

**Brookfield Renewable Partners Fourth Quarter 2019 Earnings Call & Webcast  
Monday, February 6, 2020 – 9:00 AM ET**

**CORPORATE PARTICIPANTS**

Sachin Shah, Chief Executive Officer

Wyatt Hartley, Chief Financial Officer

**CONFERENCE CALL PARTICIPANTS**

Sean Steuart, TD Securities

Nelson Ng, RBC Capital Markets

Mark Jarvi, CIBC World Markets

Rupert Merer, National Bank Financial

Andrew Kuske, Credit Suisse

**PRESENTATION**

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the BEP Fourth Quarter 2019 Results Conference Call and Webcast. (Operator Instructions)

Please be advised that today's conference may be recorded. (Operator Instructions) I'd now like to hand the conference over to your speaker today, Mr. Sachin Shah, Chief Executive Officer. Please go ahead, sir.

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**Sachin Shah, Chief Executive Officer**

Thank you, operator. Good morning everyone, and thank you for joining us for our fourth quarter 2019 conference call. Before we begin, I'd like to remind you that a copy of our news release, investor supplement and letter to unitholders can be found on our website.

I also want to remind you that we may make forward-looking statements on this call. These statements are subject to known and unknown risks, and our future results may differ materially. For more information, you're encouraged to review our regulatory filings available on SEDAR, EDGAR and on our website.

2019 was another positive year for the business. We achieved strong performance throughout our operations, increased margins with recently acquired businesses and deployed capital in line with our targets. More importantly, our growth over the past 20 years has enabled to establish ourselves as one of the largest renewable power investors and operators globally. This is backed by a multi-decade track record of generating strong returns across hydro, wind, solar and storage assets. Accordingly, we are very well positioned to participate in the decarbonization of global electricity grids that will occur over the next 25 to 50 years.

Our capabilities provide communities, governments and the private sector around the world, the ability to accelerate the transition to a greener future. Today, our capacity is approximately 19,000

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megawatts of electricity from renewable resources. This production avoids approximately 27 million metric tons of carbon dioxide emissions annually. With our development pipeline, we would create enough carbon-free power to displace an additional 17 million metric tons of carbon dioxide per year. To put this into perspective, just from our existing fleet today, we displace all of the carbon dioxide emissions generated by the city of London in England each year. Alternatively, we could displace the amount generated by many energy and technology firms who are looking to lower their carbon footprint to neutral or negative by 2030 or so.

We are proud that the amount of carbon dioxide we avoid is equivalent to removing approximately 6 million vehicles from the road or planting 450 million trees. We highlight this to you now, given the focus many organizations are placing on reducing carbon dioxide emissions. We think it is useful for our unitholders to consider the impact our business is already making on communities, businesses, employees and governments when making their long-term investment decisions. We remain committed to earning a strong compound return for you over the long term on a per unit basis, but also remain committed to being a leader in decarbonization. This will enable you to earn a good return, but also contribute to a better world.

With that, I wanted to give you some highlights from the business for the year.

First, we increased FFO per unit by 13%, driven by accretive growth and strong operational performance. We continue our track record of strong FFO per unit growth at a 10% annual growth rate since our strategic combination with Brookfield's renewable assets in 2011.

In addition, we advanced key commercial priorities and delivered on cost saving initiatives totaling approximately \$40 million globally on an annualized basis, or \$12 million net to BEP.

We invested \$2 billion, or \$550 million net to BEP, of equity across 9 transactions, including doubling the size of our Asian and distributed generation businesses, adding a leading global solar developer and investing in a hydro portfolio in Canada.

We commissioned 50 megawatts of new capacity, progressed approximately 2,000 megawatts through construction and advanced stage permitting and increased the size of our development pipeline to approximately 13,000 megawatts.

We maintained our robust investment grade balance sheet, ended the year with \$2.7 billion of available liquidity and raised approximately \$1.4 billion in incremental liquidity through asset sales and strategic upfinancings.

We also announced the creation of a Canadian corporation, BEPC, that will provide investors the optionality to invest in BEP through either the current partnership or through a corporation, which is expected to support the expansion of our investor base.

