

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

NextEra Energy Partners, LP  
Form 10-Q  
July 25, 2018

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, 2018

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
1-36518	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, a smaller reporting company, or an emerging growth company.

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
---	--	--	--	--

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934. ☐

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 at June 30, 2018: 54,313,714

---

## DEFINITIONS

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

Term	Meaning
2017 Form 10-K	NEP's Annual Report on Form 10-K for the year ended December 31, 2017
AOCI	accumulated other comprehensive income (loss)
ASA	administrative services agreement
BLM	U.S. Bureau of Land Management
Canadian Holdings	NextEra Energy Canada Partners Holdings, ULC and subsidiaries
CITC	convertible investment tax credit
COD	commercial operation date
CSCS agreement	amended and restated cash sweep and credit support agreement
FIT	Feed-in-Tariff
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
limited partner interest in NEP OpCo	limited partner interest in NEP OpCo's common units
Management's Discussion	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
MSA	amended and restated management services agreement among NEP, NEE Management, NEP OpCo and NEP OpCo 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
NEER	NextEra Energy Resources, LLC
NEP	NextEra Energy Partners, LP
NEP GP	NextEra Energy Partners GP, Inc.
NEP OpCo	NextEra Energy Operating Partners, LP
NEP OpCo GP	NextEra Energy Operating Partners GP, LLC
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
preferred units	Series A convertible preferred units representing limited partner interests in NEP
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.
VIE	variable interest entity

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 6 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>23</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 6. Exhibits</u>	<u>30</u>
 <u>Signatures</u>	 <u>31</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, anticipate, aim, believe, will, could, should, would, estimated, may, plan, potential, future, projection, goals, target, 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 that have 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, but not limited to, the impact of severe weather.

• 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.

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

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

• 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.

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

• 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, transmission and other pipeline facilities of third parties to deliver energy from its renewable energy projects and to transport natural gas to and from the Texas pipelines. If these facilities become unavailable, NEP's projects and pipelines may not be able to operate, deliver energy or become partially or fully unavailable to transport natural gas.

• NEP's business is subject to liabilities and operating restrictions arising from environmental, health and safety laws and regulations, compliance with which may require significant capital expenditures, increase NEP's cost of operations and affect or limit its business plans.

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 a 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 and may be exacerbated if there is a deterioration in the economic relationship between the U.S. and Mexico.

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, but not limited to, proceedings related to projects it acquires in the future.

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 or pipelines 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 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 and natural gas transportation agreements at favorable rates or on a long-term basis.

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 the 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 NEP's ability to grow and make 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 laws, regulations and policies providing incentives and subsidies for clean energy could be changed, reduced or eliminated 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 regulations, with relatively irregular, infrequent and often competitive procurement windows.

NEP may continue to acquire other sources of clean energy and may expand to include other types of assets. Any further acquisition of non-renewable energy projects may present unforeseen challenges and result in a competitive disadvantage relative to NEP's more-established competitors.

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's and its subsidiaries' financing 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

Under the CSCS agreement, NEP receives 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 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.

• NEER's right of first refusal may adversely affect NEP's ability to consummate future sales or to obtain favorable sale terms.

• NEP GP and its affiliates may have conflicts of interest with NEP and have limited duties to NEP and its unitholders.

• NEP GP and its affiliates and the directors and officers of NEP are not restricted in their ability to compete with NEP, whose business is subject to certain restrictions.

• NEP may only terminate the MSA under certain specified conditions.

• If the agreements with NEE Management or NEER are terminated, NEP may be unable to contract with a substitute service provider on similar terms.

NEP's arrangements with NEE limit NEE's potential 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.

#### Risks Related to Ownership of NEP's 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 units may be subject to voting restrictions.

• NEP's partnership agreement replaces the fiduciary duties that NEP GP and NEP's directors and officers might have to holders of its common units with contractual standards governing their duties.

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

• Certain actions of NEP require the consent of NEP GP.

• Holders of NEP's common units and preferred units currently cannot 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 assigned to a third party without unitholder consent.

• NEP may issue additional units without unitholder approval, which would dilute common 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 NEP OpCo GP may reduce the amount of cash distributions to unitholders.

• 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.

• 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.

Provisions in NEP's partnership agreement may discourage or delay an acquisition of NEP that NEP unitholders may consider favorable, which could decrease the value of NEP's common units, and could make it more difficult for NEP unitholders to change the board.

• The board, a majority of which may be affiliated with NEE, 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.

• Any issuance of preferred units will dilute common unitholders' ownership in NEP and may decrease the amount of cash available for distribution for each common unit.

• The preferred units have rights, preferences and privileges that are not held by, and are preferential to the rights of, holders of the common units.

#### 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.

These factors should be read together with the risk factors included in Part I, Item 1A. Risk Factors in the 2017 Form 10-K and investors should refer to that section of the 2017 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](http://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](http://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,		Six Months Ended June 30,	
	2018	2017 <sup>(a)</sup>	2018	2017 <sup>(a)</sup>
OPERATING REVENUES				
Renewable energy sales	\$169	\$175	\$325	\$323
Texas pipelines service revenues	56	45	112	94
Total operating revenues <sup>(b)</sup>	225	220	437	417
OPERATING EXPENSES (INCOME)				
Operations and maintenance <sup>(c)</sup>	64	66	128	123
Depreciation and amortization	49	57	102	112
Gain on disposal of Canadian Holdings	(158)	) —	(158)	) —
Taxes other than income taxes and other	5	5	11	10
Total operating expenses - net	(40)	) 128	83	245
OPERATING INCOME	265	92	354	172
OTHER INCOME (DEDUCTIONS)				
Interest expense	(21)	) (61)	) (124)	) (104)
Benefits associated with differential membership interests - net	—	30	—	62
Equity in earnings of equity method investee	13	14	16	16
Equity in earnings of non-economic ownership interests	7	4	13	3
Other - net	11	(1)	) 13	(2)
Total other income (deductions) - net	10	(14)	) (82)	) (25)
INCOME BEFORE INCOME TAXES	275	78	272	147
INCOME TAX EXPENSE (BENEFIT)	(21)	) 16	(2)	) 31
NET INCOME	296	62	274	116
Net income attributable to preferred distributions	(6)	) —	(12)	) —
Net income attributable to noncontrolling interests <sup>(d)</sup>	(207)	) (49)	) (106)	) (91)
NET INCOME ATTRIBUTABLE TO NEXTERA ENERGY PARTNERS, LP	\$83	\$13	\$156	\$25
Weighted average number of common units outstanding - basic	54.3	54.3	54.3	54.2
Weighted average number of common units outstanding - assuming dilution	74.0	54.3	74.0	54.2
Earnings per common unit attributable to NextEra Energy Partners, LP - basic	\$1.53	\$0.24	\$2.88	\$0.46
Earnings per common unit attributable to NextEra Energy Partners, LP - assuming dilution	\$1.43	\$0.24	\$2.67	\$0.46
Distributions per common unit	\$0.4200	\$0.3650	\$0.8250	\$0.7175

(a) Prior-period financial information has been retrospectively adjusted as discussed in Note 1.

(b) Includes related party revenues of less than \$1 million and \$1 million for the three months ended June 30, 2018 and 2017, respectively, and \$2 million and \$6 million for the six months ended June 30, 2018 and 2017, respectively.

- (c) Includes O&M expenses related to renewable energy projects of \$33 million and \$37 million for the three months ended June 30, 2018 and 2017, respectively, and \$65 million and \$64 million for the six months ended June 30, 2018 and 2017, respectively. Includes O&M expenses related to the Texas pipelines of \$11 million and \$10 million for the three months ended June 30, 2018 and 2017, respectively, and \$22 million and \$22 million for the six months ended June 30, 2018 and 2017, respectively. Total O&M expenses presented include related party amounts of \$24 million and \$21 million for the three months ended June 30, 2018 and 2017, respectively, and \$48 million and \$43 million for the six months ended June 30, 2018 and 2017, respectively.
- (d) For the three and six months ended June 30, 2017, net income attributable to noncontrolling interests includes the pre-acquisition net income of the common control acquisitions. See Note 1.

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

NEXTERA ENERGY PARTNERS, LP  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (millions)  
 (unaudited)

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017 <sup>(a)</sup>	
NET INCOME	\$296	\$ 62	\$274	\$ 116
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Reclassification from accumulated other comprehensive income to net income (net of \$0, \$1, \$1 and \$1 tax expense, respectively)	1	1	2	3
Net unrealized gains (losses) on foreign currency translation (net of \$0, \$0, \$1 tax benefit and \$1 tax expense, respectively)	(2 )	3	(6 )	3
Other comprehensive income (loss) related to equity method investee (net of \$0, \$0, \$0 and \$0 tax expense, respectively)	(4 )	—	—	1
Total other comprehensive income (loss), net of tax	(5 )	4	(4 )	7
Impact of disposal of Canadian Holdings (net of \$3, \$0, \$3, \$0 tax expense, respectively)	107	—	107	—
COMPREHENSIVE INCOME	398	66	377	123
Comprehensive income attributable to preferred distributions	(6 )	—	(12 )	—
Comprehensive income attributable to noncontrolling interests <sup>(b)</sup>	(308 )	(52 )	(208 )	(96 )
COMPREHENSIVE INCOME ATTRIBUTABLE TO NEXTERA ENERGY PARTNERS, LP	\$84	\$ 14	\$157	\$27

(a) Prior-period financial information has been retrospectively adjusted as discussed in Note 1.

