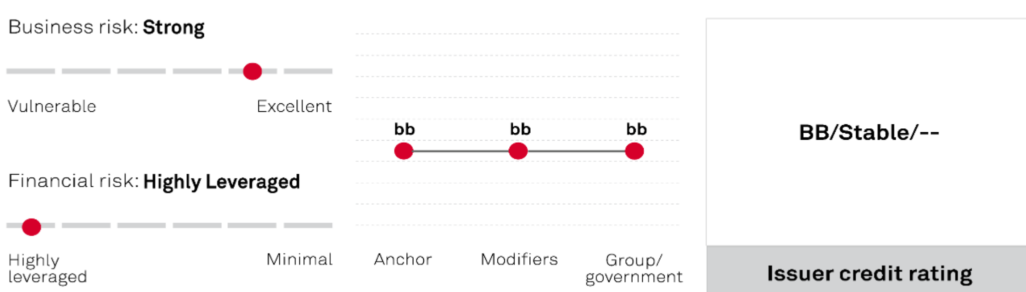
NextEra Energy Partners L.P.

May 6, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Geographically diverse renewable assets portfolio with a capacity of about 10 gigawatts (GW) installed renewable generation.	Managing long-term convertible equity portfolio financing (CEPF) conversions and mitigating any residual exposure to near-term CEPF conversions.
Among the top 10 renewable generators in the world, producing about 27 terawatt hours (TWhr) annually.	Meaningful reliance on wind assets, making it vulnerable to wind resource risks.
Highly contracted revenue stream, with an average contract life of 13 years with highly rated counterparties.	Highly leveraged capital structure and aggressive financial policy.
Visibility on growth pipeline through asset dropdowns from NextEra Energy Resources Inc. (NEER) and support from parent, NextEra Energy Inc.(NEE).	

We view NextEra Energy Partners L.P.'s (NEP) business risk as stronger than peers--it benefits from a superior contractual profile and geographic diversity. Our business risk profile assessment of NEP is strong. Its geographic presence has grown to 30 states in 2023 from one state at the time of its IPO in 2014. Its renewables portfolio is diverse, with a mix of solar, wind, and battery storage assets, and has grown from less than 1 GW of installed generation in 2014 to about 9.8 GW of renewable energy generation, 274 megawatts (MW) of paired storage, and 0.7 billion cubic feet (bcf) of pipeline capacity (39.2% interest in a 1.7 bcf pipeline). The company is now among the top 10 renewable generators in the world, producing about 27 TWhr annually.

NEP has a weighted-average remaining contract life of 13 years, with about 79 different offtakers, and its renewables portfolio has none to limited exposure to commodity price fluctuations. The company's revenue streams are contracted with mostly investment-grade offtakers. Of note, the company's highly contracted renewables focus continues to be a strong competitive advantage relative to merchant-exposed peers with primarily thermal generation. NEP also continues to expand its presence in the battery storage segment, which further diversifies the portfolio.

While wind resources contribute to much of NEP's cash flow available for debt service (CFAD) and EBITDA variability, interest rates affect its cash flow as well. Following the ongoing sales of its natural gas pipelines, NEP will become a renewables pure play with significant scale. The biggest drivers in NEP's cash flow variability are wind and solar resources and conditions. NEP's wind assets have historically performed at production levels of P50-P75, which we have incorporated into our base case.

We estimate that CFAD from wind projects is now about 61.5%, up from 52% before the sale of the STX pipeline. While we expect NEP's wind and solar assets to continue to perform at high availability levels, wind resources have varied and performed particularly weakly in 2019 and 2023. A roughly 1% decline in resource translates into a $12 million-$14 million decrease on its S&P Global Ratings-adjusted EBITDA. We estimate that wind generation variability accounted for about a $50 million CAFD impact in 2023.

We note that wind resources in 2023 were about 7% lower than the P50 expectations . Overcoming a slow start in January, wind resources are about 97% of P(50) expectations for the first quarter of 2024, but this underscores the variable nature of this resource.

The company currently has about $1.1 billion of interest rate locks, which hedge 100% of both its 2024 through 2025 maturities. These hedges are in-the-money, and financing costs will likely rise as NEP refinances its near-term maturities.

Proceeds from the sale of the Texas natural gas pipeline portfolio mitigates NEP's exposure to near-term CEPF conversions. NEP has used CEPFs to fund its growth since 2018. CEPFs are effectively forward sales of equity units intended to manage equity issuance concomitant with growth. However, the CEPFs also expose NEP to the exogenic risk of macroeconomic fundamentals, including interest rates.

In November 2021, NEP converted its first CEPF (the 2018 CEPF with BlackRock) into common units, one month earlier than expected. Th company most recently completed the STX midstream CEPF buyout in 2023. However, since 2018, NEP has closed five currently outstanding CEPF transactions with various infrastructure funds and private equity firms of varying terms and tenors to fund growth acquisitions. To address two near-term CEPF settlements of about $1.45 billion ($258 million in 2024 and $1.18 billion in 2025), NEP sold its STX natural gas pipeline assets to Kinder Morgan Inc. The asset sale followed NEP's announcement that it would transition to a 100% renewable energy project owner by 2025 while also reducing its capital structure complexity.

