

Edgar Filing: NextEra Energy Partners, LP - Form 10-Q

NextEra Energy Partners, LP
Form 10-Q
July 28, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

| Commission File Number | Exact name of registrant as specified in its charter, address of principal executive office and registrant's telephone number | IRS Employer Identification Number |
|------------------------|---|------------------------------------|
| 001-36518 | NEXTERA ENERGY PARTNERS, LP 700 Universe Boulevard Juno Beach, Florida 33408 (561) 694-4000 | 30-0818558 |

State or other jurisdiction of incorporation or organization: Delaware

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

Number of NextEra Energy Partners, LP common units outstanding as of June 30, 2016: 42,274,695

DEFINITIONS

Acronyms and defined terms used in the text include the following:

| Term | Meaning |
|-----------------------------|--|
| 2015 Form 10-K | NEP's Annual Report on Form 10-K for the year ended December 31, 2015 |
| ASA | administrative services agreement(s) |
| BLM | U.S. Bureau of Land Management |
| CITC | Convertible Investment Tax Credit |
| COD | commercial operation date |
| CSCS agreement | cash sweep and credit support agreement |
| FIT | Feed-in-Tariff |
| GWh | gigawatt-hour(s) |
| IDR fee | certain payments from NEP OpCo to NEE Management as a component of the MSA which are based on the achievement by NEP OpCo of certain target quarterly distribution levels to its unitholders |
| IPP | independent power producer |
| management sub-contract | management services sub-contract between NEE Management and NEER |
| Management's Discussion | Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations |
| MSA | Management Services Agreement among NEP, NEE Management, NEP OpCo and NEP GP |
| MW | megawatt(s) |
| NEE | NextEra Energy, Inc. |
| NEECH | NextEra Energy Capital Holdings, Inc. |
| NEE Equity | NextEra Energy Equity Partners, LP |
| NEE Management | NextEra Energy Management Partners, LP |
| NEE Operating GP | NextEra Energy Operating Partners GP, LLC |
| NEER | NextEra Energy Resources, LLC |
| NEP | NextEra Energy Partners, LP |
| NEP GP | NextEra Energy Partners GP, Inc. |
| NEP OpCo | NextEra Energy Operating Partners, LP |
| NOLs | net operating losses |
| Note __ | Note __ to condensed consolidated financial statements |
| O&M | operations and maintenance |
| Pemex | Petróleos Mexicanos |
| PPA | power purchase agreement, which could include contracts under a FIT or RESOP |
| PTC | production tax credit |
| RESOP | Renewable Energy Standard Offer Program |
| SEC | U.S. Securities and Exchange Commission |
| Texas pipelines | natural gas pipeline assets located in Texas |
| Texas pipelines acquisition | Acquisition of NET Holdings Management, LLC (the Texas pipeline business) |
| Texas pipeline entities | the subsidiaries of NEP that directly own the Texas pipelines |
| U.S. | United States of America |
| U.S. Project Entities | project entities located within the U.S. |

Each of NEP and NEP OpCo has subsidiaries and affiliates with names that may include NextEra Energy, NextEra Energy Partners and similar references. For convenience and simplicity, in this report, the terms NEP and NEP OpCo

are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context. Discussions of NEP's ownership of subsidiaries and projects refers to its controlling interest in the general partner of NEP OpCo and NEP's indirect interest in and control over the subsidiaries of NEP OpCo. See Note 5 for a description of the noncontrolling interest in NEP OpCo.

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the federal securities laws. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, strategies, future events or performance (often, but not always, through the use of words or phrases such as result, are expected to, will continue, is anticipated, aim, believe, will, could, should, would, estimated, may, plan, potential, future, projection, goals, target, outlook, predict and intend or words of similar meaning) are not statements of historical facts and may be forward looking. Forward-looking statements involve estimates, assumptions and uncertainties. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors (in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements) that could have a significant impact on NEP's operations and financial results, and could cause NEP's actual results to differ materially from those contained or implied in forward-looking statements made by or on behalf of NEP in this Form 10-Q, in presentations, on its website, in response to questions or otherwise.