(b) For the three and six months ended June 30, 2017, comprehensive income attributable to noncontrolling interests includes the pre-acquisition comprehensive income of the common control acquisitions. See Note 1.

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

NEXTERA ENERGY PARTNERS, LP  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (millions)  
 (unaudited)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 654	\$ 154
Accounts receivable	86	85
Due from related parties	138	88
Restricted cash	14	25
Other current assets	49	46
Total current assets	941	398
Non-current assets:		
Property, plant and equipment - net	5,174	6,197
Deferred income taxes	109	181
Intangible assets – customer relationships - net	653	661
Goodwill	584	628
Investment in equity method investee	216	218
Investments in non-economic ownership interests	18	11
Other non-current assets	99	101
Total non-current assets	6,853	7,997
<b>TOTAL ASSETS</b>	<b>\$ 7,794</b>	<b>\$ 8,395</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9	\$ 26
Due to related parties	43	45
Current maturities of long-term debt	63	99
Accrued interest	31	39
Other current liabilities	59	67
Total current liabilities	205	276
Non-current liabilities:		
Long-term debt	3,509	4,218
Deferral related to differential membership interests	—	1,442
Deferred income taxes	5	63
Asset retirement obligation	69	81
Non-current due to related party	21	21
Other non-current liabilities	96	86
Total non-current liabilities	3,700	5,911
<b>TOTAL LIABILITIES</b>	<b>3,905</b>	<b>6,187</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
Preferred units (14.0 units issued and outstanding)	548	548
Common units (54.3 units issued and outstanding)	1,757	1,639
Accumulated other comprehensive income	2	1
Noncontrolling interests	1,582	20
<b>TOTAL EQUITY</b>	<b>3,889</b>	<b>2,208</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,794</b>	<b>\$ 8,395</b>

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

NEXTERA ENERGY PARTNERS, LP  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(millions)  
(unaudited)

	Six Months Ended June 30, 2018 2017 <sup>(a)</sup>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$274	\$ 116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102	112
Change in value of derivative contracts	10	21
Deferred income taxes	7	30
Benefits associated with differential membership interests - net	—	(62 )
Equity in earnings of equity method investee, net of distributions received	2	3
Equity in earnings of non-economic ownership interests	(13 )	(3 )
Gain on disposal of Canadian Holdings	(158 )	—
Other - net	(4 )	6
Changes in operating assets and liabilities:		
Accounts receivable	(19 )	(15 )
Other current assets	4	—
Other non-current assets	1	(7 )
Accounts payable and accrued expenses	(21 )	(4 )
Due to related parties	1	(1 )
Other current liabilities	(7 )	(1 )
Payment of acquisition holdback	—	(14 )
Other non-current liabilities	4	9
Net cash provided by operating activities	183	190
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of membership interests in subsidiaries	—	(242 )
Capital expenditures	(7 )	(328 )
Proceeds from the sale of Canadian Holdings - net	517	—
Payments to related parties under CSCS agreement - net	(50 )	(9 )
Net cash provided by (used in) investing activities	460	(579 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuances of long-term debt	—	460
Retirements of long-term debt	(55 )	(60 )
Deferred financing costs	—	(2 )
Partners/Members' contributions	31	305
Partners/Members' distributions	(134 )	(152 )
Preferred unit distributions	(9 )	—
Proceeds from differential membership investors	28	18
Payments to differential membership investors	(11 )	(13 )
Change in amounts due to related parties	(1 )	(1 )
Payment of acquisition holdback	—	(186 )
Net cash provided by (used in) financing activities	(151 )	369
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2 )	2
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>490</b>	<b>(18 )</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF PERIOD</b>	<b>198</b>	<b>191</b>

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

CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF PERIOD	\$688	\$ 173
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Partners/Members' noncash distributions	\$17	\$ —
Members' noncash contributions for construction costs and other	\$—	\$ 9
Change in noncash investments in equity method investees - net	\$5	\$ 2
Accrued but not paid for capital and other expenditures	\$1	\$ 5
Noncash member contribution upon transition from predecessor method	\$—	\$ 5
Accrued preferred distributions	\$12	\$ —

(a) Prior-period financial information has been retrospectively adjusted as discussed in Note 1 and Note 10 - Restricted Cash.

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

## NEXTERA ENERGY PARTNERS, LP

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(millions)

(unaudited)

	Preferred Units	Common Units			Accumulated Other Comprehensive Income	Non-controlling Interests	Total Equity
	Units	Amount	Units	Amount			
Balances, December 31, 2017	14	\$ 548	54.3	\$ 1,639	\$ 1	\$ 20	\$ 2,208
Related party note receivable	—	—	—	—	—	31	31
Net income	—	12	—	156	—	106	274
Other comprehensive income	—	—	—	—	(1 )	(3 )	(4 )
Related party distributions	—	—	—	—	—	(105 )	(105 )
Changes in non-economic ownership interests and equity method investee	—	—	—	—	—	(5 )	(5 )
Differential membership investment activity	—	—	—	—	—	17	17
Distributions to unitholders <sup>(a)</sup>	—	(12 )	—	(45 )	—	—	(57 )
Disposal of Canadian Holdings	—	—	—	—	2	105	107
Adoption of accounting standards update	—	—	—	7	—	1,416	1,423
Balances, June 30, 2018	14	\$ 548	54.3	\$ 1,757	\$ 2	\$ 1,582	\$ 3,889

	Units	Limited Partners	Accumulated Other Comprehensive Loss	Non- controlling Interests <sup>(b)</sup>	Total Equity <sup>(b)</sup>
Balances, December 31, 2016	54.2	\$ 1,746	\$ (3	\$ 823	\$ 2,566
Acquisition of membership interests in subsidiaries	—	—	—	(242	(242
Limited partners/related party contribution and transition	—	6	—	5	11
Issuance of common units	0.1	1	—	—	1
Net income <sup>(c)</sup>	—	25	—	91	116
Other comprehensive income	—	—	2	5	7
Related party contributions	—	—	—	314	314
Related party distributions	—	—	—	(113	(113
Changes in non-economic ownership interests and equity method investee	—	—	—	(3	(3
Distributions to unitholders	—	(39	—	—	(39
Balances, June 30, 2017	54.3	\$ 1,739	\$ (1	\$ 880	\$ 2,618

<sup>(a)</sup> At June 30, 2018, approximately \$6 million of preferred unit distributions were accrued and are payable in August 2018.

<sup>(b)</sup> Prior-period financial information has been retrospectively adjusted as discussed in Note 1.

<sup>(c)</sup> Net income attributable to noncontrolling interests includes the pre-acquisition net income of the common control acquisitions. See Note 1.

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2017 Form 10-K.

NEXTERA ENERGY PARTNERS, LP  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

The accompanying condensed consolidated financial statements should be read in conjunction with the 2017 Form 10-K. In the opinion of NEP management, all adjustments (consisting of normal recurring accruals) considered necessary for fair financial statement presentation have been made. Certain amounts included in the prior year's condensed consolidated financial statements have been reclassified to conform to the current year's presentation. The results of operations for an interim period generally will not give a true indication of results for the year.

1. Acquisitions

During 2017, a subsidiary of NEP completed acquisitions from NEER which were transfers of assets between entities under common control that were required to be accounted for as if the transfers occurred since the inception of common control, with prior periods retrospectively adjusted to furnish comparative information. Accordingly, the accompanying condensed consolidated financial statements have been retrospectively adjusted for the three and six months ended June 30, 2017 to include the historical results and financial position of the common control acquisitions prior to their respective acquisition dates.

In August 2017, NEP and NEP GP implemented governance changes that, among other things, enhanced NEP unitholder governance rights. The new governance structure established a NEP board of directors whereby NEP unitholders have the ability to nominate and elect board members, subject to certain limitations and requirements. As a result of these governance changes, beginning in January 2018, acquisitions from NEER will no longer be treated as common control acquisitions and NEP's financial statements will no longer be retrospectively adjusted for such acquisitions.

2. Revenue

Effective January 1, 2018, NEP adopted an accounting standards update that provides guidance on the recognition of revenue from contracts with customers and requires additional disclosures regarding such contracts (new revenue standard). Under the new revenue standard, revenue is recognized when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. NEP adopted the new revenue standard using the modified retrospective approach applying it only to contracts that were not complete at January 1, 2018. NEP did not recognize a cumulative effect adjustment on January 1, 2018 because revenue recognized under the new accounting standard remained consistent with historical practice.

NEP's operating revenues are generated primarily from various non-affiliated parties under long-term power purchase agreements, FIT agreements and RESOP agreements (collectively, PPAs) and natural gas transportation agreements. Revenue is recognized as energy and any related renewable energy attributes are delivered, based on rates stipulated in the respective PPAs, or natural gas transportation services are performed. NEP believes that the obligation to deliver energy and provide the natural gas transportation services is satisfied over time as the customer simultaneously receives and consumes benefits provided by NEP. In addition, NEP believes that the obligation to deliver renewable energy attributes is satisfied at multiple points in time, with the control of the renewable energy attribute being transferred at the same time the related energy is delivered. Substantially all of the PPAs are accounted for as operating leases and are not considered contracts with customers within the scope of the new revenue standard. Included in NEP's operating revenues for the three months ended June 30, 2018 is approximately \$17 million and \$56 million and for the six months ended June 30, 2018 is \$29 million and \$110 million of revenue from contracts with customers for renewable energy sales and natural gas transportation services, respectively. NEP's accounts receivable

are primarily associated with revenues earned from contracts with customers as well as lease transactions. Receivables represent unconditional rights to consideration and reflect the differences in timing of revenue recognition and cash collections. For substantially all of NEP's receivables, regardless of the type of revenue transaction from which the receivable originated, customer and counterparty credit risk is managed in the same manner and the terms and conditions of payment are similar.