During the fourth quarter, we closed our acquisition of a 50% interest in X-Elio, a leading global solar developer. With this acquisition, we have significantly enhanced our solar development capabilities, adding 970 megawatts of operating assets and almost 6,000 megawatts to our global construction and development pipeline.

Also, in the fourth quarter, we signed 2 agreements to acquire 14 solar development projects in Brazil with 428 megawatts of total capacity for total consideration of \$120 million, or \$30 million net to BEP. Both these transactions are expected to close in the first quarter of 2020 and represent attractive additions to our business in Brazil with approximately 2,000 megawatts of capacity across multiple technologies, being hydro, wind and solar. Furthermore, through our interest in Terraform Power, we acquired 44 megawatts of PV solar assets in Spain and signed an agreement to acquire 100 megawatts of solar CSP in Spain, located close to Terraform Power's CSP plants, for \$115 million, which we expect to close in the first quarter of 2020.

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Lastly, in January, we announced a non-binding all share proposal to acquire the outstanding shares of Terraform Power, other than the 62% owned by us and our institutional partners. We believe this transaction will create significant value for investors in both companies by simplifying our corporate structure in an immediately accretive transaction which will further strengthen Brookfield Renewable's position as one of the largest public pure-play renewable power companies in the world.

With that, I'll now turn the call over to Wyatt to discuss our operating results and financial position.

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**Wyatt Hartley, Chief Financial Officer**

Thank you, Sachin, and good morning everyone. In 2019, we generated FFO of \$761 million, a 13% increase over the prior year, as the business benefited from recent acquisitions, strong operational performance and the execution on our margin enhancement initiatives.

During the year, our hydroelectric segment delivered FFO of \$720 million, representing a 7% increase over the prior year. Our storage segment also performed well, generating \$27 million of FFO in the year as our portfolio continues to provide critical grid stabilizing ancillary services and backup capacity to increasingly intermittent grids. During the year, our generation was roughly in line with the long-term average as we continue to benefit from the diversity of our fleet. Our priority over the past decade has been to diversify the business, which, over the long term, mitigates exposure to resource volatility, regional or market disruptions and potential credit events. We also continued to execute on key contracting initiatives across all our businesses.

Our focus in Latin America continues to be on extending the average duration of our power purchase agreements as well as signing contracts with high-quality, creditworthy counterparties. Globally, we continue to see increasing value ascribed to the unique scale renewable storage capabilities that hydroelectric assets provide to increasingly intermittent electricity grids. For example, in Colombia, we secured approximately \$3 million of ancillary service revenues. In the United States, we qualified to receive the highest-tier renewable energy credits for a number of our hydroelectric assets in the Northeast, which will contribute approximately \$3 million to FFO annually. And in the U.K., our First Hydro portfolio was the critical link to restarting the grid following a nation-wide blackout in August.

Our wind and solar segments generated a combined \$274 million of FFO, representing an 18% increase over the prior year. These portfolios benefited from contributions from recent growth initiatives, including the acquisition of two wind portfolios in Asia and, through our interest in Terraform Power, a large distributed generation portfolio in the United States and full year contribution from Saeta Yield, a scale European wind and solar portfolio. We also benefited from executing on opportunistic O&M outsourcing agreements aimed at de-risking the portfolios and, where appropriate, delivering cost savings. We executed on three such agreements across Terraform Power and our wind portfolio in Brazil. A common theme across all these opportunities was attractive availability guarantees and a more comprehensive scope than what was currently in place. At Terraform Power, these initiatives will deliver aggregate cost savings of approximately \$30 million, or \$9 million net to us.

Finally, we continue to advance our global greenfield development activities, including progressing over 700 megawatts of construction, diversified across distributed and utility scale solar, wind, storage and hydro in 7 different countries. We are also progressing almost 1,400 megawatts of advanced-stage projects through final permitting and contracting. And our total greenfield development pipeline now totals approximately 13,000 megawatts. Of note, during the

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year, we signed power purchase agreements for 3 wind repowering projects in New York and California, totaling 220 megawatts, and these projects are expected to be commissioned in 2021.