Operational Risks

• NEP has a limited operating history and its projects include renewable energy projects with a limited operating history. Such projects may not perform as expected.

• NEP's ability to make cash distributions to its unitholders is affected by wind and solar conditions at its renewable energy projects.

• NEP's business, financial condition, results of operations and prospects can be materially adversely affected by weather conditions, including, without limitation, the impact of severe weather.

• As a result of the Texas pipelines acquisition, NEP's operations and business have substantially changed. NEP's expansion into the natural gas pipeline industry may not be successful.

• NEP may fail to realize expected profitability or growth, and may incur unanticipated liabilities, as a result of the Texas pipelines acquisition.

• NEP is pursuing the expansion of natural gas pipelines in its portfolio that will require up-front capital expenditures and expose NEP to project development risks.

• NEP's ability to maximize the productivity of the Texas pipeline business and to complete potential pipeline expansion projects is dependent on the continued availability of natural gas production in the Texas pipelines' areas of operation.

• Operation and maintenance of renewable energy projects involve significant risks that could result in unplanned power outages, reduced output, personal injury or loss of life.

- The wind turbines at some of NEP's projects and some of NEER's right of first offer projects are not generating the amount of energy estimated by their manufacturers' original power curves, and the manufacturers may not be able to restore energy capacity at the affected turbines.

• NEP depends on the Texas pipelines and certain of the renewable energy projects in its portfolio for a substantial portion of its anticipated cash flows.

• Terrorist or similar attacks could impact NEP's projects or surrounding areas and adversely affect its business.

• NEP's energy production and pipeline transportation capability may be substantially below its expectations if severe weather or a natural disaster or meteorological conditions damage its turbines, solar panels, pipelines or other equipment or facilities.

• The ability of NEP to obtain insurance and the terms of any available insurance coverage could be materially adversely affected by international, national, state or local events and company-specific events, as well as the financial condition of insurers. NEP's insurance coverage does not insure against all potential risks and it may become subject to higher insurance premiums.

• Warranties provided by the suppliers of equipment for NEP's projects may be limited by the ability of a supplier to satisfy its warranty obligations, or by the terms of the warranty, so the warranties may be insufficient to compensate NEP for its losses.

• Supplier concentration at certain of NEP's projects may expose it to significant credit or performance risks.

NEP relies on interconnection and transmission facilities of third parties to deliver energy from its renewable energy projects and, if these facilities become unavailable, NEP's wind and solar projects may not be able to operate or deliver energy.

NEP's business is subject to liabilities and operating restrictions arising from environmental, health and safety laws and regulations.

NEP's renewable energy projects may be adversely affected by legislative changes or a failure to comply with applicable energy regulations.

A change in the jurisdictional characterization of some of the Texas pipeline entities' assets, or a change in law or regulatory policy, could result in increased regulation of these assets, which could have material adverse effect on NEP's business, financial condition, results of operations and ability to make cash distributions to its unitholders.

NEP may incur significant costs and liabilities as a result of pipeline integrity management program testing and any necessary pipeline repair or preventative or remedial measures.

The Texas pipelines' operations could incur significant costs if the Pipeline and Hazardous Materials Safety Administration or the Railroad Commission of Texas adopts more stringent regulations.

Pemex may claim certain immunities under the Foreign Sovereign Immunities Act and Mexican law, and the Texas pipeline entities' ability to sue or recover from Pemex for breach of contract may be limited.

Portions of NEP's pipeline systems have been in service for several decades. There could be unknown events or conditions or increased maintenance or repair expenses and downtime associated with NEP's pipelines that could have a material adverse effect on NEP's business, financial condition, results of operations, liquidity and ability to make distributions.

