Research Update:

XPLR Infrastructure L.P. 'BB' Rating Affirmed; Outlook Revised To Negative

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Rating Action Overview

- NextEra Energy Partners L.P. (NEP) announced a name change to XPLR Infrastructure L.P. (XIFR), effective Jan. 23, 2025, and will start trading as XIFR effective Feb. 3, 2025.
- The company announced a 100% distribution cut, with surplus cash flow being retained for general corporate purposes but predominantly reserved toward settlements of its convertible equity portfolio financing (CEPF) obligations.
- While all CEPF obligations were intended to be settled with the issuance of equity units, given the increase in interest rates and the substantial decline in XIFR's unit price, the company's ability to issue equity units has eroded. We now add these amounts to our adjusted debt for XIFR, which increases its leverage.
- We view the indefinite cessation of distributions on its common units as a credit preserving action.
- We affirmed our 'BB' issuer credit rating on XIFR. We also affirmed our 'BB' ratings on XPLR Infrastructure Operating Partners L.P's (XIFR OpCo.) unsecured debt (about $4.0 billion). We also revised the outlook to negative.
- We revised the recovery rating on XIFR OpCo.'s unsecured debt to '4' from '3', reflecting our expectation for average recovery in the event of a default.
- The outlook includes not only XIFR's higher leverage, as reflected in its S&P Global Ratings-adjusted debt to EBITDA averaging 7.25x over the next two years, but also execution risks in 2025 pertaining to the settlement of the 2019 KKR CEPF with ongoing cash flow and retained cash, refinancing of near-term maturities, and the completion of the Meade pipeline asset sale.

Rating Action Rationale

The distribution cut is supportive of XIFR's credit but also underscores the debt-like features of CEPFs. As we have noted before, XIFR's historic aggressive growth and attendant financial policy have detracted from its credit quality. We viewed the initial two CEPF issuances as consistent with

balanced growth given the company's relatively smaller asset footprint and equity float as of 2018. The CEPF vehicle helped time the issuance of equity with the growth in its cash flow such that the company's distributions rate grew at a measured fashion. However, the continued pursuit of an aggressive 12% distribution growth became the salient credit weakness because it made the company pursue the CEPF vehicle aggressively, exposing XIFR to extraneous market environment risks.

With a significant increase in interest rates since February 2022 that has also influenced its unit share price, XIFR is now materially changing its strategy from a growth vehicle to a capital allocation-based vehicle. With no distributions, issuing equity is credit accretive to XIFR regardless of the prevailing unit price. While we recognize XIFR has the option of issuing equity, we impute debt on the balance sheet because these settlements can also come from cash.

However, we give net debt credit for cash accumulated through the preservation of retained cash available for distribution (CAFD). Analytically, this results in the addback of future CEPF settlements as debt imputations, offset by the accumulation of cash retained to address the settlements as and when they come due.

We imputed about $2.9 billion of debt obligations over and above the existing $4.0 billion of balance sheet debt. While this is a substantial increase in debt in our base case, we previously imputed about 50% debt to CEPFs that were issued when XIFR's common unit price was high in our downside analysis. With these adjustments, XIFR's S&P Global Ratings-adjusted debt to EBITDA increases to about 7.5x in 2025--and is firmly in the highly leveraged financial category--but as a result of cessation of distributions preserve cash flows, its discretionary cash flow to S&P Global Ratings-adjusted debt will be 8%-10%, offsetting, to an extent, the higher leverage.

If XIFR eventually settles 50% of these obligations (for example) with cash and equity each, its S&P Global Ratings-adjusted debt to EBITDA would be 6.0x in the outer years of our forecasts.

In our analysis, we also assumed, based on its assessment of residual equity in the portfolio assets, XIFR will make economic decisions, such as choosing to flip CEPFs to the joint-venture partner in the portfolios where it has little to no equity remaining, instead of settling the outstanding CEPF balances.

We view XIFR's business risk as stronger than peers. Our business risk profile assessment of XIFR is strong, reflecting its extremely contracted revenue stream with highly rated counterparties and a scale that has grown both geographically and technologically.

XIFR's geographic presence has grown to 31 states in 2024 from one state as of its IPO in 2014. Its renewables portfolio is diverse, with a mix of solar, wind, and battery storage assets, and has grown to about 9.8 gigawatts (GW) of renewable energy generation from less than 1 GW of installed generation in 2014, 274 megawatts (MW) of paired storage, and 0.7 billion cubic feet (bcf) of pipeline capacity (39.2% interest in a 1.7 bcf pipeline).

The company is now among the top 10 renewable generators in the world, producing about 33 terawatt hours annually. XIFR has a weighted-average remaining contract life of 13 years, with about 79 different offtakers, and its renewables portfolio has none to limited exposure to commodity price fluctuations.

The company's revenue streams are contracted with mostly investment-grade offtakers. Of note, its highly contracted renewables focus remains a strong competitive advantage relative to merchant-exposed peers with primarily thermal generation. XIFR also continues to expand its presence in the battery storage segment, which further diversifies the portfolio.

We see recent executive orders as broadly unfavorable for the sector because they could slow renewable developments. Still, the recent executive order pausing disbursements of funds under the Inflation Reduction Act (IRA) do not revoke tax credits. The investment and production tax credits for renewables are still legally intact because Congress established them.

Also, XIFR has only a few MW of wind located on federal land and none of those projects are in its current expected repowering program. Moreover, for most of the MW the company expects to repower in 2025, the applicable federal permits are already in hand.

Wind resource risk contributes to much of XIFR's CFAD and EBITDA variability. Following the sale of its natural gas pipelines, XIFR will become a renewables pure play. The biggest drivers in its cash flow variability are wind and solar resources and conditions. XIFR's wind assets have historically performed at production levels of P(50)-P(75), which we incorporated into our base case.

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

Overcoming a slow start in 2024 and a weak third quarter (93% of expected resource), wind resources are about 98% of P(50) expectations for 2024, but this volatility also underscores the variable nature of this resource.

XIFR has access to a wide pipeline of assets; however, we expect its growth to be tempered. XIFR benefits from NextEra Energy Resources (NEER) operating its renewable portfolio, providing XIFR with access to NEER's scale and top-decile operating cost performance. The company continues to have a strong track record of wind and solar operation and maintenance (O&M) cost performance, with costs that remain in the top decile even after incorporating recent increases in wind O&M costs pertaining to older assets.

For the existing fleet, there are opportunities through wind repowerings. XIFR indicated it has identified about 1.6 GW of wind facilities. Specifically, there are near-term organic growth opportunities with about 1.3 GW of repowering of its wind portfolio. These are the only major growth capital opportunities that we expect the company to undertake through 2026, mainly via nonrecourse financings. No further growth is reflected in our forecasts.

Our analysis excludes nonrecourse debt financing, an analytical treatment that we continually assess. We view nonrecourse financing as an avenue for companies in the renewable segment to finance some of their investments. However, the mere fact that a financing is nonrecourse does not imply it is automatically deconsolidated. We evaluate nonrecourse financings on their individual merits, factoring in aspects like residual equity value, the importance of the assets to the business strategy, or influential investors who can extract terms to their benefit. We assess this treatment on an ongoing basis for each nonrecourse financing, including our analytical treatment for new nonrecourse financings.

Importantly, we note there is only a limited capacity for nonrecourse financings. The higher the use of nonrecourse financing, the greater is the structural subordination of the holding company's unsecured debt. We underscore that due to nonrecourse financings (in a distressed scenario, residual value often gets trapped at projects) and CEPF obligations (that take priority value distribution from portfolio assets), the recovery score on XIFR OpCo.'s unsecured debt in our

distressed analysis is 40%-45%. Were this to decline to 30%, we would notch down the unsecured debt at XIFR OpCo. by one notch to reflect structural subordination.

In our assessment of XIFR, we deconsolidated several nonrecourse financings and included only distributions from these projects in its financial numbers. For instance, we deconsolidate the Meade pipeline's debt because we view it as nonstrategic to XIFR (it announced the sale of this asset in 2025). As a result, we consider it both nonrecourse and nonstrategic. Among the other nonrecourse financings, we do not view Coram, Indigo Plains, and Whiptail-Montezuma as large enough portfolios to be strategic.

While XIFR Renewables II (formerly NEP Renewables II) is a relatively large portfolio, we have given it nonrecourse treatment because we do not see meaningful residual value after distributing value to the project-level debt. We note about $1.2 billion of nonrecourse debt will remain outstanding even after the Meade pipeline is sold, relative to the roughly $4 billion of on-balance sheet debt. Nonrecourse debt for repowerings will be incremental to this amount.

Outlook

The negative outlook reflects not only XIFR's higher leverage in the near term but also execution risks of the successful settlement of the 2019 KKR CEPF with ongoing cash flow and retained cash and the completion of the Meade pipeline sale. XIFR also has refinancings ($600 million in 2025 and $1 billion in 2026). This represents a meaningful exposure to credit market conditions because its balance sheet debt costs are materially cheaper relative to current rates.

We will monitor whether any potential overhang from the distribution cuts limits XIFR from accessing credit markets in a cost-effective way. We expect the negative outlook will remain at least until 2026 as XIFR executes on its strategic plans.

From a financial ratio perspective, while expect XIFR's S&P Global Ratings-adjusted debt to EBITDA to rise to about 7.25x in 2025, it is offset by discretionary cash flow to S&P Global Ratings-adjusted debt ratios of 8%-9% from the retention of distributable CAFD for reducing debt liabilities.

Downside scenario

We will lower the ratings if we believe XIFR's S&P Global Ratings-adjusted leverage will remain above 7.0x on a sustained basis or its S&P Global Ratings-adjusted discretionary cash flow to debt falls below 6.5%. A downgrade may result from significantly lower cash flows from the company's projects because of poor operating performance and resource risk or higher borrowing costs. This could also occur if we include more debt imputations for CEPF settlements, or if we believe the company will support its nonrecourse financings that could result in incremental debt amounts in our ratio calculations.

Upside scenario

We expect to maintain the negative outlook until at least 2026. We could revise the outlook to stable if XIFR improves its S&P Global Ratings-adjusted debt to EBITDA below 6.5x and continues to retain cash flow consistent with its capital allocation strategy that we assess as adequate to address the outer-year CEPFs. We expect this will either require discretionary cash flow and S&P Global Ratings-adjusted debt to be maintained at about 8%-10%, or it becomes evident that the unit price is recovering and the company remains committed to issuing equity units against its

CEPF obligations.

Company Description

XIFR, originally a growth-oriented limited partnership, was formed by NEER, a division of parent NextEra Energy Inc. (NEE), to acquire, manage, and own contracted energy projects with relatively stable, long-term cash flows. As of Sept. 30, 2024, XIFR owned an approximately 48.6% limited partner interest in XIFR OpCo. XIFR OpCo. and NEE owned a noncontrolling 51.4% limited partner interest. Through XIFR OpCo., XIFR has ownership interests in a portfolio of contracted renewable generation assets consisting of wind, solar, and battery storage projects. XIFR also owns an interest in the Meade pipeline (a 0.7 bcf share).

XIFR owns about 10 GW of renewable-energy generation, mostly under long-term power purchase agreements. As of Sept. 30, 2024, 8,049 MW is wind, 1,790 MW is solar, and 274 MW is storage. We note the Meade pipeline owns a 39.2% interest in the 1.7 bcf Central Penn Line (XIFR's share equates to 0.7 bcf), which is accounted for as an equity method investment in XIFR's financials.

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

Our Base-Case Scenario

Assumptions

- EBITDA margin of about 58% for 2024 and 60%-62% for 2025 and beyond. Margins improve partly after the pipelines are sold, and partly due to the reset of production tax credits from repowerings.
- Because we have imputed debt for CEPF settlements, we also add back gross EBITDA as if it is fully consolidated.
- We include only residual distributions from Mountain View, Shafter, XIFR Renewables, Coram CA Development L.P., and Emerald Breeze in our cash flow assumptions. Correspondingly, we do not consolidate related debt.
- We include net pay-as-you-go receipts as part of investing cash flows as per S&P Global Ratings' accounting practice (i.e. these are excluded from EBITDA).
- Because it is being held for sale, in 2025, we include proceeds from sale of the Meade Pipeline that we estimate at about $1.0 billion, offset against $820 million of project debt.
- XIFR-level capital expenditure (capex) of $20 million-$50 million over the forecast period. This excludes the repowering capex funded by nonrecourse financing.
- Unit distributions of about $705 million in 2024 ($0.9157/unit) and none in future years. The company continues to make minority ownership distributions.
- By scaling back on distributions, we estimate that XIFR will generate $550 million–$650 million of retained cash flow every year. Since cash is fungible and could be used temporarily for capex, we give a 75% surplus cash credit against outstanding debt.
- We consolidate 100% of CEPF debt to our aggregate debt.

- After evaluating the residual equity in the CEPF portfolios, we assume XIFR will sell, or flip, the Meade CEPF and the 2021 Apollo CEPF to its joint-venture partner. Consequently, we removed these portfolio cash flows from the financials but have not imputed debt for these CEPFs. Our imputed debt assumptions could be higher if it becomes clear that XIFR eventually plans to settle these obligations with retained cash flow.

Liquidity

We currently assess XIFR's liquidity as adequate because its $2.5 billion of revolver lines are entirely available. However, the company needs continuing access to credit markets to refinance its debt obligations. We will monitor whether any overhang on the company from the distribution cut limits XIFR from accessing markets in a cost-effective manner.

In December 2023, XIFR announced the private offering of $750 million of 7.25% senior unsecured notes due 2029. It used the proceeds to repay its 4.25% $700 million senior notes due in July 2024 and repay its remaining outstanding $50 million of 4.25% senior notes due in September 2024. Net of these prefunded financings, XIFR has about $3.6 billion of corporate holding company debt, of which $1.1 billion is low-cost converts that mature by 2025. XIFR's $2.5 billion revolver matures in four years.

XIFR received proceeds of about $1.4 billion from the pipeline's sale in late December 2023. Because cash is fungible, XIFR retired a $500 million convertible maturity in June 2024 to minimize negative carrying costs and refinance this amount, albeit at a higher cost, at a later point. XIFR also needs to refinance a $600 million convertible debt maturity in 2025.

We expect XIFR to raise about $1.5 billion in debt in 2025. This issuance is effectively the funding of the matured $500 million convertibles in June 2024, a $600 million convertible maturity in 2025, and modest revolver draws. However, because cash is fungible, we expect the debt raise to pay down any interim revolver draws.

We expect repowerings in 2025 and 2026 to be funded with nonrecourse project debt raised throughout 2025.

Principal liquidity sources

- Cash on hand of about $290 million as of Sept. 30, 2024.
- About $600 million of funds from operations over the next 12 months.
- About $170 million drawn against the revolver of about $2.5 billion as of Sept. 30, 2024.
- Net proceeds from sale of Meade that we estimate at about $280 million.

Principal liquidity uses

- Maintenance expenditure of about $25 million over the next 12 months.
- About $1.17 billion for CEPF settlements (Meade buyout of $235 million and $945 million for the 2019 KKR buyout).
- $500 million of maturing senior unsecured convertible notes and $750 million of maturing senior unsecured notes.

These sources and uses exclude project financed repowerings and corresponding nonrecourse debt raised.

Liability management

XIFR has meaningful debt maturities over the next two years, which include the following.

2025:

- Senior unsecured convertible notes of $600 million.

2026:

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

NEP has been renamed XPLR Infrastructure. Removing the NextEra name distances the company from NEE. Our ratings on XIFR do not assume support other than the level extended (suspension of management fee and identifying key personal). However, we will monitor whether this changes XIFR's ability to utilize its erstwhile banking relationships or affects its access to credit markets in any manner.

Covenants

The holding company needs to maintain a leverage coverage ratio of less than 5.75x to 1.0x and an interest coverage ratio of at least 1.75x to 1x to make a distribution. As of Sept. 30, 2024, XIFR and its subsidiaries were in compliance with all financial covenants (4.4 x of leverage and 5.9 x of coverage), and we expect the company to remain in compliance during our forecast period.

Environmental, Social, And Governance

ESG factors have an overall neutral influence on our credit rating analysis of XIFR. Its total renewable generation accounts for about 80% of EBITDA, which includes wind and solar power plants. The company will become a renewables pure play by 2025 once all pipeline assets are dispensed. This gives it a competitive edge environmentally because these plants offer reduced emissions.

Issue Ratings - Recovery Analysis

Key analytical factors

- Our default scenario assumes a drop in distributions from major projects following a combination of deteriorating economic conditions and weaker resource availability for XIFR's wind-generation assets. The decreasing demand, coupled with low natural gas prices, result in lower capacity factors and higher maintenance spending for the portfolio. We assume this in turn depresses XIFR's equity price because the prospects of settling the CEPF's with equity decrease. An increase in its operational challenges and higher debt means that XIFR is unable to refinance its 2027 maturities.

- For our valuation, we revised the methodology to discrete asset valuation (dollar per kilowatt; $/KW) instead of using the EBITDA multiplier methodology. We did so because renewable assets tend to sell at higher multiples of their cash flow given the tailwinds provided by renewable portfolio standard mandates.

Simulated default and valuation assumptions

- We believe if XIFR were to default, it would still have a viable business model. This is because there is continued demand for its portfolio of contracted renewable energy assets. Therefore, we believe lenders would achieve the greatest recovery amounts through reorganization of the company rather than liquidation. However, some assets may have to be sold and CEPF's portfolios flipped to joint-venture partners to reduce outstanding obligations during reorganization.
- We valued the company on a going-concern basis using the discrete asset value methodology. We valued wind, solar, and storage assets ranging from $700 per kilowatt (/KW) to $1,100/KW based on the financing type of the asset, i.e., if the asset is unlevered, encumbered by project debt, and/or tax equity.
- $/KW values also differed based on power purchase agreement tenor, operating vintage of the asset, and geographical region.
- We assume asset values in a joint-venture CEPF structure are first used to settle any outstanding CEPFs before residual value is available at the XIFR/XIFR OpCo. level. Similarly, asset values first extinguished project debt wherever applicable.
- Because we assume deteriorating financial and operational performance from 2025, we view the company as only partially funding its organic growth repowerings.
- We assume 100% of the CEPF outstanding amounts are settled with surplus cash.
- Based in our assessment of the equity value, we assume XIFR will sell the Meade pipeline in 2025 to settle the CEPF from excess sale proceeds (after netting project debt). No other cash flow is applied against that settlement obligation.
- We made a similar assumption for the 2021 Apollo portfolio. Specifically, we assume either the assets are sold and the proceeds used to settle outstanding CEPF amounts or the portfolio cash flows are flipped to the joint-venture partner.
- We assume the $2.5 billion revolver is 85% drawn at the point of default. Effectively, we assume XIFR uses its revolver for operational expenses and to settle some of its obligations (tax buyouts or CEPFs balances to unencumber assets). Assuming this level of draw is standard per our criteria.
- XIFR owns the general partner of XIFR OpCo. and about 48.6% of XIFR OpCo.'s common equity. XIFR OpCo., in turn, owns all of the membership interests in XPLR Infrastructure U.S. Partners Holdings LLC (XIFR U.S. Holdings). XIFR U.S. Holdings is the holding company for all of XIFR OpCo.'s U.S. assets. The securities and debt instruments are issued under one of these three entities. The priority of the debt is affected by this ownership structure.
- The senior notes will have priority over the convertible senior notes in the event there is a default by XIFR OpCo. and XIFR, causing both classes of debt to come due at the same time and triggering XIFR OpCo.'s and XIFR U.S. Holdings' guaranty obligations. XIFR U.S. Holdings' guaranty of the senior notes grants structural priority to the holders of those notes over the holders of convertible senior notes, which do not have the benefit of a XIFR U.S. Holdings

guaranty.

- However, in order for priority to matter, both XIFR OpCo. and XIFR have to be in default at the same time. Although it is theoretically possible, under the current capital structure there is no practical situation in which XIFR could default and not XIFR OpCo.
- XIFR issued $500 million of four-year convertible notes in 2022. As with the convertible notes, XIFR's payment obligations are paid through the proceeds of XIFR OpCo.'s intercompany obligations. For all practical purposes, a failure to pay under the notes would be the result of a failure to pay at XIFR OPCO.

Simplified waterfall

- Gross enterprise value: About $7.0 billion, based on the total asset values
- After reducing the emergence enterprise value by 5% for administrative expenses: $6.6 billion. The CEPF buyouts are offset by the value of assets and there is some residual equity value flowing to XIFR
- Total collateral value available to secured debt: $3.9 billion
- Total first-lien debt: $2.2 billion
- --Recovery expectation: 90%-100% (recovery rating: '1')
- Total value available to unsecured debt: about $1.7 billion
- Total senior unsecured debt: $4.17 billion
- --Recovery expectation for unsecured debt: 30%-50% (rounded estimate: 40%)

Ratings Score Snapshot

Issuer credit rating: BB/Negative/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Moderately high
- Competitive position: Excellent

Financial risk: Highly leveraged

- Cash flow/leverage: Highly leveraged

Anchor: bb

Modifiers:

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)

- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
XPLR Infrastructure, LP		
Issuer Credit Rating	BB/Negative/--	BB/Stable/--
Ratings Affirmed; Recovery Ratings Revised		
	To	**From**
XPLR Infrastructure Operating Partners, LP		
Senior Unsecured	BB	BB
Recovery Rating	4(40%)	3(65%)

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