28 JAN 2025

Fitch Affirms XPLR Infrastructure, LP's Ratings; Outlook Stable

Fitch Ratings - New York - 28 Jan 2025: Fitch Ratings has affirmed the Issuer Default Ratings (IDR) of XPLR Infrastructure, LP (XPLR; formerly NextEra Energy Partners, LP), and its subsidiary, XPLR Infrastructure Operating Partners, LP (XPLR Opco; formerly NextEra Energy Operating Partners, LP) at 'BB+'/Stable Outlook. Due to strong legal ties, the two IDRs are equal. Fitch also affirmed XPLR Opco's senior unsecured notes at 'BB+' with a Recovery Rating of 'RR4'.

Fitch believes XPLR's announcement of a 100% distribution cut is credit supportive, providing financial flexibility and addressing funding concerns for the three convertible equity portfolio financing (CEPF) buyouts remaining post-2025. Fitch assumes capital spending will be financed with debt, resulting in limited headroom in credit metrics over the forecast.

XPLR's ratings reflect stable cash flows from long-term contracted wind, solar and natural gas pipeline assets and its sponsor affiliation with NextEra Energy, Inc. (A-/Stable). They also reflect financial complexity and structural subordination of holdco debt due to limited recourse project debt financings, tax equity and CEPF structures deployed across project subsidiaries.

Key Rating Drivers

Dividend Cut Provides Financial Flexibility: The increased use of CEPFs has added financial complexity to the organizational structure, making XPLR reliant on capital market stability and strong unit price to execute buyouts timely and cost-effectively. Unit distribution cut resolves CEPFs buyouts, consistent with Fitch's 100% equity treatment of CEPFs. Fitch assigns 100% equity credit to CEPFs, assuming XPLR completes its remaining CEPF buyouts post-2025 with a combination of free cash flow and non-recourse debt at the asset level, with no issuance of Holdco-level debt.

A unit distribution cut announced earlier today will provide sufficient cash flow to support a buyout of $3.7 billion outstanding under three CEPFs post-2025. The announcement completes the strategic review initiated in 2024.

Low Leverage Headroom: Fitch expects the Holdco Debt to Parent Only FFO ratio to remain at around 4.9x over the forecast period, in line with the ratings, but higher than previous years. Fitch currently assumes capex will be financed by holdco and non-recourse project debt, resulting in limited leverage headroom. Fitch projects modest growth through repowering of about 1.6 GWs of existing older and lower performing assets in the next couple of years.

To reflect strategy change to a low growth model, Fitch's adjusted its sensitivity calculation to Holdco

Debt to Parent Only FFO as of year-end versus previous calculation using a year-end run-rate FFO. Any material growth beyond the current plan would require equity funding in order to preserve current ratings. Management aims to maintain the Holdco Debt to Parent Only FFO ratio within the 4.0x-5.0x range.

Upcoming Refinancing: Fitch expects XPLR's cash flows to come under pressure due to a substantial near-term refinancing of the capital structure at materially higher interest rates compared to average fixed interest rates on the current long-term debt. XPLR refinanced $750 million of $1.25 billion of holding company debt maturing in 2024 and repaid the remaining balance with available cash on hand. XPLR has $2.2 billion of holding company debt due through 2027 and about $3.6 billion treasury rate locks at 4.0% intended to hedge the upcoming refinancing and new issuances.

Asset Sales Resolve Near-term CEPF Financing: Natural gas pipelines sales eliminated equity issuances that would otherwise require to complete CEPF buyouts planned through 2025, a credit positive. In Dec. 2023, XPLR sold its Texas natural gas pipeline portfolio for $1.815 billion to Kinder Morgan, Inc. (BBB/Stable). Net proceeds of about $1.4 billion were used to buyout approximately $750 million of CEPFs in 2023 and 2024. The remaining net proceeds and a portion of the cash flow from dividend distribution cut in 2025, will be used to buy out an outstanding balance of about $950 million under the 2019 NEP Renewables II CEPF in 2025. Fitch expects the 2019 NEP Pipelines CEPF buyout to be completed by 2025 with the sale of the Meade natural gas pipeline.

Long-Term Contracted Cash Flows: Fitch views favorably XPLR's portfolio of wind, solar and natural gas pipeline assets, which have long-term offtake arrangements with creditworthy counterparties and minimal exposure to either volumetric or commodity risks. The weighted average counterparty credit is 'BBB', based on Fitch and other rating agencies. As of Dec. 31, 2024, the renewable energy and pipeline projects had a total weighted average remaining contract term of approximately 13 years. The distributions that XPLR receives from its project subsidiaries are well diversified by both fuel and geography.

Cash Flow Stability: The high proportion of wind in XPLR's portfolio is a modest issue given wind resource intermittency. However, a wide geographic footprint of its wind portfolio somewhat mitigates XPLR's exposure. In addition, the project debt for renewable projects is typically sized to yield a debt service coverage ratio (DSCR) greater than 1.2x and generate a low 'BBB-'/'BBB' rating. The debt typically matures within the expiration date of the long-term contracts on any project. The most recent DSCRs provided to Fitch by XPLR indicate that most projects with limited recourse project debt financings are performing in excess of their DSCR thresholds allowing for cash flow distributions to the Holdco.