We have been owners-operators of long duration, critical electricity assets for over a century and, therefore, understand that embedding strong ESG practices into our investing and operating activities is essential to preserving capital, mitigating risk and creating long-term value. Fundamentally, strong ESG practices drive further economic value to our business and inherently create higher barriers to entry. As such, we integrate relevant ESG considerations into our investing and operating strategies. We are, therefore, proud to announce that we have published our inaugural ESG report, which is now available on our website. The report, among other things, illustrates the on-the-ground work we do to maintain our social license to operate.

With one of the largest public pure-play renewable portfolios globally, we are helping to accelerate the decarbonization of global electricity grids. Additionally, maintaining socially responsible practices from health and safety to community relations to biodiversity is a critical component of successful operations over the long term. We operate with the highest ethical standards, conducting our business with integrity and above compliance with laws and regulations, we aim for best practice everywhere we operate.

ESG and sustainability investing continues to gain momentum globally, with ESG funds expected to rise into the trillions over the next decade. We believe our portfolio's inherent environmental attributes, coupled with our long-standing practices around maintaining a social license to operate provide significant tailwinds to demand growth for us.

Our liquidity position remains robust with approximately \$2.7 billion of total available liquidity at year-end. During the year, we executed on key financing and capital raising initiatives aimed at maintaining robust access to capital, a prudent debt maturity ladder and a low-risk investment-grade balance sheet.

During the year, we executed on more than \$6 billion of financings across the business, which allowed us to raise \$1 billion of incremental liquidity, extend our average debt duration to 10 years and reduce annual interest cost by approximately \$15 million, or \$9 million net to us. Of note, we continue to advance our green financing strategy in order to capitalize on growing demand for carbon-free debt products and diversify our investor base.

Today, we have issued 6 green bonds at both the corporate and project level, which together totaled approximately \$2.4 billion. During the fourth quarter, we also closed our first incentive-linked loan as part of our corporate credit facility that will allow us to reduce our cost of borrowing as we continue to accelerate the decarbonization of global electricity grids. As demand for sustainability-focused investing continues to grow, we expect green financing and sustainability-linked loans will increasingly become a more prominent funding lever within our business.

We also continue to execute our capital recycling strategy of selling mature, de-risked or noncore assets to lower cost of capital buyers and redeploying the proceeds into higher-yielding opportunities. During the year, we raised almost \$600 million, or \$365 million net to us, through this funding strategy, allowing us to crystallize an approximate 18% return on our Portuguese and Northern Ireland wind assets and to return more than 2 times our capital invested in South Africa.

In light of recent growth, strong balance sheet and access to capital, on January 13, we announced that our Board of Directors approved our 2020 quarterly distribution and raised it by 5%, bringing our total annual distribution per unit to \$2.17. This increase continues our track record of growing our distribution since our IPO in 1999 at an annual rate of 6%.

Our long-term goal remains, as always, to deliver 12% to 15% long-term total returns on a per unit basis through the prudent execution of our capital allocation strategy, application of our

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operating expertise to both enhance value and de-risk our business while maintaining an investment-grade balance sheet.

That concludes our formal remarks. Thank you for joining us this morning. We'd be pleased to take your questions at this time. Operator?

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**QUESTION AND ANSWER SESSION**

**Operator**

(Operator Instructions) Our first question comes from the line of Sean Steuart with TD Securities.

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**Sean Steuart, TD Securities**

A few questions. First, I want to talk about the funding platform. At the September Investor Day, the indication was that BEP's \$4 billion equity investment plan over 5 years wouldn't involve any equity raises, and I know that the TERP privatization offer is separate from that investment plan.

But I suppose the broader question is, has your thinking around issuing equity changed in light of the relative share price strength in recent months? How do you weigh your equity valuation against potential asset recycling returns at this point? Any change in your thinking there?

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**Wyatt Hartley, Chief Financial Officer**

Yes, Sean, thanks for the question. What I would say is, we had always said, our goal is to deploy \$4 billion of BEP equity capital into growth.

And that we had a funding strategy that wasn't reliant on issuing equities that we would use the additional debt capacity we have at our assets to create more proceeds from that at an investment grade basis. We also, at the corporate level, we regularly issue preferred shares into the Canadian market and potentially into the U.S. market as well.

As we grow, we will continue to create more debt capacity at our corporate, again, focused on an investment grade basis. And then the final funding tool for us was always around asset sales and really with the idea that from accretive basis, that's the best way to grow our business because when you're being targeted and you're selling assets, you can find those de-risked assets mature that are going to fetch you a low cost of capital.