Natural gas operations are subject to numerous environmental laws and regulations, compliance with which may require significant capital expenditures, increase NEP's cost of operations and affect or limit its business plans, or expose NEP to liabilities.

Natural gas gathering and transmission activities involve numerous risks that may result in accidents or otherwise affect the Texas pipelines' operations.

NEP's partnership agreement restricts the voting rights of unitholders owning 20% or more of its common units, and under certain circumstances this could be reduced to 10%.

NEP does not own all of the land on which the projects in its portfolio are located and its use and enjoyment of the property may be adversely affected to the extent that there are any lienholders or leaseholders that have rights that are superior to NEP's rights or the BLM suspends its federal rights-of-way grants.

NEP is subject to risks associated with litigation or administrative proceedings that could materially impact its operations, including, without limitation, proceedings related to projects it acquires in the future.

NEP's wind projects located in Canada are subject to Canadian domestic content requirements under their FIT contracts.

NEP's cross-border operations require NEP to comply with anti-corruption laws and regulations of the U.S. government and non-U.S. jurisdictions.

NEP is subject to risks associated with its ownership or acquisition of projects that remain under construction, which could result in its inability to complete construction projects on time or at all, and make projects too expensive to complete or cause the return on an investment to be less than expected.

Contract Risks

NEP relies on a limited number of customers and NEP is exposed to the risk that they are unwilling or unable to fulfill their contractual obligations to NEP or that they otherwise terminate their agreements with NEP.

NEP may not be able to extend, renew or replace expiring or terminated PPAs at favorable rates or on a long-term basis.

NEP may be unable to secure renewals of long-term natural gas transportation agreements, which could expose its revenues to increased volatility.

If the energy production by or availability of NEP's U.S. renewable energy projects is less than expected, they may not be able to satisfy minimum production or availability obligations under NEP's U.S. Project Entities' PPAs.

If third-party pipelines and other facilities interconnected to the Texas pipelines become partially or fully unavailable to transport natural gas, NEP's revenues and cash available for distribution to unitholders could be adversely affected.

Risks Related to NEP's Acquisition Strategy and Future Growth

NEP's growth strategy depends on locating and acquiring interests in additional projects consistent with its business strategy at favorable prices.

NEP OpCo's partnership agreement requires that it distribute its available cash, which could limit its ability to grow and make acquisitions.

NEP's ability to consummate future acquisitions will depend on NEP's ability to finance those acquisitions.

Lower prices for other fuel sources may reduce the demand for wind and solar energy.

Reductions in demand for natural gas in the United States or Mexico and low market prices of natural gas could materially adversely affect the Texas pipelines' operations and cash flows.

Government regulations providing incentives and subsidies for clean energy could change at any time and such changes may negatively impact NEP's growth strategy.

NEP's growth strategy depends on the acquisition of projects developed by NEE and third parties, which face risks related to project siting, financing, construction, permitting, the environment, governmental approvals and the negotiation of project development agreements.

Acquisitions of existing clean energy projects involve numerous risks.

- Renewable energy procurement is subject to U.S. state and Canadian provincial regulations, with relatively irregular, infrequent and often competitive procurement windows.
-

NEP may continue to acquire other sources of clean energy, including, without limitation, natural gas and nuclear projects, and may expand to include other types of assets including, without limitation, transmission projects, and any further acquisition of non-renewable energy projects, including, without limitation, transmission projects, may present unforeseen challenges and result in a competitive disadvantage relative to NEP's more-established competitors. A failure to successfully integrate such acquisitions with NEP's then-existing projects as a result of unforeseen operational difficulties or otherwise, could have a material adverse effect on NEP's business, financial condition, results of operations and ability to grow its business and make cash distributions to its unitholders.

• NEP faces substantial competition primarily from regulated utilities, developers, IPPs, pension funds and private equity funds for opportunities in North America.