NEP completed the sale of the STX midstream in the fourth quarter and received net proceeds of $1.4 billion. It further proposed selling the Meade Pipeline in 2025. It will use the proceeds between the two to take out the face value $188 million and $948 million CEPF buyouts on NEP Renewables II due in June 2024 and June 2025, respectively, and $302 million of Meade CEPF buyouts. Beyond that, the next CEPF buyout due is about $147 million for Genesis in late 2026.

The sales provide NEP with enough proceeds to largely supplant the $1.5 billion of previously planned equity issuances for CEPF buyouts through 2025. Parent NEE also suspended $157 million of incentive distribution rights (IDRs) through 2026. This effectively offsets the lost pipelines' CAFD (about 20% of total CAFD).

We viewed the pipeline sale as key to NEP's near-term credit profile, without which our ratings would have been lower. We believe NEP largely addresses its near-term CEPFs settlements through the proceeds, leaving three CEPFs to be addressed at a later date. However, we note that we expected the CEPF settlements through equity issuances and view the sale of the pipelines as a credit negative because it results in lost revenue. Only the suspension of the IDRs makes it neutral from a credit perspective.

Longer-term CEPFs conversions are a key credit driver for NEP. We estimate the equity buyouts associated with the remaining three CEPFs total roughly $3.6 billion over 2027-2032. Relative to the outstanding units during these years, annual issuances amount to 3%-5% of the outstanding stock float. Still, we believe the company needs to provide further clarity on how it proposes to mitigate this exposure.

In our view, NEP has a few options. It could decide to issue equity at a lower price than the price at the time the CEPFs were issued but retain the assets. This preserves the run-rate EBITDA but also results in a higher share count. Alternatively, it could decide to turn the assets over to its CEPF counterparties rather than attempt buyouts. This results in a steady share count, but a lower EBITDA. Both of these measures likely result in a dilution of equity, which appears to be factored into its unit share price, which has declined 55%-60% over the past year.

From a credit perspective, this challenge can be addressed because of NEP's strong business position and because there is time for share prices to recover. At the same time, we view addressing this as material to the credit profile because of risks associated with the CEPF structure. We believe absent an increase of NEP's unit prices as and when interest rates decline, the company will need to look at securing outside capital. Given the company has a public float and is deconsolidated from parent NEE, a dilution in NEE's ownership below 50% only endorses that separation. We expect management to address this risk sooner than later. Whether it can do that in a credit-neutral manner remains to be seen.

Outlook

The stable outlook reflects our view that NEP's assets will continue to operate under long-term contracts with mostly investment-grade counterparties and generate predictable cash flows to support the company's debt obligations. Importantly, our base case assumes it generates EBITDA as expected that addresses the CEPFs through 2026. We expect the company to continue to make acquisitions at a measured pace that expand and diversify the existing portfolio. We view NEP's financial risk profile as highly leveraged, reflecting our expectation that leverage will increase to 5.3x-5.4x by 2025. We expect S&P Global Ratings-adjusted funds from operations (FFO) to debt of about 14.0% through this period.

Downside scenario

We could lower the rating if we expect NEP's S&P Global Ratings-adjusted leverage to exceed 6x or S&P Global Ratings-adjusted FFO to debt to fall below 12% in a sustained manner. This could occur if it fails to convert CEPFs, leading to a loss of cash flow. A downgrade may also result from significantly lower cash flows from the company's projects because of poor operating performance or asset reliability, or higher-than-expected operating costs or unfavorable weather events. Resource risk could be yet another reason for underperformance that could result in a lower rating.

Upside scenario

While unlikely at this time, we could raise the rating on NEP if the company maintains S&P Global Ratings-adjusted debt to EBITDA comfortably below 5x and S&P Global Ratings-adjusted FFO to debt of at least 18% on a consistent basis. Among other requirements, there is no upside potential to ratings unless we have a clearer view of future CEPF conversions.

Our Base-Case Scenario

Assumptions

- Our assumptions consider the company-adjusted EBITDA forecast, which assumes a growth investment plan with budgeted dropdowns and acquisitions. We adjust these assumptions by factoring in 5% resource availability (or assume P90 resource) for assets that have performed weaker than budgeted in past three years. We also adjust operation and maintenance (O&M) costs by 10% for assets that have higher unplanned outages.
- We exclude net pay-as-you-go receipts from EBITDA as per S&P Global Ratings' accounting practice, because we view it as an investing cash flow.
- NEP sells the Meade pipeline in 2025 as planned.
- EBITDA margin of 64%-66% for 2024 and 2025. We consider operating project/financing level gross EBITDA as if fully consolidated, net of share of EBITDA attributable to noncontrolling interests.
- In our financial risk analysis, we consider residual distributions from nonrecourse debt funded assets like Coram CA Development, Whiptail, Indigo Plains and NEP Renewables. Correspondingly, we do not consolidate related debt but review this analytical treatment annually.
- NEP pays only a modest amount of taxes through our projected period.
- We do not give any benefit for surplus cash because we expect NEP to use any residual cash for other capital allocation decisions like pursuing growth opportunities and dividends.
- No meaningful acquisitions or dropdowns in 2024. While we have modelled dropdowns and acquisitions in 2025, we expect them to be phased after there is more visibility into CEPF settlements.
- NEP buys out the planned CEPFs using proceeds from sale of pipelines. Beyond 2025, future CEPFs have no cash component in the buyout and we do not impute debt (but we monitor this treatment).
- Our downside scenario assumes some debt imputation for the last two CEPFs that were initiated when NEP’s unit price was relatively higher than current levels.