And for us, that's just a much lower cost of capital than issuing one of our units, which is, one, of our most expensive cost of capital. And then secondly, it's just very unstrategic because you're going to be selling some assets that are earlier in their development phase as opposed to focusing on those mature de-risked assets.

So that has fundamentally not changed. Really, the TERP transaction should be thought of separate and really was about simplifying the structure between BEP and TERP. It is really just trading the TERP public shares for BEP public shares.

And so really, it should be thought of as the \$4 billion continues to be our goal in terms of deploying equity into growth, the funding plan remains the same. And that the strategy around the proposal for TERP was really around simplifying that structure and just moving those TERP shareholders up into the BEP structure.

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**Sean Steuart, TD Securities**

Got it. Okay. One housekeeping question, and I'll get back in the queue. On Slide 18 of the deck, the proportionate results for Q4 show solar EBITDA of \$39 million ahead of revenue of \$38 million. Can you reconcile that for us?

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**Wyatt Hartley, Chief Financial Officer**

Yes, Sean, let me just -- I'll call you offline on that point.

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**Operator**

Our next question comes from Nelson Ng with RBC Capital Markets.

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**Nelson Ng, RBC Capital Markets**

I think this question is also for Wyatt. But on the -- I was just thinking in the corporate segment, there was like a \$25 million of other income. Could you give some color as to what that relates to in the quarter and whether that's a recurring item or not?

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**Wyatt Hartley, Chief Financial Officer**

Yes. So, Nelson, as you likely know, we maintain some marketable securities. These are toehold positions that we have across our business. Right now, there's around \$150 million or so of those types of investments.

And, so, they really tend to be more toehold strategic investments that we are pursuing, but sometimes we will trade out of those and what that represents is a gain on the sale of one of those positions.

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**Nelson Ng, RBC Capital Markets**

Okay, got it. My next question relates to the 14 solar developments in Brazil that you guys agreed to acquire. Can you guys talk a bit about whether those projects have PPAs? And also what the timing of those projects are in terms of construction completion?

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**Sachin Shah, Chief Executive Officer**

Hey, it's Sachin here. Yes. So there -- it's a mix. There's -- I'd say, the majority of them have contracts. But 1 of the real advantages we have in places like Brazil, and I would extend that broadly into Latam, Colombia, in particular, is that we have a very strong marketing capability, where we have clients who are constantly buying power from us under medium to long-term arrangements, typically anywhere between 5 and 12 years and sometimes all the way up to 20 years.

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And so we've found that in these markets, we can differentiate ourselves by buying portfolios of development opportunities, whether they be wind, hydro or solar that lack contracts that other developers or investors can sometimes be challenged to acquire for value, and we can then feed them into our marketing organization, provide those PPAs with our existing relationships and then commercialize them fairly quickly. In terms of timeline, we would expect those to be built out over the next 24 months, and then be part of our operations.

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**Nelson Ng, RBC Capital Markets**

Okay. And then just one last question before I get back in the queue. In terms of the wind repowering contracts in New York and California, are the New York ones related to TERP and the California ones related to BEP? Or how should we think about the -- okay.

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**Sachin Shah, Chief Executive Officer**

You've got it right.

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**Operator**

Our next question comes from Mark Jarvi with CIBC World Markets.

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**Mark Jarvi, CIBC Capital Markets**

With X-Elio closed, you guys show in the supplemental how many projects you have in construction. Maybe just talk a little bit about the pace of which you think they'll be adding projects into construction through 2020?

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**Sachin Shah, Chief Executive Officer**

The thing with X-Elio is it's a separate standalone management team and development shop. So we would expect about 1,800 megawatts to be pushed through construction and into operations over the next 1.5 years, call it, 18 to 24 months.

And then after that, we'll start eating into the development pipeline as we advance that. The development pipeline, it's likely that we see a line of sight to about half of it at this stage, in terms of the 6,000 megawatts, you can assume there's about half of it that we have a strong line of sight towards developing, building out, getting PPAs. But development is a business where you have to be patient. And I think beyond suggesting that we feel good about half, the other half is a bit of an option, and we'll see how that evolves over the next few years.