• The natural gas pipeline industry is highly competitive, and increased competitive pressure could adversely affect NEP's business.

Risks Related to NEP's Financial Activities

• NEP may not be able to access sources of capital on commercially reasonable terms, which would have a material adverse effect on its ability to consummate future acquisitions.

• Restrictions in NEP OpCo's subsidiaries' revolving credit facility and term loan agreements could adversely affect NEP's business, financial condition, results of operations and ability to make cash distributions to its unitholders.

• NEP's cash distributions to its unitholders may be reduced as a result of restrictions on NEP's subsidiaries' cash distributions to NEP under the terms of their indebtedness.

• NEP's subsidiaries' substantial amount of indebtedness may adversely affect NEP's ability to operate its business and its failure to comply with the terms of its subsidiaries' indebtedness could have a material adverse effect on NEP's financial condition.

• Currency exchange rate fluctuations may affect NEP's operations.

• NEP is exposed to risks inherent in its use of interest rate swaps.

Risks Related to NEP's Relationship with NEE

• NEE exercises substantial influence over NEP and NEP is highly dependent on NEE and its affiliates.

• NEER may lose key employees assigned to manage the Texas pipelines.

• NEP is highly dependent on credit support from NEE and its affiliates. NEP's subsidiaries may default under contracts or become subject to cash sweeps if credit support is terminated, if NEE or its affiliates fail to honor their obligations under credit support arrangements, or if NEE or another credit support provider ceases to satisfy creditworthiness requirements, and NEP will be required in certain circumstances to reimburse NEE for draws that are made on credit support.

• NEER or one of its affiliates is permitted to borrow funds received by NEP's subsidiaries, including, without limitation, NEP OpCo, as partial consideration for its obligation to provide credit support to NEP, and NEER will use these funds for its own account without paying additional consideration to NEP and is obligated to return these funds only as needed to cover project costs and distributions or as demanded by NEP OpCo.

• NEP's financial condition and ability to make distributions to its unitholders, as well as its ability to grow distributions in the future, is highly dependent on NEER's performance of its obligations to return all or a portion of these funds.

• NEP may not be able to consummate future acquisitions from NEER or from third parties.

• NEP GP and its affiliates, including, without limitation, NEE, have conflicts of interest with NEP and limited duties to NEP and its unitholders and they may favor their own interests to the detriment of NEP and holders of NEP common units.

• Common units are subject to NEP GP's limited call right.

• NEE and other affiliates of NEP GP are not restricted in their ability to compete with NEP.

• NEP may be unable to terminate the MSA.

• If NEE Management terminates the MSA, NEER terminates the management sub-contract or either of them defaults in the performance of its obligations thereunder, NEP may be unable to contract with a substitute service provider on similar terms, or at all.

• NEP's arrangements with NEE limit NEE's liability, and NEP has agreed to indemnify NEE against claims that it may face in connection with such arrangements, which may lead NEE to assume greater risks when making decisions relating to NEP than it otherwise would if acting solely for its own account.

• The credit and business risk profiles of NEP GP and its owner, NEE, could adversely affect any NEP credit ratings and risk profile, which could increase NEP's borrowing costs or hinder NEP's ability to raise capital.

Risks Related to Ownership of NEP's Common Units

• NEP's ability to make distributions to its unitholders depends on the ability of NEP OpCo to make cash distributions to its limited partners.

• If NEP incurs material tax liabilities, NEP's distributions to its unitholders may be reduced, without any corresponding reduction in the amount of the IDR fee.

• Holders of NEP's common units have limited voting rights and are not entitled to elect NEP's general partner or NEP GP's directors.

• NEP's partnership agreement restricts the remedies available to holders of NEP's common units for actions taken by NEP GP that might otherwise constitute breaches of fiduciary duties.

• NEP's partnership agreement replaces NEP GP's fiduciary duties to holders of its common units with contractual standards governing its duties.

