldcos are much broader.

Now, I do not mean to suggest to you that MLPs are suddenly going to be dominated by yieldcos; but I am suggesting that there may well be room for both in the world of the future. We will just have to see how the future unfolds.

Let me now spend a moment talking about our own entry into the yieldco space, which is NextEra Energy Partners. And let me first note that we started out pretty skeptical of the yieldco concept. Still, the more we investigated and the more we analyzed, the more we came to appreciate that this is something that could change the face of an important part of our industry. We spent a significant amount of time and effort studying the MLP space for clues, and we also had the benefit of the first few yieldcos that either had come to market or about which we could gather some information from the banking community.

What we brought to the capital markets after our analysis was a portfolio that we thought would be very attractive to investors - a balanced portfolio of high quality renewables projects, some wind, some solar; some in the U.S., some in Canada, all with long term contracts with creditworthy customers, using proven technologies from recognized vendors like GE and Siemens, and operated by our world-class Power Generation team. This initial portfolio was backed by a similar but larger portfolio of right-of-first-offer (or ROFO) assets, which gave investors comfort that our stated expectations of 12-15% per year growth in unit distributions to LP unitholders could be achieved, supported by the knowledge that there are many more assets in the NextEra Energy portfolio that could be made available over time.

The launch of NEP was a great success, and it immediately established a new benchmark for the yieldco space in terms of trading yield. The IPO was heavily over-subscribed. I like to joke that in all my years of meeting with investors I have never been more warmly welcomed than I was on the NEP roadshow.

One mark of the attractiveness of NEP was the response from our own employees. Had we not been required to cut them back, our employees would have contributed about a fifth of the initial equity of NEP. We had been advised by our bankers that setting aside a few percentage points of the deal for employees would be more than adequate and that we likely wouldn't allocate all the shares in the reserved program. We ended up having to cut everyone back by roughly half.

So the launch was a great success. One important feature of NEP that I should mention here is its structure. During our analytical process we were very concerned to make sure that there should be good long term alignment between the interests of the NEE investor and those of the NEP investor. We realized that this was an issue that those in the MLP space had dealt with long ago. As a result, we adapted the structure that is common in the MLP space of having a partnership, with the GP controlled by the sponsor and entitled to IDRs, or incentive distribution rights, which grow disproportionately as the LP unit distributions grow. At the same time we elected a structure that will allow us to provide our investors 1099s rather than K-1s, which can be important for some investors.

We believe the IDR structure provides NEE (the sponsor) with a very strong incentive to make sure that the NEP unitholders do well. Strong, sustained growth in LP unit distributions is what drives the value of the IDR cash flow stream to the sponsor. So if NEP unitholders do well, that

in turn will lead to the sponsor doing well. And if NEP trades well, that in turn will hopefully be reflected in the sponsor's share price.

Of course, the IDRs are not 'free money.' They are simply a different way of dividing the pie, and doing so in a fashion that promotes the alignment of interests. But when looked at from the perspective of sponsor valuation, the cash flow stream associated with the IDRs is certainly very important. Failure to recognize this component of the overall sponsor economic equation will result in missing a piece of NEE's value. Early on this may be small, but with the rapid growth of NEP, and the accelerated growth that flow through the IDRs, it can quickly become significant. This is an area that I'm not sure all investors fully understand today, but I think it will become more apparent as time goes by.

NEP was the 5th yieldco to come to market; today there are 6. And I am assured by my friends in the banking community that there will be more to come. How should investors compare these different approaches to the same fundamental issues?

First, it is important to recognize that not all yieldcos are created equal. Of course, I am biased, but then again . . . . I'm the guest speaker here this morning, so I have no hesitation in asserting that NEP is by far the best positioned in the space. But I know you would expect that from your speaker, so let me explain why I think so.

First, one way to think about yieldcos or MLPs is along a growth versus yield spectrum. If you were to plot all the entrants in the MLP-yieldcos sweepstakes on a growth vs yield graph you would see a clear relationship; and, as I think you would expect, higher growth means lower yield and vice versa.

Of course, maturity tends to bring all growth rates down - it is inherently tougher to grow a large entity than a smaller one, which is incidentally why the Apple story is so unusual. But the challenges of growing a large entity is something we should leave for another day.

Among the yieldcos right now, however, maturity is not a distinguishing characteristic: they are all young. They are all likely to start off small, and so they will all have plenty of room to grow. So I think it is reasonable to see the differences in trading yields as indicative of the market's view of the differences in the underlying growth prospects and other qualitatively valuable attributes of the various companies.