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**Mark Jarvi, CIBC Capital Markets**

Okay. And then just on maybe the storage segment, but also probably U.S. hydro realized pricing. But with the capacity prices in New England continuing to soften and maybe some uncertainty in PJM, how do you guys think about trying to find alternative sources of revenue for

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that business and making sure you guys continue to have high realized prices? What's sort of the outlook around for the REC opportunities or just kind of maximizing those assets?

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**Sachin Shah, Chief Executive Officer**

Yes. I mean, you obviously saw where the capacity options cleared yesterday. Look, I think one thing that we always take great comfort in is we have been good value-oriented buyers of our hydro facilities, typically targeting an all-in revenue number in that sort of \$40 a megawatt hour range when we acquire. And that's made up of energy capacity we now get paid for Class 2 RECs. We get paid for some ancillary stabilization products.

And we've been able to maintain our total revenue profile in and around that range. So, there's always going to be pieces that move up and down. And we have a very strong marketing capability based in New York, and we feel confident that we can still manage to sell the various pieces of that portfolio and grab that total value.

And even over the last decade, where we've seen power prices really come down, we've always been able to at least get an average revenue profile in that range, which for us just gives us great comfort that even at the bottom, we have the tools to be able to dispatch the power, match load and optimize the asset.

So, our fundamental thesis was with hydros was always that if you can acquire them at the bottom and generate a strong yield, you have tremendous optionality ahead of you. Given the penetration of wind and solar over the last decade, that optionality in our view just continues to increase. Beyond that, capacity markets will do what they do.

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**Wyatt Hartley, Chief Financial Officer**

Yes. The only thing I would add, Mark, to that is just, again, we've spoken a lot about the diversity of our fleet, and this has been a focus of ours of creating diversity because, as you mentioned, the New England capacity market was weaker this year. A lot of that's driven around the inclusion of Mystic and the perspective that, over time, that will reverse.

And so by having a business that isn't wholly reliant on one capacity market and that isn't going to be impacted by those kind of one-off events, is a really -- in terms of managing rest of our business and protecting our revenue streams has been a focus of ours. And so we think we're in a good position from that perspective.

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**Operator**

Our next question comes from Rupert Merer with National Bank Financial.

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**Rupert Merer, National Bank Financial**

Going back to X-Elio in the supplementary information, it looks like you could see about 500 megawatts of projects commissioned this year. Can you remind us what are your plans for asset recycling with this portfolio? And what sort of return should we be expecting on the assets, whether they're recycled or not recycled?

**Sachin Shah, Chief Executive Officer**

So you should expect that we are going to turn our capital in that business fairly quickly, meaning develop, operate or get to COD and then look to sell down partial interests to largely financial investors who are looking for that stable coupon or that stable yield.

And we're going to use the proceeds to effectively start to build out the balance of the pipeline. That was our strategy going in. And therefore, it's a business where we don't expect to put a lot of additional equity into it.

We will put a little bit over time as the business grows. But for what we acquired, for our 50% of the portfolio for its existing development pipeline for the assets that were under construction, we don't have a meaningful follow-on contribution of equity. Much of that will get funded through asset sales.

From a returns perspective, generally, we're trying to develop in that sort of very low double-digit range, grabbing value by being a scaled procurement organization, having the ability to acquire materials and component parts on a global basis by being able to in-house the operations of existing assets to drive margin expansion and to use our global footprint to help absorb some of the operating risk that X-Elio on its own couldn't do.

If we can do that, and we can get into that low double-digit return, there is a single-digit buyer market out there that is attractive to us and that is searching for yield-oriented products with long-term PPAs that we would then sell down to, and that should get us into the mid-teen type returns. And obviously, if our assumptions improve around financing our cost, we start to get into the high teens type returns.

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**Rupert Merer, National Bank Financial**

And when you talk about selling partial interest, are you talking about a 50% level here or more, what should we expect?

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**Sachin Shah, Chief Executive Officer**

Yes, Rupert, generally, a lot of the financial investors around the world are very happy to own 49% of assets without having the obligation to operate them. We would continue to operate. Obviously, if people want to buy 100% from us and it's compelling value, we're fine with that too. We're pretty flexible in that regard.