Key metrics

NextEra Energy Partners LP--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026

NextEra Energy Partners LP--Forecast summary

(Mil. $)	2020a	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	917	982	1,211	1,302	1,216	1,293	1,358
Gross profit	658	692	783	833	862	932	979
EBITDA (reported)	628	639	770	574	789	854	897
Plus: Operating lease adjustment (OLA) rent	3	3	2	2	--	--	--
Plus/(less): Other	132	158	273	353	90	109	109
EBITDA	763	800	1,045	929	879	963	1,006
Less: Cash interest paid	(166)	(140)	(172)	(263)	(271)	(255)	(239)
Less: Cash taxes paid	(6)	(2)	--	1	1	1	1
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	591	658	873	667	610	710	768
EBIT	489	584	698	459	389	463	505
Interest expense	629	(38)	(840)	410	286	270	254
Cash flow from operations (CFO)	673	757	775	720	541	622	680
Capital expenditure (capex)	334	113	1,351	1,269	317	1,552	200
Free operating cash flow (FOCF)	339	644	(576)	(549)	224	(930)	480
Dividends	449	619	636	741	799	864	864
Share repurchases (reported)	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(110)	25	(1,212)	(1,290)	(575)	(1,794)	(384)
Debt (reported)	3,388	5,327	5,288	6,289	5,539	7,264	7,556
Plus: Lease liabilities debt	43	94	77	80	80	80	80
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	--	--	--	--	--	--	--
Plus/(less): Other	(124)	(333)	(1,105)	(1,930)	(1,710)	(2,219)	(2,219)
Debt	3,307	5,088	4,260	4,439	3,909	5,125	5,417
Equity	7,047	10,762	14,375	14,057	13,319	12,562	11,856
FOCF (adjusted for lease capex)	339	593	(576)	(549)	224	(930)	480
Interest expense (reported)	620	(47)	(853)	394	271	255	239
Capex (reported)	334	113	1,351	1,269	317	1,552	200
Cash and short-term investments (reported)	108	147	235	274	104	192	100
Adjusted ratios							
Debt/EBITDA (x)	4.3	6.4	4.1	4.8	4.4	5.3	5.4
FFO/debt (%)	17.9	12.9	20.5	15.0	15.6	13.8	14.2
FFO cash interest coverage (x)	4.6	5.7	6.1	3.5	3.3	3.8	4.2
EBITDA interest coverage (x)	1.2	(20.9)	(1.2)	2.3	3.1	3.6	4.0
CFO/debt (%)	20.4	14.9	18.2	16.2	13.8	12.1	12.6
FOCF/debt (%)	10.3	12.7	(13.5)	(12.4)	5.7	(18.1)	8.9
DCF/debt (%)	(3.3)	0.5	(28.5)	(29.1)	(14.7)	(35.0)	(7.1)
Lease capex-adjusted FOCF/debt (%)	10.3	11.7	(13.5)	(12.4)	5.7	(18.1)	8.9
Annual revenue growth (%)	7.3	7.1	23.3	7.5	(6.6)	6.3	5.0
Gross margin (%)	71.8	70.5	64.7	64.0	70.9	72.1	72.1
EBITDA margin (%)	83.2	81.5	86.3	71.3	72.3	74.5	74.1
Return on capital (%)	4.7	4.5	4.1	2.5	2.2	2.7	2.9
Return on total assets (%)	3.9	3.7	3.3	2.0	1.8	2.2	2.3
EBITDA/cash interest (x)	4.6	5.7	6.1	3.5	3.2	3.8	4.2
EBIT interest coverage (x)	0.8	(15.3)	(0.8)	1.1	1.4	1.7	2.0
Debt/debt and equity (%)	31.9	32.1	22.9	24.0	22.7	29.0	31.4
Debt fixed-charge coverage (x)	1.2	(20.9)	(1.2)	2.3	3.1	0.5	4.0

NextEra Energy Partners LP--Forecast summary

Debt/debt and undepreciated equity (%)	28.0	29.0	20.6	21.2	19.9	25.4	27.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. $--U.S. dollar.