Incidentally, this growth vs yield trade off suggests that the term 'yieldco' is a bit of a misnomer. While cash flows and income are important, the biggest distinguishing characteristic of the yieldcos is their growth component, so they might really better be called 'growthcos.' But it appears that we are too late now to change the moniker.

Relative to the growth-yield plot that I just mentioned, NEP trades at a premium. That is, its yield is lower than you would expect given its stated growth expectations. This, I think, is entirely logical. Investors clearly pay attention to the characteristics of the sponsor, and NextEra Energy is viewed, correctly in my view, as a superior sponsor. There is no doubt, too, based on many direct conversations with investors, that most appreciate and like our structure. But above

all, NEP trades at a premium because it is supported by a sponsor that has the most attractive portfolio of projects that may in the future be made available to it.

The initial portfolio consists of roughly a thousand megawatts of all-renewable capacity. Standing behind that is the ROFO portfolio, which is roughly fifty per cent larger. Beyond that, we have another 7,500 megawatts of contracted renewable assets, with a further 1,800 or so under development or in construction. Incidentally, our wind fleet alone last year generated over 30 million megawatt-hours, making it equivalent in output to the energy needs of a mid-sized utility. We also have other assets that may be suitable for NEP, including potentially two large pipeline projects that we are developing, as well as some contracted fossil assets. And of course we do not expect to be idle over the next years, so more assets are likely to be added to this list, which is already by far the largest in the industry.

To put this potential in perspective, for the first twelve months we have indicated we expect NEP to have nearly $90 million of cash potentially available for distribution. In ten years this could grow to well in excess of $2 billion per year, just from the assets we already have or can reasonably expect to develop during that time period, assuming investors continue to find the NEP story appealing.

Clearly, this is a huge advantage, and one frankly enjoyed by no other yieldco.

But NextEra Energy offers NEP not only an unmatched potential portfolio of assets to acquire over time but also a world class operator to support them. NEE will continue to operate the assets that NEP acquires, and NEP investors will therefore continue to benefit from the huge scale and collective experience and all the technological capabilities that we have developed over a couple of decades. Lessons we learn in running modern, high-efficiency gas turbines in Florida have value for the way we manage our wind fleet and vice versa. Just to give a couple of statistics, last year our overall fossil fleet EFOR, or forced outage rate, was 0.9%, compared with an industry average of nearly 7%. Data on industry performance for wind fleets is harder to come by, but we know from a variety of deals that we have been involved with and from our project finance experience that our wind reliability performance is much better than most. This operating performance represents real value for NEP investors as well as NEE investors.

Of course, yieldcos and MLPs can grow through acquiring other assets than simply those from their sponsors. However, the ability to grow through third-party acquisition is inherently less certain - no one can know exactly when assets may become available, and of course there may well be competition for those assets. And competition is likely to force down expected returns. It seems logical, therefore that investors will discount acquisition growth stories. Moreover, lots of yieldcos can pursue acquisitions, but only one can win each deal. Consequently, while I will not claim it is impossible for an individual company to be successful through third-party acquisitions, I do think it is a strategy that must be handicapped in terms of odds of success, and surely not all will be successful in this area. My personal view is that a yieldco growth strategy that is founded on the hope of acquiring other assets is highly risky.

In our own case, NEP may well acquire third-party assets, and we certainly expect to be competitive in this arena. But the core strategy and the investor value proposition are not

dependent upon success in this area. If we have some success, I believe it will simply be a bit of icing on the cake.

Let me turn now to the future and offer a few comments on what the future may bring.

First, I think we should certainly expect to see more entities come to market. As I have said, I believe the core concept behind the yieldco makes sense, and certainly there is plenty of investor interest at the moment. How much this may change with changing market conditions we will have to see. I will offer a few thoughts in a moment.

Second, while I believe the yieldco concept is an important development, I don't think it by any means threatens the more traditional utility model. In fact, I think it is best seen as complementary to the traditional model, and I believe the best long-term stories will be those like NEP, which we hope and fully expect will operate in parallel with and synergistically with NextEra Energy for many years to come. While yieldcos can encompass a wide variety of assets, I believe they will do best when they focus on clean, de-risked, and transparent cash flow stories. That is certainly how we are thinking about NEP.

Third, though, I believe yieldcos will tend to accelerate consolidation across the types of assets – primarily, independent generation projects operating under long term contract – that they are best suited for. I certainly think that those who hold portfolios of contracted generation will want to think hard about either forming their own yieldco, which I think will be challenging if their portfolio is small, or else in due course selling off the long-term ownership of the operating cash flows to a yieldco entity where they will be best valued. From a developer's perspective, the emergence of the yieldco offers an opportunity to do what we call recycling capital, freeing up resources to continue to focus on the challenges and opportunities of development.