And we recognize that stabilized assets that yield strong cash flow is a product today that's in high demand across the world in public and private markets. And so if we can create that with our development capabilities, and then sell it into that market that values it at a premium valuation, then we should do that. That's a good use of our capital, and it's a good fundraising strategy for us.

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**Rupert Merer, National Bank Financial**

Okay, great. And then secondly, Wyatt, you talked a little about debt refinancing as well as some O&M cost savings last year. What are the opportunities for doing more of that in 2020? You touched on an ability to do some more refinancing. But what's the sort of scale of opportunity you can see for lowering your cost of debt and your operating costs?

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**Wyatt Hartley, Chief Financial Officer**

Yes, thanks for the question, Rupert. In terms of -- I'll start with the operating costs. I think what we would say on that front is that we, for a number of years, have identified operating cost savings across our business.

As an example, in Colombia, where post privatization from the government, we've been executing on a program to reduce the cost in that business. As an example, where we are now operating a centralized operating system out of Colombia, which has driven significant cost savings.

We've been reducing the number of contractors, etc. So, cost savings continue to be an area where we think we can drive incremental value. We did \$12 million on an annualized basis this year. We'll probably be a bit short of that number in 2020, but not materially.

And from a financing perspective, what I would say is, really, the opportunity on the financing perspective is less about lowering our cost of borrowing, just because we have fixed rate debt in place right now so the cost of refinancing and the pain they cause would create -- would offset the impact of a reduction in the rates.

But fundamentally, where from a refinancing perspective, where we really have an opportunity, it has to do with the funding plan and we would have spoken about where -- whether it's in Brazil, where we effectively have an unlevered business, given where the lending markets in that country are, we think we can generate a lot of upfinancings there on an investment grade basis or on a number of our hydros as they come for refinancing.

Right now, the post PPA cash flows aren't financed, so that creates an opportunity for us to create incremental upfinancing again at an investment grade basis. So really, our focus there is, over the next 5 years to generate around \$1 billion from those type of activities. We may generate some cost savings here and there. But for us, the focus is more about extending maturities and raising that incremental capital to fund our growth.

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**Sachin Shah, Chief Executive Officer**

The only thing I would add on cost savings, just so that you have a little bit of perspective on that is typically, the way we've cut costs in the organization is through scaling up a region. And when we scale up a region, we're not actually going in and cutting.

What we're doing is we're able to absorb assets into our platform at an operating cost that's lower than if we were a small investor or a single asset owner, where you need some of the big infrastructure investments already made to run the business. And so to Wyatt's point, if you look back over the last 5 years, we would have spent a lot of time in Canada as we had scaled up there to find ways to increase margins.

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We found ways to do that in the U.S. before that, we found ways to do that in Colombia more recently. If I look forward over the next 5 years, the markets where we're now all of a sudden seeing the opportunity to scale or where we just have recently scaled up are Brazil and Europe. And then 5 to 10 years out, Asia will be a great candidate, India and China.

And so we look at areas where we're either seeing meaningful scale coming in or where we have recently scaled, and we look for opportunities to leverage that scale across a broader pool of assets such that we can be both competitive on the M&A front, but also driving and lower overall cost structure for that business. So it's a constant area we focus on. And we have regional heads who are incentivized to extend that program across their groups.

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**Operator**

Our next question comes from Andrew Kuske with Credit Suisse.

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**Andrew Kuske, Credit Suisse**

I think the first question is probably for Wyatt and it's just getting some perspective on, just the hypothetical, if you actually generated your LTA, what do you think your FFO would have been under an LTA scenario versus what you generated in the quarter?

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**Wyatt Hartley, Chief Financial Officer**

Yes, Andrew, I think you're speaking about the quarter. But for us, like what we have said all along is that we expect -- and sorry, we were below LTA for the quarter. But if you look at where we are for the year, we generated at LTA. So, you're right, there would have been a tailwind to generating at the LTA for the quarter, but we expect those type of quarterly or annual, a bit of volatility around that perspective.

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**Sachin Shah, Chief Executive Officer**

Maybe I can just add one thing. Look, this is a long duration business, Andrew, as you know, and as you've written about for many, many years. So yes, we have a quarter that's below, but we had a few quarters above this year.