NEP recognizes revenues as energy and any related renewable energy attributes are delivered or natural gas transportation services are performed, consistent with the amounts billed to customers based on rates stipulated in the respective PPAs. NEP considers the amount billed to represent the value of energy delivered or services provided to the customer. NEP's customers typically receive bills monthly with payment due within 30 days.

The contracts with customers related to pipeline service revenues contain a fixed price related to firm natural gas transportation capacity with maturity dates ranging from 2018 to 2035. At June 30, 2018, NEP expects to record approximately \$2.0 billion of revenues over the remaining terms of the related contracts as the capacity is provided. Revenues yet to be earned under contracts with customers to deliver energy and any related energy attributes, which have maturity dates ranging from 2030 to 2035, will vary based on the volume of energy delivered.

NEXTERA ENERGY PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

### 3. Income Taxes

For periods through December 31, 2017, when NEP acquired a NEER project, income taxes were calculated on the predecessor method using the separate return method applied to the group of renewable energy projects acquired. As a result of the governance changes discussed in Note 1, beginning in January 2018, acquisitions from NEER are no longer treated as common control acquisitions, and income taxes are calculated on the successor method where taxes are calculated for NEP as a single taxpaying corporation for U.S. federal and state income taxes (based on its election to be taxed as a corporation). Because NEP OpCo is a limited partnership, NEP only recognizes in income its applicable ownership share of U.S. income taxes related to the U.S. projects and, prior to the sale of Canadian Holdings, the Canadian projects. NEP's former Canadian subsidiaries were all Canadian taxpayers, and therefore NEP recognized in income all of the Canadian taxes. Income taxes include NEP's applicable ownership share of U.S. taxes and 100% of Canadian taxes. Net income or loss attributable to noncontrolling interests includes no U.S. taxes and NEER's applicable ownership share of Canadian taxes. Net income attributable to NEP includes NEP's applicable ownership share of U.S. and Canadian taxes.

On December 22, 2017, the Tax Cuts and Jobs Act (tax reform) was signed into law which, among other things, reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, NEP performed an analysis to preliminarily revalue its deferred income taxes and included an estimate of changes in the balances in NEP's December 31, 2017 financial statements. At December 31, 2017, the revaluation reduced NEP's net deferred income tax assets by approximately \$101 million, which decreased NEP's 2017 net income and net income attributable to NEP. While NEP continues to believe that the provisional tax reform adjustment is a reasonable estimate of the effects on its existing deferred taxes, additional analysis and detailed reviews are still being performed to finalize the accounting for the remeasurement of deferred tax assets and liabilities as a result of the enactment of tax reform.

The effective tax rates for the three months ended June 30, 2018 and 2017 were approximately (8)% and 21%, respectively, and for the six months ended June 30, 2018 and 2017 were approximately (1)% and 21%, respectively. The effective tax rate is affected by recurring items, such as the relative amount of income earned in jurisdictions (earnings mix), valuation allowances on deferred tax assets, taxes attributable to the noncontrolling interests and the taxation of Canadian income in both Canada and the U.S. During the three and six months ended June 30, 2018, the disposal of Canadian Holdings (see Note 10 - Disposal of Canadian Holdings) resulted in an overall tax benefit of approximately \$47 million. The benefit resulted from the removal of the historical Canadian deferred tax liabilities of approximately \$69 million offset by US tax expense of \$22 million related to the gain. During the six months ended June 30, 2018, NEP recorded an income tax charge of approximately \$20 million related to the \$231 million adjustment to differential membership interests as a result of the change in federal corporate income taxes due to tax reform that became effective January 1, 2018 (see Note 10 - Accounting for Partial Sales of Nonfinancial Assets).

### 4. Fair Value Measurements

The fair value of assets and liabilities are determined using either unadjusted quoted prices in active markets (Level 1) or pricing inputs that are observable (Level 2) whenever that information is available and using unobservable inputs (Level 3) to estimate fair value only when relevant observable inputs are not available. NEP uses several different valuation techniques to measure the fair value of assets and liabilities relying primarily on the market approach of using prices and other market information for identical and/or comparable assets and liabilities for those assets and liabilities that are measured at fair value on a recurring basis. Certain financial instruments may be valued using

multiple inputs including discount rates, counterparty credit ratings and credit enhancements. NEP's assessment of the significance of any particular input to the fair value measurement requires judgment and may affect the placement of those assets and liabilities within the fair value hierarchy levels. Non-performance risk, including the consideration of a credit valuation adjustment, is also considered in the determination of fair value for all assets and liabilities measured at fair value. Transfers between fair value hierarchy levels occur at the beginning of the period in which the transfer occurred.

**Cash Equivalents and Restricted Cash Equivalents** - The fair value of money market funds that are included in cash and cash equivalents, restricted cash and other non-current assets on the condensed consolidated balance sheets is estimated using a market approach based on current observable market prices.

**Interest Rate and Foreign Currency Contracts** - NEP estimates the fair value of its derivatives using an income approach based on a discounted cash flows valuation technique utilizing the net amount of estimated future cash inflows and outflows related to the agreements. The primary inputs used in the fair value measurements include the contractual terms of the derivative agreements, current interest rates, foreign currency exchange rates and credit profiles. The significant inputs for the resulting fair value measurement are market-observable inputs and the measurements are reported as Level 2 in the fair value hierarchy.

## NEXTERA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NEP's financial assets and liabilities and other fair value measurements made on a recurring basis by fair value hierarchy level are as follows:

	June 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(millions)					
Assets:						
Cash equivalents	\$42	\$ —	\$42	\$61	\$ —	\$61
Restricted cash equivalents <sup>(a)</sup>	30	—	30	31	—	31
Interest rate contracts	—	55	55	—	15	15
Foreign currency contracts	—	10	10	—	—	—
Total assets	\$72	\$ 65	\$137	\$92	\$ 15	\$107
Liabilities:						
Interest rate contracts	\$—	\$ 102	\$102	\$—	\$ 44	\$44
Foreign currency contracts	—	—	—	—	3	3
Total liabilities	\$—	\$ 102	\$102	\$—	\$ 47	\$47

(a) At June 30, 2018 and December 31, 2017, approximately \$18 million and \$7 million, respectively, of restricted cash equivalents are included in other non-current assets on NEP's condensed consolidated balance sheets.

**Financial Instruments Recorded at Other than Fair Value** - The carrying amount of short-term debt approximates its fair value. The carrying amounts and estimated fair values of other financial instruments recorded at other than fair value are as follows:

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(millions)			
Long-term debt, including current maturities <sup>(a)</sup>	\$3,572	\$3,516	\$4,317	\$4,456

(a) At June 30, 2018 and December 31, 2017, approximately \$3,033 million and \$3,552 million, respectively, of the fair value is estimated using a market approach based on quoted market prices for the same or similar issues (Level 2); the balance is estimated using an income approach utilizing a discounted cash flow valuation technique, considering the current credit profile of the debtor (Level 3).

## 5. Derivative Instruments and Hedging Activity

NEP uses derivative instruments (primarily interest rate swaps) to manage the interest rate cash flow risk associated primarily with outstanding and expected future debt issuances and borrowings. NEP records all derivative instruments that are required to be marked to market as either assets or liabilities in its condensed consolidated balance sheets and measures them at fair value each reporting period. NEP does not utilize hedge accounting for its derivative instruments. All changes in the derivatives' fair value are recognized in interest expense in the condensed consolidated statements of income. In general, the commencement and termination dates of the interest rate swap agreements and the related hedging relationship coincide with the corresponding dates of the underlying variable-rate debt

instruments. At June 30, 2018 and December 31, 2017, the combined notional amounts of the interest rate contracts were approximately \$8,228 million and \$3,609 million, respectively.

At June 30, 2018, NEP's AOCI included amounts related to discontinued cash flow hedges, which have expiration dates through 2033. At June 30, 2018, less than \$1 million of net unrealized losses are expected to be reclassified into interest expense within the next 12 months as interest payments are made. Such amount assumes no change in scheduled principal payments. Cash flows from these interest rate swap contracts are reported in cash flows from operating activities in the condensed consolidated statements of cash flows.

NEP enters into certain foreign currency exchange contracts to economically hedge its cash flows from foreign currency rate fluctuations. At June 30, 2018 and December 31, 2017, the notional amount of the foreign currency contracts was approximately \$574 million and \$62 million, respectively. During the three months ended June 30, 2018 and 2017, NEP recorded approximately \$11 million of gains and \$2 million of losses, respectively, and \$13 million of gains and \$2 million of losses during the six months ended June 30, 2018 and 2017, respectively, related to the foreign currency contracts in other - net in the condensed consolidated statements of income. In April 2018, NEP entered into a foreign exchange forward agreement with a notional amount of CAD \$741 million to manage foreign currency exchange rate risk associated with the cash consideration NEP received upon closing of the sale of Canadian Holdings discussed in Note 10 - Disposal of Canadian Holdings. In July 2018, the CAD \$741 million hedge agreement was settled.

## NEXTERA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Fair Value of Derivative Instruments - The tables below present NEP's gross derivative positions, based on the total fair value of each derivative instrument, at June 30, 2018 and December 31, 2017, as required by disclosure rules, as well as the location of the net derivative positions, based on the expected timing of future payments, on the condensed consolidated balance sheets.