Sponsor Not Expected to Financially Support XPLR: Although XPLR has benefited from its affiliation with NextEra, which is the largest renewable developer in the U.S. Following the name change, Fitch expects NextEra will continue to support XPLR's operationally. Fitch does not expect NextEra to provide equity support to XPLR for future CEPFs buyouts nor buy into XPLR. A buy-in of XPLR would result in a material addition of debt on NextEra's balance sheet, as currently Fitch deconsolidates XPLR from NextEra's balance sheet and only includes the upstream dividend distribution from XPLR in NextEra's credit analysis. This off-credit treatment reflects Fitch's assumption that NextEra would walk away from XPLR in the event of financial deterioration.

Derivation Summary

Fitch views XPLR's ratings are positively positioned compared to Atlantica Sustainable Infrastructure Plc (BB-/Stable) due to favorable geographic exposure, long-term contractual cash flows with minimal regulatory risk and association with a strong sponsor.

Like peer, Terraform Power Operating, LLC (TERPO; BB-/Stable), XPLR has parent support. Although the company has been supported by NextEra in terms of asset dropdowns needed to drive historically aggressive growth targets and IDR suspension in 2023, Fitch does not expect NextEra to support any funding needs or CEPF buyouts. TERPO benefits from its affiliation with Brookfield Corporation (A-/Stable), while Atlantica was taken private by Energy Capital Partners (ECP).

Atlantica's portfolio benefits from a large proportion of solar generation assets that exhibit less resource variability. Comparatively, XPLR's portfolio consists of a larger exposure to wind MWs. TERPO's utility-scale portfolio consists of 43% solar and 57% wind. XPLR's concentration in wind is mitigated somewhat by its diverse geographic footprint. Fitch views XPLR's geographic exposure in the U.S. (100%) favorably compared to TERPO's (68%) and Atlantica's (30%). XPLR's long-term contracted fleet has a remaining contracted life of 13 years, which is higher than Atlantica's 12 years and TERPO's 11 years.

XPLR's forecasted credit metrics are stronger than TERPO's and Atlantica's. Fitch forecasts XPLR's Holdco Debt to Parent Only FFO ratio will remain around 4.9x over the forecast period, compared with around mid-5.0x for TERPO and below 6.0x for Atlantica post-2025. Fitch rates XPLR, Atlantica and TERPO based on a deconsolidated approach since their portfolio comprises assets financed using non-recourse project debt or with tax equity. XPLR's financing model is more complex as it also involves CEPF. Fitch defines Parent Only FFO as project distributions less holdco general and administrative (G&A) expenses, fee for management service agreement, credit fees and holdco debt service costs.

Key Assumptions

--Buyout of 2019 NEP Renewables II and NEP Pipelines CEPF with proceeds from STX and Meade pipelines sales;

--Interest expense rate on new and refinanced holdco debt around 7.5%;

--None of the project debt treated on-credit, which includes Fitch's assumption of future project debt issuances;

--Net Holdco debt of approximately $800 million issued from 2025 through 2027; all maturing convertible debt repaid;

--Capex of approximately $1.8 billion in 2025-2026 financed with nonrecourse and Holdco debt;

--2020 and 2022 CEPF buyouts funded with free cash flow;

--2021 Apollo CEPF sold at no gain in 2027;

--100% Unit distribution cut and not distributions over the forecast period;

--No CEPF nor equity issuance over the forecast period.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Reliance on Holdco debt to fund the buyout of investors in CEPFs;

--Holdco FFO leverage exceeding 5.0x on a sustainable basis;

--Material underperformance in underlying assets lending variability or shortfall to expected cash flow for debt service;

--Growth strategy underpinned by aggressive acquisitions, addition of assets in the portfolio that bear material volumetric, commodity or interest rate risks.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--The structural subordination of the holdco debt to the nonrecourse project debt, tax equity and CEPFs, and management's 4.0x-5.0x target holdco leverage caps the rating at 'BB+'.

Liquidity and Debt Structure

Adequate Liquidity: XPLR has a $2,500 million revolving credit facility that matures in February 2029. The credit facility provides for up to $400 million of LOC borrowing capacity. XPLR has an accordion in its revolving facility up to a total commitment size of $2,000 million. The facility provides flexibility for XPLR to finance acquisitions partly through revolver borrowings. XPLR had $175 million outstanding debt under its revolving credit facility as of Sept 30, 2024.

The holdco debt at XPLR is subordinate to project debt, tax equity and CEPF structures. As of Sept 30, 2024, there is about $2.1 billion of nonrecourse project finance debt at XPLR's owned projects.

Issuer Profile

XPLR manages and owns a diversified portfolio of contracted clean energy projects with stable long-term cash flows.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
XPLR	LT IDR	BB+ ●	Affirmed		BB+ ●

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Infrastructure Operating Partners, LP					
• senior unsecured	LT	BB+	Affirmed	RR4	BB+
XPLR Infrastructure, LP	LT IDR	BB+ ⭘	Affirmed		BB+ ⭘

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭘	◆
STABLE	⭘	

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub.12 Nov 2020)

Corporate Rating Criteria (pub.06 Dec 2024) (including rating assumption sensitivity)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Additional Disclosures

Solicitation Status

Endorsement Status

XPLR Infrastructure Operating Partners, LP	EU Endorsed, UK Endorsed
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