Now some thoughts on how things may change with changing market conditions.

I believe that over time we can expect to see increasing investor differentiation across the various companies in the space. Right now, we have the confluence of what seems like a good fundamental idea, plus investor enthusiasm, plus a very accommodating market environment. Sooner or later, these will be tested.

I'm sure a number of you have had in the back of your minds the question: what happens to these yield-oriented entities when interest rates rise, as everyone expects them to do? - although I should note that I have been repeatedly wrong in my own assessment of interest rates for many years now!

The answer to this question, I believe, can be found in my earlier comment that yieldcos are really misnamed. While the general nature of their cash flows will likely make all yieldcos to some degree sensitive to interest rates, it seems likely that those that have the best growth prospects will trade least on their yield and will therefore do relatively best if rates go up. Again, we believe that NEP is well placed here.

Moreover, we should remember that in general the assets that comprise the yieldcos will be drawn from larger companies in the power space that are themselves already exposed to interest rates. Thus, what is really important is the relative impact, and this can be quite complicated and dependent upon individual circumstances. But again, I believe that the yieldcos, like NEP, with the best growth prospects will hold up best.

So it seems to me that if and when the sector is tested by a rising interest rate environment, there will inevitably emerge a greater degree of differentiation.

Next, investor enthusiasm may change with time. Again, I believe this will lead to greater differentiation. Not all the portfolios of assets out there are equal. Sooner or later a project will suffer an operational issue or a contractual issue or something else will go wrong. The world has a remarkable way of seeking out the weak spots in our stories. If that happens, it seems likely to me to lead to a higher degree of skepticism. If so, then I believe investors will start to attach more weight to some of those characteristics - such as the support of a world-class operator - that we have made sure we have built into NEP.

And finally, simply the passage of time will cause some degree of differentiation. Some of these companies will simply be more successful than others.

Against this backdrop, I believe NEP will be a strong survivor. We have great assets, managed by a world-class operator, the longest runway of visible growth in the sector, and the support of a sponsor that is a proven developer - the most successful renewables developer in North America - to extend that runway. There is huge potential for new renewables development in the U.S., particularly as the challenge of climate change is not going away and the EPA is moving down the path required by Supreme Court rulings towards regulation of CO_2 emissions. That means future development opportunities for NextEra Energy and future acquisition opportunities for NEP. The future is bright.

What will this mean for our investors?

When we launched NEP we indicated that we expected to grow unit distributions by 12-15% per year for the first three years, and the ROFO portfolio I mentioned earlier was designed to support this. But of course it was clear that the pool of assets from which NEP might hope to draw was bigger than just the ROFO portfolio and we have subsequently indicated that we can readily see extending the 12-15% a year growth rate through the end of the decade - even if NextEra Energy doesn't develop a single new project.

More recently, we have been taking a closer look at our growth trajectory, examining individual assets and when it might make sense to make them available to NEP, listening to our investors, and working on a tax equity structure that we expect will enable us to make some projects available to NEP earlier than we had previously thought. Meanwhile, the backlog of new projects at the sponsor continues to increase, and our pipeline continues to evolve. So today we think we can do better for both NEP and NEE investors. We think now that it makes sense to accelerate the rate of growth of NEP for a period of time, while still preserving a long profile of future growth in the 12-15% a year range.

Our initial LP unit distribution is expected to be at an annualized rate of 75 cents. We now expect to reach a level of $1.10 or so by the end of 2015 or possibly earlier, corresponding to a short-term growth rate of 40-50%/year; and we believe we can do this while still offering reasonable expectations of maintaining 12-15% a year thereafter through the end of the decade.

For NEP investors, I don't think there can be any question that that is a very attractive value proposition.

For NEE investors, this acceleration of growth implies earlier recognition of the value stream represented by the IDRs than has previously been considered. We expect with this accelerated growth profile to reach the so-called high splits by the end of 2015 and possibly earlier. While the cash flows from the IDRs, when they start, will likely be small, the expected rapid growth implies that by the end of the decade they could be of the order of $200 million per year. Using simple financial analysis, this suggests that the IDR cash flow stream by itself could be worth several billion dollars in that time frame, which could mean an incremental $5-10 per share for NEE shareholders. Although no one can reliably predict market conditions that far away, it certainly seems to me that that is something worth factoring into our thinking.