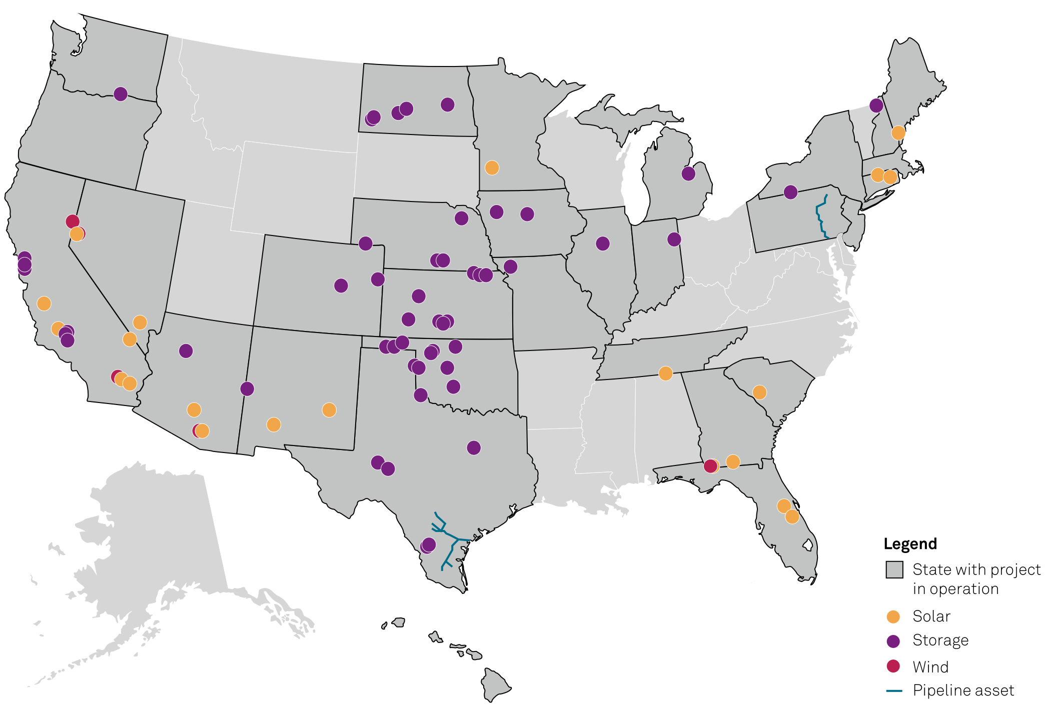
Our base case assumes the following:

- Debt to EBITDA of 4.4x-4.6x through 2024.
- FFO to debt of 14%-16% through 2024.

Company Description

NEP is a growth-oriented limited partnership formed by NEER to acquire, manage, and own contracted energy projects with relatively stable, long-term cash flows. As of March 31, 2024, NEP owned an approximately 48.6% limited partner interest in NEP OpCo., and NEE Equity owned a noncontrolling 51.4% limited partner interest. Through NEP OpCo, NEP has ownership interests in a portfolio of contracted renewable generation assets consisting of wind, solar, and battery storage projects. NEP also owns an interest in the Meade pipeline (0.7 bcf share).

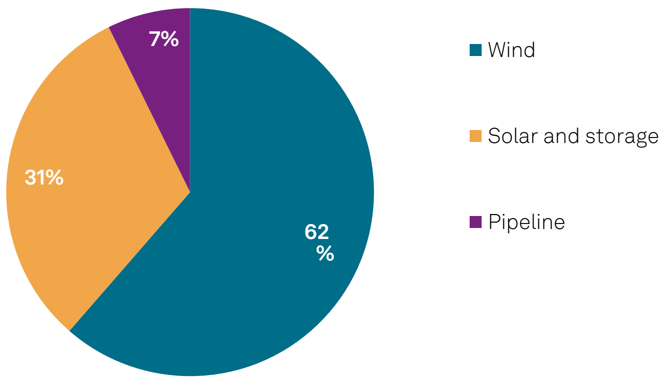
NextEra Energy Partners L.P.--Asset footprint



Locations depicted not exact. Source: NextEra Energy Partners.

Since the company's IPO in 2014 and the initial rating in mid-2017, NEP has expanded its asset base substantially. Its growth has diversified the portfolio both geographically and technologically, increased cash flow generation, and reduced offtaker concentration risk.

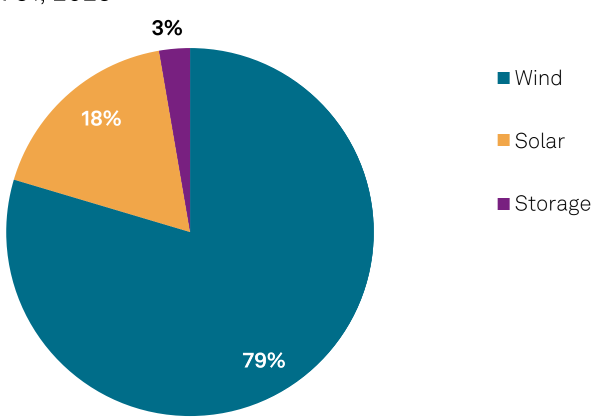
NextEra Energy Partners L.P.--Expected CFAD by assets



Source: Company-provided information . CFAD--Cash flow available for debt service.

NextEra Energy Partners L.P.--Renewable assets portfolio (MW)

As of Dec. 31, 2023



Source: 2023 company 10-K. MW--Megawatts.

NEP owns about 10 GW of renewable-energy generation, mostly under long-term power purchase agreements. As of March 31, 2024, 8,049 MW is wind, 1,790 MW is solar, and 273 MW is storage. Note that Meade pipeline owns a 39.2% interest in the 1.7 Bcf Central Penn Line (NEP's share equates to 0.7 Bcf), which is accounted for as an equity method investment in NEP's financials.