	June 30, 2018			
	Gross Basis		Net Basis	
	Assets	Liabilities	Assets	Liabilities
	(millions)			
Interest rate contracts	\$55	\$ 102	\$27	\$ 74
Foreign currency contracts	10	—	10	—
Total fair values	\$65	\$ 102	\$37	\$ 74

Net fair value by balance sheet line item:

Other current assets	\$20
Other non-current assets	17
Current derivative liabilities	\$ 1
Other non-current liabilities	73
Total derivatives	\$37 \$ 74

	December 31, 2017			
	Gross Basis		Net Basis	
	Assets	Liabilities	Assets	Liabilities
	(millions)			
Interest rate contracts	\$15	\$ 44	\$18	\$ 47
Foreign currency contracts	—	3	—	3
Total fair values	\$15	\$ 47	\$18	\$ 50

Net fair value by balance sheet line item:

Other current assets	\$10
Other non-current assets	8
Current derivative liabilities	\$ 11
Other non-current liabilities	39
Total derivatives	\$18 \$ 50

Financial Statement Impact of Derivative Instruments - Gains (losses) related to NEP's interest rate contracts are recorded in the condensed consolidated financial statements as follows:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018		2017	
	2018	2017	2018	2017	2018	2017
	(millions)					
Interest rate contracts:						
Losses reclassified from AOCI to interest expense	\$(1 )	\$(2 )	\$(3 )	\$(4 )		

Gains (losses) recognized in interest expense	\$33	\$(17)	\$(19)	\$(19)
---	------	--------	--------	--------

Credit-Risk-Related Contingent Features - Certain of NEP's derivative instruments contain credit-related cross-default and material adverse change triggers, none of which contain requirements to maintain certain credit ratings or financial ratios. At June 30, 2018 and December 31, 2017, the aggregate fair value of NEP's derivative instruments with contingent risk features that were in a liability position was approximately \$102 million and \$17 million, respectively.

#### 6. Variable Interest Entities

NEP has identified NEP OpCo as a VIE. NEP OpCo is a limited partnership with a general partner and limited partners. NEP has consolidated the results of NEP OpCo and its subsidiaries because of its controlling interest in the general partner of NEP OpCo. At June 30, 2018, NEP owned an approximately 34.9% limited partner interest in NEP OpCo and NEE Equity owned a noncontrolling 65.1% limited partner interest in NEP OpCo (NEE's noncontrolling interest). The assets and liabilities of NEP OpCo as well as the operations of NEP OpCo represent substantially all of NEP's assets and liabilities and its operations.

NEXTERA ENERGY PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

In addition, at June 30, 2018, NEP OpCo consolidated seven VIEs related to certain subsidiaries that have sold differential membership interests in entities which own and operate ten wind electric generation facilities. These entities are considered VIEs because the holders of the differential membership interests do not have substantive rights over the significant activities of these entities. The assets, primarily property, plant and equipment - net, and liabilities, primarily asset retirement obligation and non-current due to related party, of the VIEs, totaled approximately \$2,798 million and \$70 million, respectively, at June 30, 2018. The assets, primarily property, plant and equipment - net, and liabilities, primarily deferral related to differential membership interests, totaled approximately \$2,840 million and \$1,515 million, respectively, at December 31, 2017.

In April 2015, a subsidiary of NEP made an equity method investment in three NEER solar projects. Through a series of transactions, a subsidiary of NEP issued 1,000,000 NEP OpCo Class B Units, Series 1 and 1,000,000 NEP OpCo Class B Units, Series 2, to NEER for approximately 50% of the ownership interests in the three solar projects (non-economic ownership interests). NEER, as holder of the Class B Units, will retain 100% of the economic rights in the projects to which the respective Class B Units relate, including the right to all distributions paid by the project subsidiaries. NEER has agreed to indemnify NEP against all risks relating to NEP's ownership of the projects until NEER offers to sell economic interests to NEP and NEP accepts such offer, if NEP chooses to do so. NEER has also agreed to continue to manage the operation of the projects at its own cost, and to contribute to the projects any capital necessary for the operation of the projects, until NEER offers to sell economic interests to NEP and NEP accepts such offer. At June 30, 2018 and December 31, 2017, NEP's equity method investment related to the non-economic ownership interests is reflected as investments in non-economic ownership interests on the condensed consolidated balance sheets. All equity in earnings of the non-economic ownership interests is allocated to net income attributable to noncontrolling interests. NEP is not the primary beneficiary and therefore does not consolidate these entities because it does not control any of the ongoing activities of these entities, was not involved in the initial design of these entities and does not have a controlling interest in these entities.

## 7. Capitalization

**Equity** - On July 24, 2018, the board of directors of NEP authorized a distribution of \$0.4375 per common unit payable on August 14, 2018 to its common unitholders of record on August 6, 2018.

**Earnings Per Unit** - Diluted earnings per unit are based on the weighted-average number of common units and potential common units outstanding during the period, including the dilutive effect of the convertible notes and preferred units. The dilutive effect of the convertible notes and preferred units is computed using the if-converted method.

The reconciliation of NEP's basic and diluted earnings per unit is as follows:

Three	Six
Month	Months
Ended	Ended
June	June
30,	30,
2018	2018

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

	(millions, except per unit amounts)	
Numerator:		
Net income attributable to NEP – basic	\$ 83	\$ 156
Adjustments for convertible notes and preferred units	23	41
Net income attributable to NEP used to compute diluted earnings per unit	\$ 106	\$ 197
Denominator:		
Weighted-average number of common units outstanding – basic	54.3	54.3
Convertible notes and preferred units	19.7	19.7
Weighted-average number of common units outstanding – assuming dilution	74.0	74.0
Earnings per unit attributable to NEP:		
Basic	\$ 1.53	\$ 2.88
Assuming dilution	\$ 1.43	\$ 2.67

## NEXTERA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 8. Accumulated Other Comprehensive Income (Loss)

	Accumulated Other Comprehensive Income (Loss)			
	Net Unrealized Gains (Losses) on Cash Flow Hedges		Other Comprehensive Income (Loss) Related to Equity Method Investee	Total
	Translation			
	(millions)			
Three months ended June 30, 2018				
Balances, March 31, 2018	\$2	\$ (102 )	\$ (26 )	\$(126 )
Amounts reclassified from AOCI to interest expense	1	—	—	1
Net unrealized losses on foreign currency translation	—	(2 )	—	(2 )
Other comprehensive losses related to equity method investee	—	—	(4 )	(4 )
Net other comprehensive income (loss)	1	(2 )	(4 )	(5 )
Impact of disposal of Canadian Holdings	3	104	—	107
Balances, June 30, 2018	\$6	\$ —	\$ (30 )	\$(24 )
AOCI attributable to noncontrolling interest	\$6	\$ —	\$ (32 )	\$(26 )
AOCI attributable to NEP	\$—	\$ —	\$ 2	\$2

	Accumulated Other Comprehensive Income (Loss)			
	Net Unrealized Gains (Losses) on Cash Flow Hedges		Other Comprehensive Income (Loss) Related to Equity Method Investee	Total
	Translation			
	(millions)			
Six months ended June 30, 2018				
Balances, December 31, 2017	\$1	\$ (98 )	\$ (30 )	\$(127 )
Amounts reclassified from AOCI to interest expense	2	—	—	2
Net unrealized losses on foreign currency translation	—	(6 )	—	(6 )
Net other comprehensive income (loss)	2	(6 )	—	(4 )
Impact of disposal of Canadian Holdings	3	104	—	107
Balances, June 30, 2018	\$6	\$ —	\$ (30 )	\$(24 )
AOCI attributable to noncontrolling interest	\$6	\$ —	\$ (32 )	\$(26 )
AOCI attributable to NEP	\$—	\$ —	\$ 2	\$2

## NEXTERA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

	Accumulated Other Comprehensive Income (Loss)			
	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Foreign Currency Translation	Other Comprehensive Income (Loss) Related to Equity Method Investee	Total
(millions)				
Three months ended June 30, 2017				
Balances, March 31, 2017	\$(2)	\$ (105 )	\$ (34 )	\$(141)
Amounts reclassified from AOCI to interest expense	1	—	—	1
Net unrealized gains on foreign currency translation	—	3	—	3
Net other comprehensive income	1	3	—	4
Balances, June 30, 2017	\$(1)	\$ (102 )	\$ (34 )	\$(137)
AOCI attributable to noncontrolling interest	\$(2)	\$ (99 )	\$ (35 )	\$(136)
AOCI attributable to NEP	\$1	\$ (3 )	\$ 1	\$(1 )

	Accumulated Other Comprehensive Income (Loss)			
	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Foreign Currency Translation	Other Comprehensive Income (Loss) Related to Equity Method Investee	Total
(millions)				
Six months ended June 30, 2017				
Balances, December 31, 2016	\$(4)	\$ (105 )	\$ (35 )	\$(144)
Amounts reclassified from AOCI to interest expense	3	—	—	3
Net unrealized gains on foreign currency translation	—	3	—	3
Other comprehensive income related to equity method investee	—	—	1	1
Net other comprehensive income	3	3	1	7
Balances, June 30, 2017	\$(1)	\$ (102 )	\$ (34 )	\$(137)
AOCI attributable to noncontrolling interest	\$(2)	\$ (99 )	\$ (35 )	\$(136)
AOCI attributable to NEP	\$1	\$ (3 )	\$ 1	\$(1 )

## 9. Related Party Transactions

Each project entered into O&M agreements and ASAs with subsidiaries of NEER whereby the projects pay a certain annual fee plus actual costs incurred in connection with certain O&M and administrative services performed under these agreements. These services are reflected as operations and maintenance in the condensed consolidated statements of income. Additionally, a NEP subsidiary pays an affiliate for transmission services which are reflected as operations and maintenance in the condensed consolidated statements of income. Certain projects have also entered

into various types of agreements including those related to shared facilities and transmission lines, transmission line easements, technical support and construction coordination with subsidiaries of NEER whereby certain fees or cost reimbursements are paid to, or received by, certain subsidiaries of NEER.