For both sets of investors, I believe this represents an unequalled combination of current strength, highly visible growth, and some of the best long-term growth prospects to be found anywhere in the North American power industry.

No one can tell you for sure what the future holds. But at NextEra Energy and at NextEra Energy Partners, we believe we are well positioned to take advantage of the emerging role of the yieldco. We look forward to watching the future unfold and being part of our industry's evolution.

Thank you for your attention.

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various liabilities attributable to environmental laws, regulations and other standards applicable to NextEra Energy; effects on NextEra Energy of federal or state laws or regulations mandating new or additional limits on the production of greenhouse gas emissions; exposure of NextEra Energy to significant and increasing compliance costs and substantial monetary penalties and other sanctions as a result of extensive federal regulation of its operations; effect on NextEra Energy of changes in tax laws and in judgments and estimates used to determine tax-related asset and liability amounts; impact on NextEra Energy of adverse results of litigation; effect on NextEra Energy of failure to proceed with projects under development or inability to complete the construction of (or capital improvements to) electric generation, transmission and distribution facilities, gas infrastructure facilities or other facilities on schedule or within budget; impact on development and operating activities of NextEra Energy resulting from risks related to project siting, financing, construction, permitting, governmental approvals and the negotiation of project development agreements; risks involved in the operation and maintenance of electric generation, transmission and distribution facilities, gas infrastructure facilities and other facilities; effect on NextEra Energy of a lack of growth or slower growth in the number of customers or in customer usage; impact on NextEra Energy of severe weather and other weather conditions; threats of terrorism and catastrophic events that could result from terrorism, cyber attacks or other attempts to disrupt NextEra Energy's business or the businesses of third parties; inability to obtain adequate insurance coverage for protection of NextEra Energy against significant losses and risk that insurance coverage does not provide protection against all significant losses; risk of increased operating costs resulting from unfavorable supply costs necessary to provide full energy and capacity requirement services; inability or failure to manage properly or hedge effectively the commodity risk within its portfolio; potential volatility of NextEra Energy's results of operations caused by sales of power on the spot market or on a short-term contractual basis; effect of reductions in the liquidity of energy markets on NextEra Energy's ability to manage operational risks; effectiveness of NextEra Energy's risk management tools associated with its hedging and trading procedures to protect against significant losses, including the effect of unforeseen price variances from historical behavior; impact of unavailability or disruption of power transmission or commodity transportation facilities on sale and delivery of power or natural gas; exposure of NextEra Energy to credit and performance risk from customers, hedging counterparties and vendors; failure of counterparties to perform under derivative contracts or of requirement for NextEra Energy to post margin cash collateral under derivative contracts; failure or breach of NextEra Energy's information technology systems; risks to NextEra Energy's retail businesses from compromise of sensitive customer data; losses from volatility in the market values of derivative instruments and limited liquidity in OTC markets; impact of negative publicity; inability to maintain, negotiate or renegotiate acceptable franchise agreements; increasing costs of health care plans; lack of a qualified workforce or the loss or retirement of key employees; occurrence of work strikes or stoppages and increasing personnel costs; NextEra Energy's ability to successfully identify, complete and integrate acquisitions, including the effect of increased competition for acquisitions; environmental, health and financial risks associated with ownership and operation of nuclear generation facilities; liability of NextEra Energy for significant retrospective assessments and/or retrospective insurance premiums in the event of an incident at certain nuclear generation facilities; increased operating and capital expenditures at nuclear generation facilities resulting from orders or new regulations of the Nuclear Regulatory Commission; inability to operate any owned nuclear generation units through the end of their respective operating licenses; liability for increased nuclear licensing or compliance costs resulting from hazards, and increased public attention to hazards, posed to owned nuclear generation facilities; risks associated with outages of owned nuclear units; effect of disruptions, uncertainty or volatility in the credit and capital markets on NextEra Energy's ability to fund its liquidity and capital needs and meet its growth objectives; inability to maintain current credit ratings; impairment of liquidity from inability of creditors to fund their credit commitments or to maintain their current credit ratings; poor market performance and other economic factors that could affect NextEra Energy's defined benefit pension plan's funded status; poor market performance and other risks to the asset values of nuclear decommissioning funds; changes in market value and other risks to certain of NextEra Energy's investments; effect of inability of NextEra Energy subsidiaries to pay upstream dividends or repay funds to NextEra Energy or of NextEra Energy's performance under guarantees of subsidiary obligations on NextEra Energy's ability to meet its financial obligations and to pay dividends on its common stock; and effect of disruptions, uncertainty or volatility in the credit and capital markets of the market price of NextEra Energy's common stock. 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