After the completion of the STX pipeline portfolio sale, NEP retains ownership only in the Meade Pipeline. Meade is a 185-mile intrastate natural gas pipeline regulated by the Federal Energy Regulatory Commission that provides the Marcellus natural gas producing region access to large demand centers in the mid-Atlantic and Southeastern regions of the U.S. The pipeline has the capacity to transport and deliver up to 1.7 bcf of natural gas per day. The pipeline, backed by a 14-year contract, is jointly owned with Transcontinental Gas Pipeline Co. (Transco). This pipeline is held for sale because NEP announced plans to divest it in fourth quarter 2025.

Peer Comparison

While NEP is more comparable to peers like Clearway Energy and Brookfield Renewables, we asses those companies as project developers. Our assessment of NEP as a corporate is based on its use of CEPF funding, which make assets under this form of financing moderately strategic to NEP.

We include Vistra Corp., Capital Power, and Transalta Corp. in our peer comparison. While these companies have similar operations that include generation businesses throughout the U.S., they have significant merchant exposure with ratable hedging. While these companies are relatively larger asset portfolios that are reasonably diversified across fuel types and regions, NEP benefits from its much higher 14-year contracted profile.

NEP also has the largest renewable-only asset profile. From a contract profile perspective, NEP is comparable to TransAlta, whose cash flows are also underpinned by long-term power purchase agreements , which is reflected in its strong business risk profile. Peer Capital Power has about 60% of margins contracted under long-term agreements. TransAlta's growth strategy is also somewhat similar to NEP and has recently focused more on renewable deployment. On the other hand, Capital Corp also purchases mid-life natural gas assets. Finally, unlike peer Vistra, NEP has no retail presence nor a significant exposure to the relatively volatile Electric Reliability Council of Texas market.

Financially, NEP is smaller in size compared with Vistra (EBITDA of $3.8 billion) but is similar to TransAlta and Capital Corp. Also, NEP's renewable advantage is reflected in its EBITDA margins. At 86% in 2023, NEP's EBITDA margin is much higher compared with those of Vistra, or Transalta.

NextEra Energy Partners LP--Peer Comparisons

	NextEra Energy Partners L.P.	Vistra Corp.	TransAlta Corp.	Capital Power Corp.
Foreign currency issuer credit rating	BB/Stable/--	BB/Positive/NR	BB+/Stable/--	BBB-/Stable/--
Local currency issuer credit rating	BB/Stable/--	BB/Positive/NR	BB+/Stable/--	BBB-/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2022-12-31	2023-12-31
Mil.	$	$	$	$
Revenue	1,302	14,779	2,199	3,242
EBITDA	929	3,845	808	1,015
Funds from operations (FFO)	667	3,040	563	681
Interest	410	800	253	175
Cash interest paid	263	774	195	163
Operating cash flow (OCF)	720	5,290	611	544
Capital expenditure	1,269	1,639	689	516
Free operating cash flow (FOCF)	(549)	3,651	(79)	27
Discretionary cash flow (DCF)	(1,290)	2,018	(311)	(182)
Cash and short-term investments	274	3,485	838	1,065
Gross available cash	274	3,485	838	1,065
Debt	4,439	13,781	3,318	3,009
Equity	14,057	4,084	1,122	2,317
EBITDA margin (%)	71.3	26.0	36.7	31.3

NextEra Energy Partners LP--Peer Comparisons

Return on capital (%)	2.5	11.3	8.6	12.4
EBITDA interest coverage (x)	2.3	4.8	3.2	5.8
FFO cash interest coverage (x)	3.5	4.9	3.9	5.2
Debt/EBITDA (x)	4.8	3.6	4.1	3.0
FFO/debt (%)	15.0	22.1	17.0	22.6
OCF/debt (%)	16.2	38.4	18.4	18.1
FOCF/debt (%)	(12.4)	26.5	(2.4)	0.9
DCF/debt (%)	(29.1)	14.6	(9.4)	(6.1)

Business Risk

We view NEP's portfolio contract mix as favorable. We continue to assess NEP's business risk profile as strong, reflecting the diversity of its portfolio, stability of revenue from long-term contracts with mostly investment-grade offtakers, diminishing ownership in demand-push gas pipelines, and efficient production technology. NEP puts together a unique clean energy portfolio consisting of underlying power-related projects supported by long-term contracts. The outlook for renewables is stronger, with the Inflation Reduction Act providing organic growth potential. The company is relatively tax advantaged. A mix of projects with earnings and tax credits ensures the company will not pay significant U.S. federal taxes for the next 10 years. It also has a glide path such that over the next eight years, distributions can be treated as a return of capital to the extent of investors' tax basis.

While we expect NEP to be acquisitive, its eventual growth could take a different route than we currently anticipate. The sale of the pipeline assets was in contrast to what the company indicated in the past and with what we expected in our previous forecasts. However, we believe this type of portfolio churn is already reflected in our current rating, and we expect NEP to acquire assets similar to those in its current portfolio. We believe NEP's business risk profile could deteriorate if it has to sell or flip cash flow from its assets to buy out CEPFs beyond 2026.

NEP has access to a wide pipeline of assets; its growth potential relative to peers is favorable. NEP benefits from NEER operating its renewable portfolio, providing access to NEER's scale and top decile operating cost performance. The company continues to have a strong track record of wind and solar O&M cost performance with costs that remain in the top decile (more than $4 per megawatt hours below median industry levels) even after incorporating recent increases in wind O&M costs pertaining to older assets.

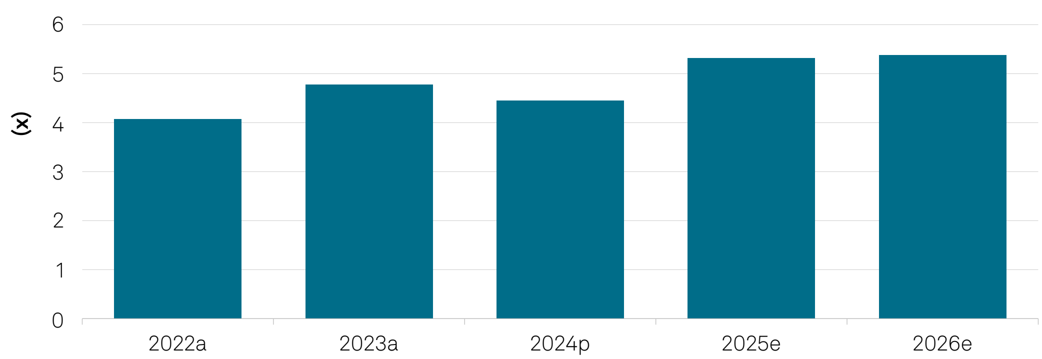
From a growth perspective, NEP has access to NEER's existing renewable assets (21 GW), plus its backlog (21.5 GW) and expectations of new additions (20 GW) through 2026. These aggregate to nearly 63 GW of potential for NEP. Moreover, for the existing fleet there are opportunities through repowering and co-located storage investment. Specifically, there are near-term organic growth opportunities with about 1.3 GW of repowering of its wind portfolio. NEP has announced plans to repower about 1,100 MW of wind facilities through 2026.

Financial Risk

We expect NEP's leverage to increase to about 5.3x by 2025. We expect S&P Global Ratings-adjusted debt to EBITDA of about 4.5x and S&P Global Ratings-adjusted FFO to debt of about 15.5% in 2024. Given the 13-year contracted weighted average profile, we view ratios consistent with our medial volatility measures. Should wind resources underperform, leverage levels could be higher at year-end 2024 (first-quarter 2024 wind resource has been supportive). We expect no meaningful new debt issuances as the company assimilates the acquisitions made in 2023 and addresses its CEPF obligations. We expect leverage to rise to about 5.3x in 2025 as the company uses holding company recourse debt and project level nonrecourse debt to fund its growth opportunities before leverage declines as cash flows from these new investments fully ensue.

NextEra Energy Partners L.P.--Debt to EBIDTA

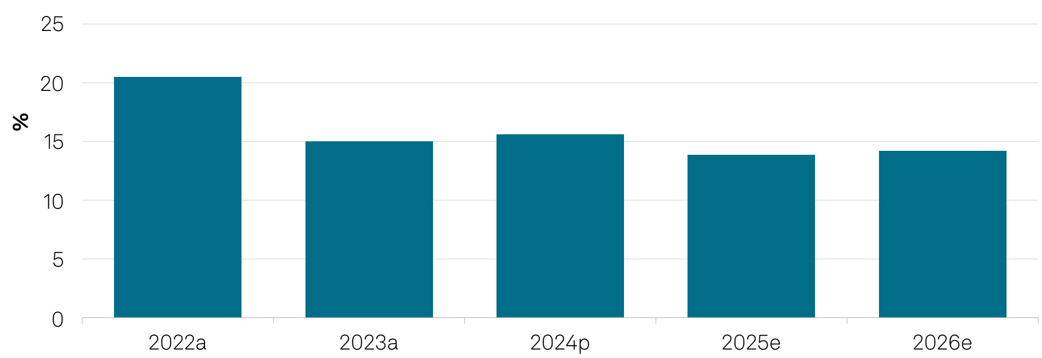
S&P Global Ratings-adjusted



Source: S&P Global Ratings. a--Actual. p--Projected. e--Estimate.

NextEra Energy Partners L.P.--FFO to debt

S&P Global Ratings-adjusted



Source: S&P Global Ratings. FFO--Funds from operations. a--Actual. p--Projected. e--Estimate.

Our analysis excludes nonrecourse debt financing, an analytical treatment that we continually assess. Our adjusted financial ratios exclude a significant amount of nonrecourse debt. In our assessment of the company, we deconsolidated nonrecourse financings and included only distributions from these projects in NEP's financial numbers. Given management's intention of selling the gas pipelines, that nonrecourse intent has been demonstrated with respect to the pipelines (assets financed in a nonrecourse manner should also be noncore assets, providing not only the ability but a willingness to sell or shed them, if required).

However, with NEP now becoming a renewable pure play, it is unclear what its posture would be toward its renewable portfolio that is financed through nonrecourse debt. Our treatment of these nonrecourse financings has not changed because management has reasserted that these obligations will not be supported, if distressed. We view nonrecourse financing as one of the major avenues for the company to finance its growth and do not expect its posture to change. However, we note that about $1.3 billion of nonrecourse debt will remain outstanding even after the Meade pipeline is sold. For example, if we consolidate debt relating to NEP Renewables, its S&P Global Ratings-adjusted debt to EBITDA would rise to 5.6x. We will continue to assess this treatment on an ongoing basis, including our analytical treatment for new non-recourse financings.