And I think the bigger focus should be just over the long-term, we're pretty confident that the business is now both globally diverse enough and technologically diverse enough that these small ebbs and flows don't have as meaningful an impact as they used to have 5 years ago, 10 years ago, 20 years ago, where the business was much smaller, much more concentrated geographically and technologically.

And I think we've been saying that for a while now, which is that's a key objective of ours, and we've executed on that objective. And therefore, what you see is, even though you have a weak quarter, you actually have a full year that's in line with LTA. And that's just -- that's the benefit of diversification. And we take that very seriously.

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**Andrew Kuske, Credit Suisse**

Yes. And that's a little bit of the underlying question is, you actually had a really resilient quarter, even with the LTA being below, your production being below the LTA.

Maybe just the second question. Are you about to undergo really an acceleration of development in solar from a capital deployment perspective?

And this has really been an iterative process over the last 5, 10 years, where you really weren't in that space. You've got a huge pipeline of opportunities at this point in time. So, is that going to take the bulk of your capital allocation from a development perspective?

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**Sachin Shah, Chief Executive Officer**

Yes, it's a great question. We've been getting that -- we've been asked that recently. So generally, our practice has been 75% to 80% of our capital deployment will go into M&A. 20-25% will be in development. But what we've always said is it's based on risk and reward.

Development is inherently more risky. Therefore, you need to have a path to a higher return. And over the last 5 or so years, we saw there being really no meaningful difference in returns for development vis-à-vis returns for M&A. And therefore, we focus largely on M&A. We did development in some regions. We continue to develop assets in Brazil. We did a little bit of development in Europe, in Ireland where we had operations and strong development capabilities there, but it was on the margins.

And all of a sudden, what's opened up is this window for us to do development again, around solar because what we've seen is -- and we've seen this on wind and solar. So I shouldn't just say on solar.

We've seen the cost to build has largely flattened out and therefore, you need a more experienced owner, operator, developer-type counterparty to take those projects to the finish line because you can't bank, as a developer, on decreasing costs to drive your economic returns.

You need to actually drive it through strong execution, through procurement, through operations, all the things that are bread and butter to us as opposed to making a bet that panel costs or turbine costs would decline. And that was not a bet we were ever willing to make in a meaningful way over the last 7 years.

So now that we've seen that shift, we're seeing more development opportunities come to us. We're being very select about which ones we pursue. And I would say what you should see for us going forward is going back to that sort of 80-20, where we're back to M&A still being about 80% of our capital and development being 20%. What we're not doing is flipping the organization and turning it into a developer.

But given the scale of our business today, the absolute number of development just seems large because the business is very significant. So when you have \$50 billion of AUM, and you've got a \$15 billion market cap, obviously, 20% capital deployment targets, the development looks large, but on a relative basis, it's still -- we're still targeting 20% to 25% of our capital deployment in those types of activities.

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**Andrew Kuske, Credit Suisse**

I appreciate that. And those comments and in relation to the earlier comments about how you built up a region, whether it be Colombia or Brazil by adding assets, does that really segue into what you can do from a distributed generation side in solar because now you really have a platform?

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**Sachin Shah, Chief Executive Officer**

Yes, you're hitting the nail on the head. So, DG, we think we have a great opportunity to be a market leader here. We need to obviously do it right. There's a lot of execution in front of us.

We've scaled up that business. It's a small business. I don't want anybody to think it's going to have the scale of our hydro, wind or solar businesses. But it's one where there is a market segment here to do development, to acquire operating assets, to consolidate customers and to provide a better service overall to behind-the-fence offtakes.

So, we can do that because we're experienced around building operating scale, and you need to have operating scale to run a DG business properly. We're going to focus on C&I customers as opposed to residential at this stage. It's a different business once you get into resi, where just it's not as conducive to our strengths. We don't ever say never to anything. But I'd say, at this stage, in the near term, C&I will be our focus.

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**Operator**

I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Shah for closing remarks.

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**Sachin Shah, Chief Executive Officer**

Well, thank you, everyone, for taking interest in the business. We appreciate all the support, as always. We look forward to giving you an update after the first quarter of 2020. Thanks again. Bye-bye.

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**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating.