

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

NextEra Energy Partners, LP
Form 10-Q
August 03, 2015

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, 2015

Commission File Number 001-36518	Exact name of registrant as specified in its charter, address of principal executive office and registrant's telephone number NEXTERA ENERGY PARTNERS, LP 700 Universe Boulevard Juno Beach, Florida 33408 (561) 694-4000	IRS Employer Identification Number 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, 2015: 21,292,838

DEFINITIONS

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

Term	Meaning
2014 Form 10-K	NEP's Annual Report on Form 10-K for the year ended December 31, 2014, as amended
2014 Consolidated Financial Statements	Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview, Results of Operations and Liquidity and Capital Resources and Financial Statement and Supplementary Data which were retrospectively adjusted in NEP's Current Report on Form 8-K filed on July 2, 2015
ASA	administrative services agreements
BLM	U.S. Bureau of Land Management
Bluewater	wind project located in Huron County, Ontario, Canada
CITC	Convertible Investment Tax Credit
COD	commercial operation date
Conestogo	wind project located in Wellington County, Ontario, Canada
CSCS agreement	cash sweep and credit support agreement
FASB	Financial Accounting Standards Board
FIT	Feed-in-Tariff
Genesis	solar project that is composed of Genesis Unit 1 and Genesis Unit 2
Genesis Unit 1	Genesis Unit 1 utility-scale solar generating facility located in Riverside County, California
Genesis Unit 2	Genesis Unit 2 utility-scale solar generating facility located in Riverside County, California
GWh	gigawatt-hour(s)
IESO	Independent Electricity System Operator
IPO	initial public offering
IPP	independent power producer
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
NET Midstream	NET Holdings Management, LLC, a Delaware limited liability company
NOLs	net operating losses
Northern Colorado	wind project located in Logan County, Colorado
Note __	Note __ to condensed consolidated financial statements
O&M	operations and maintenance
Palo Duro	wind project located in Hansford and Ochiltree Counties, Texas
PPA	power purchase agreement, which could include contracts under a FIT or RESOP
Prospectus	NEP's prospectus filed with the SEC on June 26, 2014
RESOP	Renewable Energy Standard Offer Program

RPS	renewable portfolio standards
SEC	U.S. Securities and Exchange Commission
Shafter	solar project located in Shafter, California
Summerhaven	wind project located in Haldimand County, Ontario, Canada
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 1 for a description of the noncontrolling interest in NEP OpCo.

TABLE OF CONTENTS

	Page No.
<u>Definitions</u>	<u>2</u>
<u>Forward-Looking Statements</u>	<u>4</u>
PART I - FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>
PART II - OTHER INFORMATION	
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 5. Other Information</u>	<u>37</u>
<u>Item 6. Exhibits</u>	<u>37</u>
<u>Signatures</u>	<u>38</u>

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 may not perform as expected.

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

• Operation and maintenance of energy projects involve significant risks that could result in unplanned power outages or reduced output.

The wind turbines at some of NEP's projects and at some of NEER's right of first offer projects (ROFO 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 certain of the 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 may be substantially below its expectations if a natural disaster or meteorological conditions damage its turbines, solar panels, other equipment or facilities.

• NEP is not able to 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 if the term of the warranty has expired or liability limits, which could reduce or void the warranty protections, or the warranties may be insufficient to compensate NEP's 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 projects, and if these facilities become unavailable, NEP's 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 projects may be adversely affected by legislative changes or a failure to comply with applicable energy regulations.

• 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 future proceedings related to projects it subsequently acquires.

• The Summerhaven, Conestogo and Bluewater projects 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 energy sale counterparties 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.

• If the energy production by or availability of NEP's U.S. 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.

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.

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

• 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.

NEP's ability to effectively consummate future acquisitions depends on its ability to arrange the required or desired financing for acquisitions.

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.

While NEP currently owns only wind and solar projects, NEP may acquire other sources of clean energy, including natural gas and nuclear projects, and may expand to include other types of assets including transmission projects, and any future acquisition of non-renewable energy projects, including 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.

Risks Related to NEP's Financial Activities

Restrictions in NEP OpCo's subsidiaries' revolving credit facility 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.

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 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 a portion of these funds.

NEP may not be able to consummate future acquisitions from NEER.

NEP GP, NEP's general partner, and its affiliates, including 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's common units.

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 services subcontract between NEE Management and NEER 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 risk profile 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 Relating to the NET Midstream Acquisition

- The NET Midstream acquisition may not be completed, and even if the NET Midstream acquisition is completed, NEP may fail to realize the growth prospects anticipated as a result of the NET Midstream acquisition.

Uncertainties associated with the NET Midstream acquisition may cause a loss of management personnel and other key employees that could adversely affect NEP's future business, operations and financial results following the NET Midstream acquisition.

NEP may not be able to obtain debt or equity financing for the NET Midstream acquisition on expected or acceptable terms.

As a result of the NET Midstream acquisition, the scope and size of NEP's operations and business will substantially change. NEP's expansion into the midstream natural gas industry may not be successful.

Risks Relating to Ownership and Operation of Natural Gas Pipelines

NET Midstream depends on a key customer for a significant portion of its revenues. The loss of this customer could result in a decline in NEP's revenues and cash available to make distributions to its unitholders.

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

If NEP completes the NET Midstream acquisition, NEP may not succeed in realizing the anticipated benefits of the Net Mexico pipeline joint venture with a subsidiary of PEMEX (PEMEX Sub).

If NEP completes the NET Midstream acquisition, NEP may for the first time pursue the development of pipeline expansion projects that will require up-front capital expenditures and expose NEP to project development risks. NEP's ability to maximize the productivity of the NET Midstream business and to complete potential pipeline expansion projects will be dependent on the continued availability of natural gas production in NET Midstream's areas of operation.

NET Midstream does not own all of the land on which the NET Midstream pipelines are located, which could disrupt its operations.

The natural gas pipeline industry is highly competitive, and increased competitive pressure could adversely affect NEP's business if we complete the NET Midstream acquisition.

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

A change in the jurisdictional characterization of some of the NET Midstream 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 and results of operations, including its cash available for distribution to unitholders.

NEP may incur significant costs and liabilities if it completes the NET Midstream acquisition as a result of pipeline integrity management program testing and any necessary pipeline repair or preventative or remedial measures.

NET Midstream's pipeline operations could incur significant costs if the Pipeline and Hazardous Materials Safety Administration or the Railroad Commission of Texas adopts more stringent regulations governing NEP's business.

NEP could be exposed to liabilities under the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws (including non-U.S. laws), any of which could have a material adverse effect on its financial condition and results of operations, including its cash available for distribution to unitholders.

PEMEX may claim certain immunities under the Foreign Sovereign Immunities Act and Mexican law, and NET Midstream's ability to sue or recover from PEMEX for breach of contract may be limited.

FERC is investigating certain commodities trading activities at a subsidiary of NET Midstream.

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.

Reductions in demand for natural gas in the United States or Mexico and low market prices of commodities could adversely affect NET Midstream's operations and cash flows.

Natural gas gathering and transmission activities involve numerous risks that may result in accidents or otherwise affect NET Midstream's operations.

The assumptions underlying NEP's projections of future revenues from the pending NET Midstream acquisition are inherently uncertain and are subject to significant business, economic, financial, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those forecasted.

NET Midstream-Related Tax Risks

NEP's future net operating losses, or NOLs, may be less than expected, and its ability to use its NOLs may be limited by certain ownership changes in the future, both of which would increase or accelerate its future tax liability and thus reduce its future cash available for distribution to unitholders.

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 (as defined in the MSA) payable to NEE Management under the MSA.

• 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 NEP's common units with contractual standards governing its duties.

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

• NEP GP's interest in NEP 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, the general partner of NEP OpCo, may reduce the amount of cash distributions to NEP's unitholders.
- While NEP's partnership agreement requires NEP to distribute its available cash, NEP's partnership agreement, including 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 utilize 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.

These factors should be read together with the risk factors included in Part I, Item 1A. Risk Factors in the 2014 Form 10-K and in Part II, Item 1A. Risk Factors in this Form 10-Q, and investors should refer to those sections of the 2014 Form 10-K and this Form 10-Q. 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