• Even if holders of NEP's common units are dissatisfied, they cannot initially remove NEP GP without NEE's consent.

• NEE's interest in NEP GP and the control of NEP GP may be transferred to a third party without unitholder consent.

• The IDR fee may be transferred to a third party without unitholder consent.

• NEP may issue additional units without unitholder approval, which would dilute unitholder interests.

• Reimbursements and fees owed to NEP GP and its affiliates for services provided to NEP or on NEP's behalf will reduce cash distributions to or from NEP OpCo and from NEP to NEP's unitholders, and the amount and timing of such reimbursements and fees will be determined by NEP GP and there are no limits on the amount that NEP OpCo may be required to pay.

• Discretion in establishing cash reserves by NEE Operating GP may reduce the amount of cash distributions to unitholders.

• While NEP's partnership agreement requires NEP to distribute its available cash, NEP's partnership agreement, including, without limitation, provisions requiring NEP to make cash distributions, may be amended.

• NEP OpCo can borrow money to pay distributions, which would reduce the amount of credit available to operate NEP's business.

• Increases in interest rates could adversely impact the price of NEP's common units, NEP's ability to issue equity or incur debt for acquisitions or other purposes and NEP's ability to make cash distributions to its unitholders.

• The price of NEP's common units may fluctuate significantly and unitholders could lose all or part of their investment and a market that will provide unitholders with adequate liquidity may not develop.

The liability of holders of NEP's common units, which represent limited partnership interests in NEP, may not be limited if a court finds that unitholder action constitutes control of NEP's business.

Unitholders may have liability to repay distributions that were wrongfully distributed to them.

Except in limited circumstances, NEP GP has the power and authority to conduct NEP's business without unitholder approval.

Contracts between NEP, on the one hand, and NEP GP and its affiliates, on the other hand, will not be the result of arm's-length negotiations.

Unitholders have no right to enforce the obligations of NEP GP and its affiliates under agreements with NEP.

NEP GP decides whether to retain separate counsel, accountants or others to perform services for NEP.

The New York Stock Exchange does not require a publicly traded limited partnership like NEP to comply with certain of its corporate governance requirements.

Taxation Risks

NEP's future tax liability may be greater than expected if NEP does not generate NOLs sufficient to offset taxable income or if tax authorities challenge certain of NEP's tax positions.

NEP's ability to use NOLs to offset future income may be limited.

NEP will not have complete control over NEP's tax decisions.

A valuation allowance may be required for NEP's deferred tax assets.

Distributions to unitholders may be taxable as dividends.

Unitholders who are not resident in Canada may be subject to Canadian tax on gains from the sale of common units if NEP's common units derive more than 50% of their value from Canadian real property at any time.

These factors should be read together with the risk factors included in Part I, Item 1A. Risk Factors in the 2015 Form 10-K and investors should refer to that section of the 2015 Form 10-K. Any forward-looking statement speaks only as of the date on which such statement is made, and NEP undertakes no obligation to update any forward-looking statement to reflect events or circumstances, including, but not limited to, unanticipated events, after the date on which such statement is made, unless otherwise required by law. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained or implied in any forward-looking statement.

Website Access to U.S. Securities and Exchange Commission (SEC) Filings. NEP makes its SEC filings, including the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, available free of charge on NEP's internet website, www.nexteraenergypartners.com, as soon as reasonably practicable after those documents are electronically filed with or furnished to the SEC. The information and materials available on NEP's website are not incorporated by reference into this Form 10-Q. The SEC maintains an internet website that contains reports and other information regarding registrants that file electronically with the SEC at www.sec.gov.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NEXTERA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(millions, except per unit amounts)
(unaudited)

| | Three Months Ended June 30, 2016 | 2015 ^(a) | Six Months Ended June 30, 2016 | 2015 ^(a) |
|--------------------|--|---------------------|---|---------------------|
| OPERATING REVENUES | \$ 171 | \$ 125 | | |