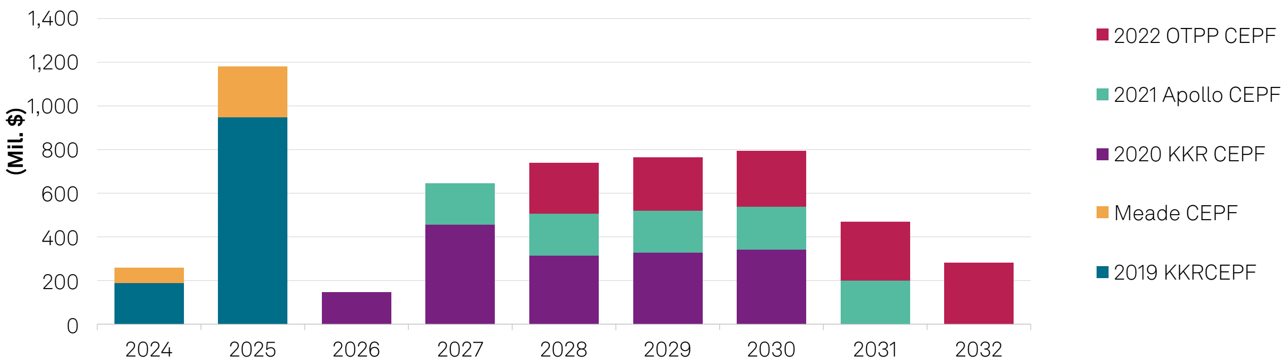
Despite its strong business position, NEP's credit quality is dominated by its aggressive financial policy. Like any yield-based vehicle, NEP's strategy is viewed as tied to rates--not only interest rates for financings but also discount rates for valuation (for acquisitions and dropdowns). The changes in macroeconomic conditions have been adverse for a yield vehicle, especially one with a strategy that uses future equity issuances. The pressures of an elevated interest rate environment make a financing vehicle that has growth aspirations difficult to sustain at a high growth rate.

In September 2023, with the prospect of purchasing assets from NEER at a relatively unattractive cash flow available for distribution (CAFD) yield, NEP decided to defer acquisitions and concomitantly reduced its distributions growth targets to 6% from the 12%-15% prior targets. NEP also announced plans of tempered growth through 2025, mitigating its exposure to near-term CEPF conversions through asset sales and eliminating equity requirements for growth through 2026.

This significant pivot is reflected in the decline in the company's unit share price. We view these developments as significant from an equity perspective, and investors may take time to regain confidence in management's strategy. Even from a debt perspective, access to all types of financing is important because access to equity is an important growth currency for yield-based companies. Ultimately, this is a growth vehicle that can only work with an improved cost of capital.

We will continue to monitor NEP's progress on the buyouts because any delay could flip cash flows to the counterparties. A significant proportion of the company's assets are currently held in joint venture structures with flip mechanisms that would lead to cash flow deterioration if NEP chooses or is unable to execute its buyout option. In our forecast, we expect NEP to continue to use nonrecourse debt, but the company has announced the discontinuation of CEPF issuances to raise capital.

NextEra Energy Partners L.P.--Remaining CEPF buyout obligations



Source: Company-provided Information. CEPF--Convertible equity portfolio financing.

Debt maturities

NEP's debt maturities over the next three years include the following.

2024:

- 4.25% senior unsecured notes of $700 million (prefunded in December 2023)
- 4.25% senior unsecured notes of $50 million (prefunded in December 2023)
- Senior unsecured convertible notes of $500 million

2025:

- Senior unsecured convertible notes of $600 million

2026:

- 2.5% senior unsecured notes of $500 million
- 3.88% senior unsecured notes of $500 million

Financial Summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
Reporting period	2021a	2022a	2023a	2024p	2025e	2026e
Display currency (mil.)	$	$	$	$	$	$
Revenues	982	1,211	1,302	1,216	1,293	1,358
EBITDA	800	1,045	929	879	963	1,006
Funds from operations (FFO)	658	873	667	610	710	768
Interest expense	(38)	(840)	410	286	270	254
Cash interest paid	140	172	263	271	255	239

Financial Summary

Operating cash flow (OCF)	757	775	720	541	622	680
Capital expenditures	113	1,351	1,269	317	1,552	200
Free operating cash flow (FOCF)	644	(576)	(549)	224	(930)	480
Discretionary cash flow (DCF)	25	(1,212)	(1,290)	(575)	(1,794)	(384)
Cash and short-term investments	147	235	274	104	192	100
Gross available cash	147	235	274	104	192	100
Debt	5,088	4,260	4,439	3,909	5,125	5,417
Common equity	10,762	14,375	14,057	13,319	12,562	11,856
Adjusted ratios						
EBITDA margin (%)	81.5	86.3	71.3	72.3	74.5	74.1
Return on capital (%)	4.5	4.1	2.5	2.2	2.7	2.9
EBITDA interest coverage (x)	(20.9)	(1.2)	2.3	3.1	3.6	4.0
FFO cash interest coverage (x)	5.7	6.1	3.5	3.3	3.8	4.2
Debt/EBITDA (x)	6.4	4.1	4.8	4.4	5.3	5.4
FFO/debt (%)	12.9	20.5	15.0	15.6	13.8	14.2
OCF/debt (%)	14.9	18.2	16.2	13.8	12.1	12.6
FOCF/debt (%)	12.7	(13.5)	(12.4)	5.7	(18.1)	8.9
DCF/debt (%)	0.5	(28.5)	(29.1)	(14.7)	(35.0)	(7.1)

Reconciliation Of NextEra Energy Partners LP Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	6,289	3,569	1,078	574	(28)	394	929	731	741	1,269
Cash taxes paid	-	-	-	-	-	-	1	-	-	-
Cash interest paid	-	-	-	-	-	-	(262)	-	-	-
Lease liabilities	80	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	2	1	1	(1)	1	-	-
Deconsolid./ consolid.	(2,191)	-	-	-	-	-	-	-	-	-
Asset-retirement obligations	261	-	-	15	15	15	-	-	-	-
Nonoperating income (expense)	-	-	-	-	165	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(12)	-	-
Noncontrolling/ minority interest	-	10,488	-	-	-	-	-	-	-	-
Revenue: other	-	-	224	224	224	-	-	-	-	-
COGS: other nonoperating nonrecurring items	-	-	-	(30)	(30)	-	-	-	-	-

Reconciliation Of NextEra Energy Partners LP Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
EBITDA: other income/ (expense)	-	-	-	105	105	-	-	-	-	-
EBITDA: other	-	-	-	39	39	-	-	-	-	-
D&A: other	-	-	-	-	(32)	-	-	-	-	-
Total adjustments	(1,850)	10,488	224	355	487	16	(262)	(11)	-	-

S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	4,439	14,057	1,302	929	459	410	667	720	741	1,269

Liquidity

We currently assess NEP's liquidity as adequate. Earlier in December 2023, NEP announced the private offering of $750 million of 7.25% senior unsecured notes due 2029. It expects to use the proceeds to repay its 4.25% $700 million senior notes due in July 2024 and repay its remaining outstanding 4.25% $50 million senior notes due in September 2024. Net of these prefunded financings, NEP has about $3.4 billion of corporate holding company debt, of which $1.1 billion is low-cost converts that mature by 2025.

NEP received proceeds about $1.4 billion from the pipelines sale in late December. As cash is fungible, we expect NEP is going to retire a $500 million convertible issuance in June 2024. to minimize negative carrying costs and then refinance this amount, albeit at a higher cost, later in the year. NEP will also need to refinance a $600 million of convertible debt maturity next year.

Based on our expectations of the distributions in 2024 and 2025, we expect the company to be modestly short on its sources to uses and will need some external financing or alternatively raise it from a churn of asset sales that is typical of developers.

We expect organic growth plans, including CAFD-enhancing repowerings ($1.2 billion), and other asset dropdowns to recommence in 2025, which it will likely fund with a combination of holding company financing and project level debt.

Principal liquidity sources

- S&P Global Ratings-estimated cash on hand of about $245 million as of March 31, 2024.
- FFO of $540 million over the next 12 months.
- Complete availability on the revolver of about $2.5 billion as of March 31, 2024.
- $1.4 billion (net) from sale of the STX pipeline.

Principal liquidity uses

- Capital and maintenance expenditure of about $625 million over the next 12 months.
- Distributions of about $700 million over the next 12 months.
- About $260 million for CEPF settlements.
- $500 million of maturing senior unsecured convertible notes.

Covenant Analysis

Requirements

The holding company needs to maintain a leverage coverage ratio of less than 5.75x to 1x and an interest coverage ratio of at least 1.75x to 1x to make a distribution. As of Dec. 31, 2023, NEP and its subsidiaries were in compliance with all financial covenants (6.7 x on coverage and 2.2 x on leverage), and we expect the company to remain in compliance during our forecast period.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit rating analysis of NEP. Its total renewable generation accounts for about 95% of EBITDA, which includes wind and solar power plants. This gives the company a competitive edge environmentally because these plants offer reduced emissions. However, spills or leaks at its gas pipelines could affect biodiversity. Therefore, we view the pipelines as slightly weighing on our environmental assessment. This exposure will be mitigated by 2025 with the sale of the Meade asset.

Group Influence

Because of substantial governance changes--including audit committees, conflicts committees, guidelines for related-party transactions, and changes that give NEP's unitholders the ability to elect the majority of its board--we view NEP as nonstrategic to NEER. However, we will continue to monitor the relationship because the two companies have strong reasons to interact on business interrelationships. Specifically, NEP does not have any employees of its own.

We view the waiver of incentive distribution rights (IDR) fees as an indication of parental support. From a credit perspective, any support extended to NEP by NEER would buttress the ratings on NEP.

Rating Component Scores

Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Strong
Country risk	Very Low
Industry risk	Moderately High
Competitive position	Excellent
Financial risk	Highly Leveraged
Cash flow/leverage	Highly Leveraged
Anchor	bb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bb

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 06, 2024)*

NextEra Energy Partners L.P.	
Issuer Credit Rating	BB/Stable/--
Issuer Credit Ratings History	
23-Jun-2017	BB/Stable/--
Related Entities	
NextEra Energy Operating Partners L.P.	
Senior Unsecured	BB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.