Management Services Agreement - Under the MSA, an indirect wholly owned subsidiary of NEE provides operational, management and administrative services to NEP, including managing NEP's day-to-day affairs and providing individuals to act as NEP's executive officers and directors, in addition to those services that are provided under the existing O&M agreements and ASAs described above between NEER subsidiaries and NEP subsidiaries. NEP OpCo pays NEE an annual management fee equal to the greater of 1% of the sum of NEP OpCo's net income plus interest expense, income tax expense and depreciation and amortization expense less certain non-cash, non-recurring items for the most recently ended fiscal year and \$4 million (as adjusted for inflation beginning in 2016), which is paid in quarterly installments with an additional payment each January to the extent 1% of the sum of NEP OpCo's net income plus interest expense, income tax expense and depreciation and amortization expense less certain non-cash, non-recurring items for the preceding fiscal year exceeds \$4 million (as adjusted for inflation beginning in 2016). NEP OpCo also makes certain payments to NEE based on the achievement by NEP OpCo of certain target quarterly distribution levels to its unitholders.

NEXTERA ENERGY PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NEP's O&M expenses for the three and six months ended June 30, 2018 include approximately \$19 million and \$37 million, respectively, and for the three and six months ended June 30, 2017 include approximately \$16 million and \$32 million, respectively, related to the MSA.

Cash Sweep and Credit Support Agreement - NEP OpCo is a party to the CSCS agreement with NEER under which NEER and certain of its subsidiaries may provide credit support in the form of letters of credit and guarantees to satisfy NEP's subsidiaries' contractual obligations. NEP OpCo will pay NEER an annual credit support fee based on the level and cost of the credit support provided, payable in quarterly installments. NEP's O&M expenses for the three and six months ended June 30, 2018 include approximately \$1 million and \$2 million, respectively, and for the three and six months ended June 30, 2017 include approximately \$1 million and \$2 million, respectively, related to the CSCS agreement.

NEER and certain of its subsidiaries may withdraw funds (Project Sweeps) received by NEP OpCo under the CSCS agreement, or its subsidiaries in connection with certain long-term debt agreements, and hold those funds in accounts belonging to NEER or its subsidiaries to the extent the funds are not required to pay project costs or otherwise required to be maintained by NEP's subsidiaries. NEER and its subsidiaries may keep the funds until the financing agreements permit distributions to be made, or, in the case of NEP OpCo, until such funds are required to make distributions or to pay expenses or other operating costs or NEP OpCo otherwise demands the return of such funds. If NEER fails to return withdrawn funds when required by NEP's subsidiaries' financing agreements, the lenders will be entitled to draw on any credit support provided by NEER in the amount of such withdrawn funds. If NEER or one of its affiliates realizes any earnings on the withdrawn funds prior to the return of such funds, it will be permitted to retain those earnings. At June 30, 2018 and December 31, 2017, the cash sweep amounts held in accounts belonging to NEER or its subsidiaries were approximately \$137 million and \$87 million, respectively, and are included in due from related parties on the condensed consolidated balance sheets.

Guarantees and Letters of Credit Entered into by Related Parties - Certain PPAs include requirements of the project entities to meet certain performance obligations. NEECH or NEER has provided letters of credit or guarantees for certain of these performance obligations and payment of any obligations from the transactions contemplated by the PPAs. In addition, certain financing agreements require cash and cash equivalents to be reserved for various purposes. In accordance with the terms of these financing agreements, guarantees from NEECH have been substituted in place of these cash and cash equivalents reserve requirements. Also, under certain financing agreements, indemnifications have been provided by NEECH. In addition, certain interconnection agreements and site certificates require letters of credit or a bond to secure certain payment or restoration obligations related to those agreements. NEECH also guarantees the Project Sweep amounts held in accounts belonging to NEER, as described above. At June 30, 2018, NEECH or NEER guaranteed or provided indemnifications, letters of credit or bonds totaling approximately \$575 million related to these obligations. Agreements related to the sale of differential membership interests require NEER to guarantee payments due by the VIEs and the indemnifications to the VIEs' respective investors. At June 30, 2018, NEER guaranteed a total of approximately \$59 million related to these obligations.

Due to Related Party - Non-current amounts due to related party on the condensed consolidated balance sheets primarily represent amounts owed by certain of NEP's wind projects to NEER to refund NEER for certain transmission costs paid on behalf of the wind projects. Amounts will be paid to NEER as the wind projects receive payments from third parties for related notes receivable recorded in other non-current assets on the condensed consolidated balance sheets.

Transportation and Fuel Management Agreements - In connection with the Texas pipelines acquisition, a subsidiary of NEP assigned to a subsidiary of NEER certain gas commodity agreements in exchange for entering into transportation agreements and a fuel management agreement whereby the benefits of the gas commodity agreements (net of transportation paid to the NEP subsidiary) are passed back to the NEP subsidiary. During the three and six months ended June 30, 2018, NEP recognized less than \$1 million and approximately \$1 million, respectively, and for the three and six months ended June 30, 2017 NEP recognized \$1 million and \$6 million, respectively, in revenues related to the transportation and fuel management agreements.

#### 10. Summary of Significant Accounting and Reporting Policies

Restricted Cash - In the fourth quarter of 2017, NEP early adopted an accounting standards update which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the condensed consolidated statements of cash flows. NEP adopted the standards update retrospectively, which adoption did not have a material impact to the condensed consolidated statements of cash flows.

Current restricted cash on NEP's condensed consolidated balance sheets and approximately \$20 million and \$19 million of other non-current assets on NEP's condensed consolidated balance sheets at June 30, 2018 and December 31, 2017, respectively, are held by certain subsidiaries to pay for certain capital or operating expenditures, as well as to fund required equity contributions pursuant to restrictions contained in the subsidiaries' debt agreements. Restricted cash reported as current assets are recorded as such based on the anticipated use of these funds.

Disposal of Canadian Holdings - In June 2018, a subsidiary of NEP completed the sale of Canadian Holdings for cash proceeds of approximately CAD \$740 million (USD \$563 million at June 29, 2018), subject to post-closing working capital adjustments. In addition,

## NEXTERA ENERGY PARTNERS, LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

the purchaser assumed approximately \$676 million of existing debt. Canadian Holdings owns four wind generation facilities and two solar generation facilities located in Ontario, Canada with a generating capacity totaling approximately 396 MW. NEP recognized a gain of approximately \$158 million (\$205 million after-tax) which is reflected as gain on disposal of Canadian Holdings in NEP's condensed consolidated statements of income. Income before income taxes associated with Canadian Holdings, excluding the financial statement impacts resulting from the sale in 2018, was approximately \$19 million and \$20 million for the three months ended June 30, 2018 and 2017, respectively, and \$47 million and \$40 million for the six months ended June 30, 2018 and 2017, respectively.

**Accounting for Partial Sales of Nonfinancial Assets** - Effective January 1, 2018, NEP adopted an accounting standards update regarding the accounting for partial sales of nonfinancial assets using the modified retrospective approach. This standards update affects the accounting and related financial statement presentation for the sales of differential membership interests to third-party investors. The primary impact of adopting the standards update was an increase to noncontrolling interests which includes the reclassification of the \$1,442 million liability reflected as deferral related to differential membership interests on NEP's condensed consolidated balance sheets at December 31, 2017. See the condensed consolidated statements of changes in equity. During the three and six months ended June 30, 2018, approximately \$39 million and \$77 million, respectively, was recorded as net loss attributable to noncontrolling interests in NEP's condensed consolidated statements of income as the third-party investors received their portion of the economic attributes of the related facilities. Prior to the adoption, the income related to differential membership interests was being recognized in benefits associated with differential membership interests - net in NEP's condensed consolidated statements of income. Additionally, net loss attributable to noncontrolling interests for the six months ended June 30, 2018 includes approximately \$231 million (after-tax \$211 million) related to the reduction of differential membership interests as a result of the change in federal corporate income tax rates effective January 1, 2018.

**Noncontrolling Interests** - At June 30, 2018 and December 31, 2017, NEP's limited partner interest in NEP OpCo was approximately 34.9%. At June 30, 2018, NEE's 65.1% noncontrolling interest in NEP OpCo, a non-affiliated party's 10% interest in one of the Texas pipelines and the interests related to differential membership interests discussed above are reflected as noncontrolling interests on the condensed consolidated balance sheets. Details of the activity in noncontrolling interests for the six months ended June 30, 2018 is below:

	Differential Membership Interests	Noncontrolling Ownership Interests in NEP OpCo and Texas pipeline	Total Noncontrolling Interests
	(millions)		
Balances, December 31, 2017	\$—	\$ 20	\$ 20
Related party note receivable	—	31	31
Net income (loss) attributable to NCI	(308 ) <sup>(a)</sup>	414	106
Other comprehensive income	—	(3 )	(3 )
Related party distributions	—	(105 )	(105 )
Changes in non-economic ownership interests and equity method investee	—	(5 )	(5 )
Differential membership investment contributions, net of distributions	17	—	17
Disposal of Canadian Holdings	—	105	105

Adoption of accounting standards update	1,413	3	1,416
Balances, June 30, 2018	\$1,122	\$ 460	\$ 1,582

---

(a) Represents the benefits associated with differential membership interests recognized as the third-party investors received their portion of the economic attributes of the related facilities. Approximately \$201 million of the loss attributable to differential membership interests benefits NEE's noncontrolling interest and \$107 million is reflected as net income attributable to NEP.

Leases - In February 2016, the Financial Accounting Standards Board (FASB) issued an accounting standards update which requires, among other things, that lessees recognize a lease liability, initially measured at the present value of the future lease payments, and a right-of-use asset for all leases (with the exception of short-term leases) (new lease standard). The new lease standard also requires new qualitative and quantitative disclosures for both lessees and lessors. The new lease standard will be effective for NEP beginning January 1, 2019. Early adoption is permitted.

NEP is currently reviewing its portfolio of contracts and evaluating the proper application of the new lease standard to these contracts in order to determine the impact the adoption will have on its consolidated financial statements. NEP is implementing a number of system enhancements to facilitate the identification, tracking and reporting of leases based upon the requirements of the new lease standard. NEP is continuing to assess the transition options and practical expedients and monitoring industry implementation issues.

NEXTERA ENERGY PARTNERS, LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

(unaudited)

11. Commitments and Contingencies

Contracts - At June 30, 2018, NEP and its subsidiaries have entered into contracts with expiration dates ranging from 2018 through 2065 for the sale of differential membership interests related to certain wind generation facilities, engineering, procurement and construction contracts and agreements that provide for the right to use the land upon which certain projects are located.

At June 30, 2018, payments under these contracts were estimated as follows:

Year Ending December 31, Commitments

	(millions)
Remainder of 2018	\$ 20
2019	32
2020	32
2021	33
2022	33
Thereafter	457
Total estimated payments	\$ 607

One of NEP's solar project's land use agreements includes a right-of-way lease/grant that provides for payments to the BLM for the right to use the public lands upon which the project is located. The lease may be renewed at expiration at the solar project's option and will be subject to the regulations existing at the time of renewal. In connection with the terms of the lease, the solar project obtained a surety bond from a non-affiliated party in favor of the BLM for approximately \$23 million. The surety bond remains in effect until the BLM is satisfied that there is no outstanding liability on the bond or satisfactory replacement bond coverage is furnished.

Letter of Credit Facilities - Two of NEP's projects entered into letter of credit (LOC) facilities under which the LOC lenders may issue standby letters of credit not to exceed approximately \$82 million in the aggregate. These LOC facilities have maturity dates of June 2022 and July 2022. At June 30, 2018, approximately \$68 million of LOCs was outstanding primarily related to debt service reserves and as security for certain of the projects' agreements, including a PPA.

Acquisition Holdback - At December 31, 2016, the condensed consolidated balance sheets included an acquisition holdback related to the satisfaction of any indemnification obligations of the Texas pipelines sellers through April 2017 (indemnity holdback). During the six months ended June 30, 2017 the indemnity holdback was released under the terms of the Texas pipelines acquisition agreement and approximately \$200 million was paid to the sellers.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview

NEP is a growth-oriented limited partnership formed to acquire, manage and own contracted clean energy projects with stable long-term cash flows. At June 30, 2018, NEP owned a controlling, non-economic general partner interest and an approximately 34.9% limited partner interest in NEP OpCo. Through NEP OpCo, NEP owns a portfolio of contracted renewable generation assets consisting of wind and solar projects and a portfolio of contracted natural gas pipeline assets.

This discussion should be read in conjunction with the Notes contained herein and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the 2017 Form 10-K. The results of operations for an interim period generally will not give a true indication of results for the year. In the following discussions, all comparisons are with the corresponding items in the prior year period.

During 2017, a subsidiary of NEP completed acquisitions from NEER, which were transfers of assets between entities under common control that were required to be accounted for as if the transfers occurred since the inception of common control, with prior periods retrospectively adjusted to furnish comparative information. Accordingly, the accompanying condensed consolidated financial statements have been retrospectively adjusted for the three and six months ended June 30, 2017 to include the historical results and financial position of the common control acquisitions prior to their respective acquisition dates. Beginning in January 2018, acquisitions from NEER will no longer be treated as common control acquisitions and NEP's financial statements will no longer be retrospectively adjusted for such acquisitions. See Note 1.

In June 2018, a subsidiary of NEP completed the sale of Canadian Holdings which owns four wind generation facilities and two solar generation facilities located in Ontario, Canada with a generating capacity totaling approximately 396 MW. See Note 10 - Disposal of Canadian Holdings.

## Results of Operations

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2017 <sup>(a)</sup>		2017 <sup>(a)</sup>	
	(millions)			
Statement of Income Data:				
OPERATING REVENUES				
Renewable energy sales	\$169	\$175	\$325	\$323
Texas pipelines service revenues	56	45	112	94
Total operating revenues	225	220	437	417
OPERATING EXPENSES (INCOME)				
Operations and maintenance	64	66	128	123
Depreciation and amortization	49	57	102	112
Gain on disposal of Canadian Holdings	(158)	—	(158)	—
Taxes other than income taxes and other	5	5	11	10
Total operating expenses - net	(40)	128	83	245
OPERATING INCOME	265	92	354	172
OTHER INCOME (DEDUCTIONS)				
Interest expense	(21)	(61)	(124)	(104)
Benefits associated with differential membership interests - net	—	30	—	62
Equity in earnings of equity method investee	13	14	16	16

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

Equity in earnings of non-economic ownership interests	7	4	13	3
Other - net	11	(1 )	13	(2 )
Total other income (deductions) - net	10	(14 )	(82 )	(25 )
INCOME BEFORE INCOME TAXES	275	78	272	147
INCOME TAX EXPENSE (BENEFIT)	(21 )	16	(2 )	31
NET INCOME	296	62	274	116
Net income attributable to preferred distributions	(6 )	—	(12 )	—
Net income attributable to noncontrolling interests <sup>(b)</sup>	(207 )	(49 )	(106 )	(91 )
NET INCOME ATTRIBUTABLE TO NEXTERA ENERGY PARTNERS, LP	\$83	\$13	\$156	\$25

(a) Prior-period financial information has been retrospectively adjusted as discussed in Note 1.

(b) For the three and six months ended June 30, 2017, net income attributable to noncontrolling interests includes the pre-acquisition net income of the common control acquisitions. See Note 1.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Operating Revenues

Operating revenues primarily consist of income from the sale of energy under PPAs and services provided under natural gas transportation agreements. Renewable energy sales decreased approximately \$6 million during the three months ended June 30, 2018 primarily due to unfavorable wind resource in certain markets. Texas pipelines service revenues increased approximately \$11 million over the same period primarily due to the recognition of revenue related to new contracts.

Operating Expenses

Operations and Maintenance

O&M expense includes interconnection costs, labor expenses, turbine servicing costs, royalty payments, insurance, materials, supplies, shared services and administrative expenses attributable to NEP's projects, and costs and expenses under the MSA, ASAs and O&M agreements. See Note 9. O&M expense also includes the cost of maintaining and replacing certain parts for the projects in the portfolio to maintain, over the long-term, operating income or operating capacity. O&M expense decreased approximately \$2 million during the three months ended June 30, 2018 primarily due to decreases in various administrative and project O&M expenses, partially offset by an increase of \$3 million in IDR fees related to growth in NEP's distributions to its common unitholders.

Depreciation and Amortization

Depreciation and amortization expense reflects costs associated with depreciation and amortization of NEP's assets, based on depreciable asset lives and consistent depreciation methodologies. Depreciation and amortization expense also includes a provision for wind and solar facility dismantlement, asset removal costs and accretion related to asset retirement obligations and the amortization of finite-lived intangible assets.

Depreciation and amortization expense decreased approximately \$8 million as a result of Canadian Holdings being held for sale during the three months ended June 30, 2018.

Gain on Disposal of Canadian Holdings

During the three months ended June 30, 2018, a subsidiary of NEP completed the sale of Canadian Holdings and NEP recognized a pre-tax gain of approximately \$158 million. See Note 10 - Disposal of Canadian Holdings.

Other Income (Deductions)

Interest Expense

Interest expense primarily consists of interest on debt and mark-to-market gains and losses on interest rate contracts. Interest expense decreased approximately \$40 million during the three months ended June 30, 2018 primarily due to favorable mark-to-market activity of approximately \$45 million, partially offset by \$5 million in higher interest cost and fees related to additional debt issuances during 2017, net of the repayment of certain term loans during 2017.

Benefits Associated with Differential Membership Interests - net

For the three months ended June 30, 2017, benefits associated with differential membership interests - net reflect benefits recognized by NEP as third-party investors received their portion of the economic attributes, including income tax attributes, of the underlying wind projects net of associated costs. For the three months ended June 30, 2018, NEP recognized approximately \$39 million as a loss attributable to noncontrolling interests on the condensed consolidated statements of income. Approximately \$25 million of the loss attributable to differential membership interests benefits NEE's noncontrolling interest and \$14 million is reflected as net income attributable to NEP.

Other - net

The increase in other - net for the three months ended June 30, 2018 primarily reflects an approximately \$10 million increase in gains related to foreign currency exchange contracts. See Note 5.

Income Taxes

Income taxes include NEP's applicable ownership share of U.S. taxes and 100% of Canadian taxes. Net income or loss attributable to noncontrolling interest includes no U.S. taxes and NEER's applicable ownership share of Canadian taxes. Net income attributable to NEP includes NEP's applicable ownership share of U.S. and Canadian taxes.

For the three months ended June 30, 2018, NEP recorded income tax benefit of approximately \$21 million on income before income taxes of \$275 million, resulting in an effective tax rate of (8)%. The tax benefit is comprised primarily of income tax expense of approximately \$58 million at the statutory rate of 21%, offset by income tax benefits of \$69 million related to the removal of the historical Canadian deferred tax liabilities (see Note 3) and \$15 million of income tax attributable to noncontrolling interests.

For the three months ended June 30, 2017, NEP recorded income tax expense of approximately \$16 million on income before income taxes of \$78 million, resulting in an effective tax rate of 21%. The tax expense is comprised primarily of income tax expense of approximately \$27 million at the statutory rate of 35%, partially offset by income tax benefit of \$7 million of income tax attributable to noncontrolling interests.

Due to the transition from predecessor, prior to January 1, 2018, to successor method of accounting for income taxes, comparing current period results to the same period in the prior year does not provide meaningful information. See Note 3.

#### Net Income Attributable to Noncontrolling Interests

For the three months ended June 30, 2018 and 2017, net income attributable to noncontrolling interests reflects the net income attributable to NEE's noncontrolling interest in NEP OpCo and a non-affiliated party's 10% interest in one of the Texas pipelines. Additionally, for the three months ended June 30, 2018, net income attributable to noncontrolling interests reflects the loss allocated to differential membership interests investors. See Note 10 - Noncontrolling Interests. Net income attributable to noncontrolling interests increased \$158 million during the three months ended June 30, 2018 primarily due to the allocation of NEP's net income, including the gain on disposal of Canadian Holdings discussed above, based on the ownership share of the respective noncontrolling interests as well as the allocation of the differential membership interest loss.

#### Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

##### Operating Revenues

Renewable energy sales increased approximately \$2 million during the six months ended June 30, 2018 primarily due to increased pricing related to PPA escalations. Texas pipelines service revenues increased approximately \$18 million over the same period primarily due to the recognition of revenue related to new contracts.

##### Operating Expenses

###### Operations and Maintenance

O&M expense increased approximately \$5 million during the six months ended June 30, 2018 primarily due to an increase of \$5 million in IDR fees related to growth in NEP's distributions to its common unitholders.

###### Depreciation and Amortization

Depreciation and amortization expense decreased approximately \$10 million as a result of Canadian Holdings being held for sale during a portion of the six months ended June 30, 2018.

###### Gain on Disposal of Canadian Holdings

During the six months ended June 30, 2018, a subsidiary of NEP completed the sale of Canadian Holdings and NEP recognized a pre-tax gain of approximately \$158 million. See Note 10 - Disposal of Canadian Holdings.

##### Other Income (Deductions)

###### Interest Expense

Interest expense increased approximately \$20 million during the six months ended June 30, 2018 primarily due to approximately \$10 million in higher interest cost and fees related to additional debt issuances during 2017, net of the repayment of certain term loans during 2017, and an approximately \$8 million increase in mark-to-market losses on interest rate swaps.

Benefits Associated with Differential Membership Interests - net

For the six months ended June 30, 2017, benefits associated with differential membership interests - net reflect benefits recognized by NEP as third-party investors received their portion of the economic attributes, including income tax attributes, of the underlying wind projects net of associated costs. For the six months ended June 30, 2018, NEP recognized approximately \$308 million as a loss attributable to noncontrolling interests on the condensed consolidated statements of income, of which approximately \$231 million related to the change in federal corporate income tax rates that became effective January 1, 2018. See Note 10 - Accounting for Partial Sales of Nonfinancial Assets. Approximately \$201 million of the loss attributable to differential membership interests benefits NEE's noncontrolling interest and \$107 million is reflected as net income attributable to NEP.

Equity in Earnings of Non-Economic Ownership Interests

Equity in earnings of non-economic ownership interests increased by approximately \$10 million during the six months ended June 30, 2018 primarily due to mark-to-market gains on certain interest rate derivative contracts recorded at the related projects.

Other - net

The increase in other - net for the six months ended June 30, 2018 primarily reflects an approximately \$15 million increase in gains related to foreign currency exchange contracts. See Note 5.

## Income Taxes

For the six months ended June 30, 2018, NEP recorded income tax benefit of approximately \$2 million on income before income taxes of \$272 million, resulting in an effective tax rate of (1)%. The tax benefit is comprised primarily of income tax expense of approximately \$57 million at the statutory rate of 21% and \$20 million related to the adjustment to differential membership interests as a result of the change in federal corporate income tax rates due to tax reform (see Note 10 - Accounting for Partial Sales of Nonfinancial Assets), offset by income tax benefits of \$69 million related to the removal of the historical Canadian deferred tax liabilities (see Note 3) and \$17 million of income tax attributable to noncontrolling interests.

For the six months ended June 30, 2017, NEP recorded income tax expense of approximately \$31 million on income before income taxes of \$147 million, resulting in an effective tax rate of 21%. The tax expense is comprised primarily of income tax expense of approximately \$52 million at the statutory rate of 35%, partially offset by income tax benefits of \$4 million related to foreign tax differential and \$14 million of income tax attributable to noncontrolling interests.

Due to the transition from predecessor, prior to January 1, 2018, to successor method of accounting for income taxes, comparing current period results to the same period in the prior year does not provide meaningful information. See Note 3.

## Net Income Attributable to Noncontrolling Interests

For the six months ended June 30, 2018 and 2017, net income attributable to noncontrolling interests reflects the net income attributable to NEE's noncontrolling interest in NEP OpCo and a non-affiliated party's 10% interest in one of the Texas pipelines. Additionally, for the six months ended June 30, 2018, net income attributable to noncontrolling interests reflects the loss allocated to differential membership interests investors. See Note 10 - Noncontrolling Interests. Net income attributable to noncontrolling interests increased \$15 million during the six months ended June 30, 2018 primarily due to the allocation of NEP's net income, including the gain on disposal of Canadian Holdings discussed above, based on the ownership share of the respective noncontrolling interests, partially offset by the allocation of the differential membership interest adjustment discussed above.

## Liquidity and Capital Resources

NEP's ongoing operations use cash to fund O&M expenses, maintenance capital expenditures, debt service payments and distributions to common and preferred unitholders. NEP expects to satisfy these requirements primarily with internally generated cash flow. In addition, as a growth-oriented limited partnership, NEP expects from time to time to make acquisitions and other investments. These acquisitions and investments are expected to be funded with borrowings under credit facilities or term loans, issuances of indebtedness, issuances of additional NEP common units or preferred units, other financing structures, cash on hand and cash generated from operations.

These sources of funds are expected to be adequate to provide for NEP's short-term and long-term liquidity and capital needs, although its ability to make future acquisitions, expand existing projects and increase its distributions to common unitholders will depend on its ability to access the capital markets on acceptable terms.

As a normal part of its business, depending on market conditions, NEP expects from time to time to consider opportunities to repay, redeem, repurchase or refinance its indebtedness. In addition, NEP expects from time to time to consider potential investments in new acquisitions. These events may cause NEP to seek additional debt or equity financing, which may not be available on acceptable terms or at all. Additional debt financing, if available, could impose operating restrictions, additional cash payment obligations and additional covenants.

NEP OpCo has agreed to allow NEER or one of its affiliates to withdraw funds received by NEP OpCo or its subsidiaries and to hold those funds in accounts of NEER or one of its affiliates to the extent the funds are not required to pay project costs or otherwise required to be maintained by NEP's subsidiaries, until the financing agreements permit distributions to be made, or, in the case of NEP OpCo, until such funds are required to make distributions or to pay expenses or other operating costs. NEP OpCo will have a claim for any funds that NEER fails to return:

- when required by its subsidiaries' financings;
- when its subsidiaries' financings otherwise permit distributions to be made to NEP OpCo;
- when funds are required to be returned to NEP OpCo; or
- when otherwise demanded by NEP OpCo.

In addition, NEER and certain of its subsidiaries may withdraw funds in connection with certain long-term debt agreements and hold those funds in accounts belonging to NEER or its subsidiaries and provide credit support in the amount of such withdrawn funds. If NEER fails to return withdrawn funds when required by NEP's subsidiaries' financing agreements, the lenders will be entitled to draw on any credit support provided by NEER in the amount of such withdrawn funds.

If NEER or one of its affiliates realizes any earnings on the withdrawn funds prior to the return of such funds, it will be permitted to retain those earnings.

## Liquidity Position

At June 30, 2018 and December 31, 2017, NEP's liquidity position was approximately \$1,555 million and \$1,005 million, respectively. The table below provides the components of NEP's liquidity position:

	June 30, December 31,	
	2018	2017
	(millions)	
Cash and cash equivalents	\$654	\$ 154
Amounts due under the CSCS agreement	137	87
Revolving credit facilities	900	900
Less borrowings	(150 )	(150 )
Letter of credit facilities	82	107
Less letters of credit	(68 )	(93 )
Total <sup>(a)</sup>	\$1,555	\$ 1,005

<sup>(a)</sup> Excludes current restricted cash of approximately \$14 million and \$25 million at June 30, 2018 and December 31, 2017, respectively. See Note 2 - Restricted Cash.

Management believes that NEP's liquidity position and cash flows from operations will be adequate to finance O&M, capital expenditures, distributions to its unitholders and liquidity commitments. Management continues to regularly monitor NEP's financing needs consistent with prudent balance sheet management.

## Equity

During the six months ended June 30, 2018, NEP issued an additional 62,719 common units and purchased 62,719 NEP OpCo common units. At June 30, 2018, NEP owned an approximately 34.9% limited partner interest in NEP OpCo. At June 30, 2018, NEP may issue up to approximately \$109 million in additional common units under its at-the-market program.

In July 2018, NEP filed a shelf registration statement with the SEC, which became effective upon filing, for an unspecified amount of securities, which shelf registration statement replaced a prior shelf registration statement that has expired. The amount of securities issuable by NEP is established from time to time by its boards of directors. Securities that may be issued under the registration statement include common units, preferred units, warrants, rights, debt securities, equity purchase contracts and equity purchase units.

## Contractual Obligations

NEP's contractual obligations as of June 30, 2018 were as follows:

	Remainder of 2018 (millions)	2019	2020	2021	2022	Thereafter	Total
Debt, including interest <sup>(a)</sup>	\$105	\$221	\$570	\$237	\$754	\$ 2,552	\$4,439
Contractual obligations <sup>(b)</sup>	20	32	32	33	33	457	607
Revolving credit facilities fees	1	2	2	2	1	—	8
Asset retirement activities <sup>(c)</sup>	—	—	—	—	—	333	333
MSA and credit support <sup>(d)</sup>	4	8	8	8	8	90	126
Total	\$130	\$263	\$612	\$280	\$796	\$ 3,432	\$5,513

<sup>(a)</sup>

Includes principal, interest and interest rate contracts. Variable rate interest was computed using June 30, 2018 rates.

Includes obligations related to estimated cash payments related to agreements for the right to use land upon which (b) certain projects are located, differential membership interests and engineering, procurement and construction contracts.

(c) Represents expected cash payments adjusted for inflation for estimated costs to perform asset retirement activities.

(d) Represents minimum fees under the MSA and CSCS agreement. See Note 9.

#### Cash Distributions to Unitholders

During the six months ended June 30, 2018, NEP distributed approximately \$45 million to its common unitholders.

On July 24, 2018, the board of directors of NEP authorized a distribution of \$0.4375 per common unit payable on August 14, 2018 to its common unitholders of record on August 6, 2018. During the six months ended June 30, 2018, NEP distributed approximately \$9 million to its preferred unitholders and accrued \$6 million in preferred distributions to be paid in August 2018.

## Cash Flows

### Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

The following table reflects the changes in cash flows for the comparative periods:

	2018	2017 <sup>(a)</sup>	Change
	(millions)		
Six Months Ended June 30,			
Net cash provided by operating activities	\$183	\$190	\$(7 )
Net cash provided by (used in) investing activities	\$460	\$(579)	\$1,039
Net cash provided by (used in) financing activities	\$(151)	\$369	\$(520 )

<sup>(a)</sup> Prior-period financial information has been retrospectively adjusted as discussed in Note 1 and Note 10 - Restricted Cash.

### Net Cash Provided by Operating Activities

The decrease in net cash provided by operating activities was primarily driven by approximately \$17 million for the timing of accounts payable and accrued expenses primarily related to the sale of Canadian Holdings. This was partially offset by the absence of the \$14 million portion of the acquisition holdback payment reflected as cash flows from operating activities.

### Net Cash Provided by (Used in) Investing Activities

	2018	2017
	(millions)	
Six Months Ended June 30,		
Acquisition of membership interests in subsidiaries	\$—	\$(242)
Capital expenditures	(7 )	(328 )
Proceeds from the sale of Canadian Holdings - net	517	—
Payments to related parties under CSCS agreement - net	(50 )	(9 )
Net cash used in investing activities	\$460	\$(579)

The increase in net cash provided by investing activities was primarily driven by the proceeds from the sale of Canadian Holdings, the absence of capital expenditures related to construction activities as a result of the completion of two wind projects at the end of 2016 prior to the NEP acquisition date and the absence of the acquisition of membership interests in subsidiaries in May 2017.

### Net Cash Provided by (Used in) Financing Activities

	2018	2017
	(millions)	
Six Months Ended June 30,		
Issuances (retirements) of long-term debt - net	\$(55 )	\$400
Partners/Members' contributions	31	305
Partners/Members' distributions	(134 )	(152 )
Proceeds related to differential membership interests - net	17	5
Payment of acquisition holdback	—	(186 )
Other	(10 )	(3 )
Net cash provided by (used in) financing activities	\$(151)	\$369

The increase in net cash used in financing activities primarily reflects the absence of pre-acquisition member contributions and the absence of the issuances of debt in 2017. This was partially offset by the absence of the payment of the acquisition holdback, lower member distributions and increased proceeds related to differential membership interests.

#### New Accounting Rules and Interpretations

Leases - In February 2016, the FASB issued an accounting standards update which requires, among other things, that lessees recognize a lease liability and a right-of-use asset for all leases. See Note 10 - Leases.

## Quantitative and Qualitative Disclosures about Market Risk

NEP is exposed to several market risks in its normal business activities. Market risk is the potential loss that may result from market changes associated with its business. The types of market risks include interest rate, counterparty credit and foreign currency risks.

### Interest Rate Risk

NEP is exposed to risk resulting from changes in interest rates associated with outstanding and expected future debt issuances and borrowings. NEP manages interest rate exposure by monitoring current interest rates, entering into interest rate swap contracts and using a combination of fixed rate and variable rate debt. Interest rate swaps are used to mitigate and adjust interest rate exposure when deemed appropriate based upon market conditions or when required by financing agreements (see Note 5).

NEP has long-term debt instruments that subject it to the risk of loss associated with movements in market interest rates. At June 30, 2018, approximately 6% of the long-term debt, including current maturities, was exposed to fluctuations in interest expense while the remaining balance was either fixed rate debt or financially hedged. At June 30, 2018, the estimated fair value of NEP's long-term debt was approximately \$3.5 billion and the carrying value of the long-term debt was \$3.6 billion. Based upon a hypothetical 10% decrease in interest rates, which is a reasonable near-term market change, the fair value of NEP's long-term debt would increase by approximately \$107 million.

### Counterparty Credit Risk

Risks surrounding counterparty performance and credit risk could ultimately impact the amount and timing of expected cash flows. Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties under the terms of their contractual obligations. NEP monitors and manages credit risk through credit policies that include a credit approval process and the use of credit mitigation measures such as prepayment arrangements in certain circumstances. NEP also seeks to mitigate counterparty risk by having a diversified portfolio of counterparties.

### Foreign Currency Risk

Because NEP has Canadian operations, it is exposed to foreign currency exchange gains and losses. Since the functional currency of NEP's Canadian operations is in their local currency, the currency effects of translating the financial statements of those Canadian subsidiaries, which operate in local currency environments, are included in the accumulated other comprehensive income (loss) component of consolidated equity and do not impact earnings. However, gains and losses related to foreign currency transactions not in NEP's subsidiaries' functional currency do impact earnings and resulted in less than \$1 million of gains or losses during each of the periods presented. NEP has certain foreign currency exchange contracts to economically hedge its cash flows from foreign currency rate fluctuations. See Note 5.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Management's Discussion - Quantitative and Qualitative Disclosures About Market Risk.

## Item 4. Controls and Procedures

### (a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2018, NEP had performed an evaluation, under the supervision and with the participation of its management, including the chief executive officer and the chief financial officer of NEP, of the effectiveness of the design and operation of NEP's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, the chief executive officer and the chief financial officer of NEP concluded that NEP's disclosure controls and procedures were effective as of June 30, 2018.

(b) Changes in Internal Control Over Financial Reporting

NEP is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This results in refinements to processes throughout NEP. However, there has been no change in NEP's internal control over financial reporting (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during NEP's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, NEP's internal control over financial reporting.

## PART II - OTHER INFORMATION

## Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the 2017 Form 10-K. The factors discussed in Part I, Item 1A. Risk Factors in the 2017 Form 10-K, as well as other information set forth in this report, which could materially adversely affect NEP's business, financial condition, results of operations, cash available for distribution and prospects should be carefully considered. The risks in the 2017 Form 10-K are not the only risks facing NEP. Additional risks and uncertainties not currently known to NEP, or that are currently deemed to be immaterial, also may materially adversely affect NEP's business, financial condition, results of operations, cash available for distribution and prospects.

## Item 6. Exhibits

Exhibit Number	Description
12	<u>Computation of Ratios</u>
31(a)	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of NextEra Energy Partners, LP</u>
31(b)	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of NextEra Energy Partners, LP</u>
32	<u>Section 1350 Certification of NextEra Energy Partners, LP</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.PRE	XBRL Presentation Linkbase Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.DEF	XBRL Definition Linkbase Document

NEP agrees to furnish to the SEC upon request any instrument with respect to long-term debt that NEP has not filed as an exhibit pursuant to the exemption provided by Item 601(b)(4)(iii)(A) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 25, 2018

NEXTERA  
ENERGY  
PARTNERS,  
LP  
(Registrant)

TERRELL  
KIRK  
CREWS, II  
Terrell Kirk  
Crews, II  
Controller  
and Chief  
Accounting  
Officer  
(Principal  
Accounting  
Officer)