

Brookfield Renewable Partners (Q2 2020 Results)
August 7, 2020

Corporate Speakers:

- Sachin Shah; Brookfield Renewable Partners L.P.; CEO of Brookfield Renewable Partners L.P
- Wyatt Hartley; Brookfield Renewable Partners L.P.; CFO of Brookfield Renewable Partners L.P

Participants:

- Sean Steuart; TD Securities Equity Research; Analyst
- Rupert Merer; National Bank Financial, Inc.; Analyst
- Robert Hope; Scotiabank; Analyst
- Mark Jarvi; CIBC Capital Markets; Analyst
- Ben Pham; BMO Capital Markets; Analyst
- Nelson Ng; RBC Capital Markets; Analyst
- Andrew Kuske; Credit Suisse AG; Analyst
- Anthony Crowdell, Mizuho Securities USA LLC; Analyst
- Naji Baydoun; iA Securities; Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the BEP Second Quarter 2020 Results Conference Call.

(Operator Instructions)

It is now my pleasure to introduce CEO, Sachin Shah.

Sachin Shah

Thank you, Operator. Good morning, everyone. Thank you for joining us for our second quarter 2020 conference call.

Before we begin, I'd like to remind you that a copy of our news release, investor supplement, and letter to unit holders 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 are encouraged to review our regulatory filings available on SEDAR, EDGAR and on our website.

This morning, I will provide an outlook on the business and an update on our recent growth initiatives. After my remarks, Wyatt will provide an overview of our operating results as well as an update on our balance sheet and funding plan. Following our remarks, we look forward to taking your questions and comments.

Over the past 20 years, we have built a scale, global renewable power business with over \$50 billion of operating assets and an 18,000-megawatt development pipeline and deep expertise across all major renewable technologies. The world continues to be in the early stages of a global transition to the decarbonization of electricity grids. This shift, which is fueled by a push to reduce carbon dioxide emissions to meet increasingly stringent carbon reduction targets, and solar and wind power becoming the lowest cost, easiest to build providers of bulk power, will require significant investment over the coming decades.

Accordingly, there is considerable room for our business to grow for many years ahead, and as subsidies decline or fall away, the opportunity will increasingly favor investors like ourselves who can drive value and enhance cash flows from our global scale and depth of operating expertise.

We believe that we have established ourselves as one of the few entities of scale with the track record and global capabilities to partner with governments and businesses to help them achieve their goal of greening the global electricity grids, while earning a strong return for our investors.

Our solar business has grown substantially over the last five years. Today, we have over 3,000 megawatts of solar in operations and an additional nearly 10,000 megawatts of solar under development. As a result of technology advances and reductions in construction costs, solar can stand on its own without subsidies, and more importantly, is now amongst the lowest cost sources of conventional power globally.

To put this in perspective, solar costs over the last five years - the period in which we have built our business - have gone from over \$4 per watt to install to less than \$1 per watt in almost all jurisdictions around the world. As a result of these favorable economics as well as the renewable nature and perpetual source of free energy, we believe it is possible that in 10 years from now, the majority of the production capacity of Brookfield Renewable will be solar capacity.

It is not that we do not believe in wind or hydro, but the growth in solar and the ability for us to develop and earn strong risk-adjusted returns should enable us to grow our solar operations at a far greater pace.

Recently, we executed two transactions that highlight the strength and scale of our solar capabilities and demonstrate the various ways we approach creating value for our shareholders.

First, we completed the merger of TerraForm Power into Brookfield Renewable on an all-stock basis. TerraForm Power was one of the largest owners of solar globally prior to the bankruptcy of its sponsor in 2016. Given our scale, we were one of the few organizations that could acquire it through the restructuring and immediately stabilize the business by implementing an operating plan and resuming growth.

As a result, we have driven significant value in the business, delivering TerraForm Power shareholders, including BEP, a 35% annualized total return and over two times their money since our involvement. The merger is accretive to Brookfield Renewable, strengthens our business in North America and Europe, and further enhances our position as one of the largest publicly traded pure-play renewable power businesses with an equity market capitalization of approximately \$20 billion.

The second transaction we executed was to acquire a 1,200-megawatt solar development project in Brazil. This is one of the largest solar development projects in the world and requires both development and energy marketing capabilities to bring the project to completion.

The project is 75% contracted, and we intend to leverage our deep energy marketing capabilities to contract the remaining power. In addition, given our global scale, we expect to drive down equipment procurement, installation, and operating cost to deliver additional value over time. Accordingly, we expect to achieve approximately 20% returns on this investment. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2020.

In total, this quarter, we have agreed on transactions to invest approximately \$600 million or \$130 million net to BEP of equity.

Also of note, last week, we completed the special distribution of BEPC shares, providing investors with greater flexibility in how they invest in our business.

BEPC is listed on the same exchanges as BEP, offering investors the optionality to invest in Brookfield Renewable through either a partnership or a corporation, which we believe should lead to increased demand and enhance the liquidity for our securities. We completed the special distribution on July 30 by providing unitholders with one share of BEPC for every four units of BEP.

We have subsequently seen strong support for BEPC shares in the market with strong trading volumes over the first few weeks of trading and the share price trading slightly above the BEP unit price. We are very pleased with the launch and positive market reception thus far.

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

Wyatt Hartley

Thank you, Sachin, and good morning everyone.

During the second quarter, we generated FFO of \$232 million or \$0.75 per unit, which is up slightly from the prior year as the business benefited from recent acquisitions, strong operational performance, and execution on margin enhancement initiatives. On a normalized basis, our results are up 19% over the last year.

With an increasingly diversified portfolio of operating assets, limited offtaker concentration risk and a strong contract profile, our cash flows are highly resilient. While generation for the quarter was below the long-term average, driven largely by drier conditions in New York and Colombia, generation so far this year has been roughly in line with long-term average.

As we have reiterated, we expect this type of resource cyclicity and therefore, do not manage the business based on under or over performance of generation relative to the long-term average in any given period. Our focus continues to be on diversifying the business, which mitigates exposure to any single resource, market, or counterparty.

We continue to be focused on maintaining a highly diversified investment-grade customer base with over 600 customers around the world under long-term power purchase agreements.

For example, our commercial and industrial counterparties, which comprise less than 20% of our generation, are well diversified across regions and sectors, with our largest C&I customer representing only 2% of our total contracted generation.

Our contract profile remains strong, with 95% of total generation contracted in 2020 and a weighted average remaining contract length of 15 years. Therefore, our cash flows are well protected from exposure to short-term price volatility and are expected to remain stable over the long term.

Turning to our segment results, during the quarter, our hydroelectric segment delivered FFO of \$193 million. In North America, we remain focused on securing short-term contracts in this low power price environment to retain upside optionality for when prices improve. In our Brazilian and Colombian portfolios, we continue to focus on extending the duration of our contract profile while maintaining a certain portion of uncontracted generation to mitigate hydrology risk. This quarter, we secured 17 new contracts in Latin America for a total of over 430 gigawatt hours per year, including one contract in Colombia with a seven-year term. Our weighted average remaining contract duration is now nine years in Brazil and three years in Colombia.

Next, our wind and solar segments generated a combined \$85 million of FFO, representing a 29% increase over the prior year as we continue to generate stable revenues from these assets and benefit from the diversification of our fleet and highly contracted cash flows with long duration power purchase agreements. This quarter, we commissioned almost 100 megawatts of solar projects and secured five long-term PPAs with investment-grade counterparties to support our 1,500 megawatt wind development pipeline in the U.S. and Europe.

Our liquidity position remains strong with close to \$3.4 billion of total available liquidity, which allows us to support our current operations as well as to opportunistically pursue new investments.

Our investment-grade balance sheet has no material maturities over the next five years, an average overall debt duration of 10 years and approximately 80% of our financings are non-recourse to BEP. During the quarter, we executed over \$1.1 billion of financings across the business.

We also continue to execute on our capital recycling strategy of selling mature, de-risked, or non-core assets to lower cost capital buyers and redeploying the proceeds into higher yielding opportunities. So far this year, we generated close to \$500 million of proceeds or \$80 million net to BEP from these activities.

In summary, our business remains resilient as we continue to actively look for opportunities to grow our portfolio on a value basis. As such, we remain firm in our belief that Brookfield Renewable is one of the strongest, best positioned platforms to contribute to the decarbonization of the globe through investment in multiple renewable technologies.

In short, we believe the prospects for growth of our business are better than they ever have been.

Looking forward, we remain well positioned to achieve our objective of delivering total returns on a per unit basis of 12% to 15% over the long term. That concludes our formal remarks for today's call.

Thank you for joining us this morning.

With that, I'll pass it back to our operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Sean Steuart with TD Securities.

Sean Steuart

A couple of questions. Sachin, with respect to your comments on solar cost declines and this being a focus increasingly for BEP going forward. Can you give us some thoughts about how you expect costs and capacity factors for the technology to trend from here? When I reverse engineer the economics of your project in Brazil, it looks like the intent is to build that at less than \$0.5 million per megawatt, which would suggest ongoing declines. How do you think about the longer-term cost trends for the technology and efficiency of the technology as well?

Sachin Shah

Sean, sure. So I'd say, first of all, with Brazil and often in developing markets, I would just remind you that construction and labor tend to be a lot lower than what you would see in North America and Europe, so a big portion of that is construction and labor costs.

That being said, the U.S. is also weighed down by tariffs. So, you kind of get it on both ends. You get cheaper overall build costs in most markets around the world relative to the U.S. because of tariffs. And then when you add in labor and overall construction costs, the developing world costs come down to that level that you are ascribing.

In terms of where we go from here, what I would say is the two things we're seeing in the solar market. One is that the manufacturers, largely in China, continue to make significant advances in manufacturing, which means that they will continue to be able to deliver some cost savings, but more importantly, what they'll be delivering is higher capacity factor panels and larger panels, which

have just a better performance overall, which means less degradation, longer lifespan, lower ongoing maintenance costs. And if you combine that with our ability to operate and maintain plants in-house, do much of the development work on our own, it just gives us a huge advantage.

And plus, look, we have a business in China. So, we have a very strong relationship with a lot of the panel manufacturers. And given our scale, we can drive a global procurement program, which, if you're solely a U.S. solar developer or solely a European developer, you just cannot procure in the scale we can. And therefore, we have a number of advantages. And we think that those advantages will allow us to differentiate ourselves over the coming decade.

Sean Steuart

Wyatt, a question for you. There was a \$22 million positive contribution in proportion of adjusted EBITDA from the corporate segment. Can you give us some context on what that relates to?

Wyatt Hartley

Yes, Sean. So, as we mentioned at the last quarter, we have undertaken some public market activities. And really, what that reflects is some of those activities in the quarter, just given where markets traded to, we exited those positions, and were able to realize some gains.

Sachin Shah

Yes. One thing I would just add to that is, in our business, we are always rotating capital. Sometimes, we're selling assets. Sometimes we're in the market of buying shares. We sometimes buy debt at distressed levels. And we're selling those out. And the thing that you should be reminded of is that that is just normal course rotation of capital for us, buying investments for value and then selling them when markets normalize.

Obviously, with all the disruption we had in the quarter -- last quarter, given the economic shutdown, we picked up significant securities at pretty compelling valuations. We sold some of that, but not all of it. So, we booked the gains. But it's no different than us selling a half interest in the solar facility or selling -- bringing a partner into one of our hydros. The only difference is sometimes the accounting shows up as a gain or shows up as equity.

I'd say, most importantly, what you should realize is we're creating value for our shareholders by doing this type of activity, and it's stuff that we've done for many years now.

Operator

And our next question comes from the line of Rupert Merer with National Bank.

Rupert Merer

Sachin, so you talked about the move to solar. How does this change your forward view on power prices, both the cost of energy and the cost of capacity? And what do you think are the implications for your existing assets?

Sachin Shah

Yes. It doesn't really change our forward view. I'd say, if you asked us 7 to 10 years ago, what our views on power prices were, I'd say, generally, we were fairly bullish, largely driven by underlying fundamentals of gas in the ground. Obviously, all of that's evolved over that time. Our thinking has evolved around just the cost of wind and solar coming down and really representing the marginal cost of power. And what you've seen us do over the last decade is transition our business very quickly into that dynamic, such that we have a scale wind and solar business.

I think what we're saying to you now is that, that trend continues. Power prices should, on a pure energy basis, stay low for the foreseeable future. What it means, though, is that the value of storage and capacity continues to go up and continues to be deeply valuable. And if you look at the pumped storage facilities we own or the capacity payments or what I'd say, ancillary services revenues that

we earn in our hydro fleet. They have gone up for 10 years now and have really compensated against declining energy prices.

So that being said, I think our view continues to be the same, where energy -- stand-alone energy prices will be low because wind and solar is very economic to build-out. But given that they are intermittent technologies, if you have the ability to store power, to provide backup power, to provide stabilization services to the grid, those services are deeply valuable and increasingly becoming scarce.

So, I think we actually have a really nice hedge in the business. And given the complementary nature of the assets we have, we get a lot of diversity, not only technologically, geographically, but also from a revenue -- pure revenue stack perspective, we have a lot of diversity of the type of revenue we earn. But no change in outlook of pricing. We're not more bullish. And what you'll continue to see from us is a priority on contracting out our power.

Rupert Merer

So, if you move into building more solar, can we imagine that you'll want to maintain the existing storage assets you have and maybe even build out more storage in parallel with solar?

Sachin Shan

For sure, Rupert, that is a key part of our strategy that having this complement of different technologies, it allows us to provide better overall solutions to customers, whether those customers are governments, utilities, or through our C&I business because we can provide 24/7 power with backup capability by bundling different technologies we have. So, it is pretty important that we maintain that diversity, and it just gives us a more valuable product to the end customer.

Rupert Merer

And then just a quick follow-up housekeeping question. It seemed like the solar generation this quarter came in significantly lower than the LTA. Was that related to radiance? Or did you see some curtailment in your fleet?

Wyatt Hartley

Yes, Rupert, it's Wyatt here. No, you're exactly right. That all had to do with the underlying resource. We really didn't see any meaningful curtailment across our fleet. As we've mentioned before, with respect to the markets we're in, our assets as renewable assets generally have priority dispatch onto the grid. So, curtailment wasn't really a meaningful impact to our business this quarter.

Operator

Our next question comes from the line of Rob Hope with Scotiabank.

Robert Hope

Just thinking about the M&A market. Debt levels seem elevated, but there's a lot of liquidity out there in the market. How do you think this plays out in the future? And could we see you acquire some distressed assets maybe in 2021 when markets start to normalize and liquidity normalizes?

Sachin Shah

Yes. I mean, look, it's been an expensive, highly competitive market for 10 years now. Nothing's really changed. I think maybe if you asked us three or four months ago, we would have thought we were turning and the opportunity to acquire for deeper value was becoming more interesting. But with all the stimulus and government support, that quickly went away.

I would say our playbook really allows us to always look for deep value distress, but we also do things that differentiate ourselves through our operations like the Brazil deal we announced. And therefore, we've stayed away from the highly competitive, low risk, low return type investments that others have had to go into. And we'll continue to stay away from those types of opportunities.

And what I'm really getting at is those sort of single-digit return type opportunities where there really is no differentiator other than a cost of capital. That's not our playbook. It's not where we focus our time and effort. For us, if we can drive operational enhancement and create value by doing something different, then that's really our area of focus. And you can see that from both transactions we highlighted this quarter, they really signified that strategy.

Robert Hope

And just to follow-up on Sean's question. Just the public securities that you're buying in Q2 and you've sold a portion of. Are you still looking to get toeholds in certain entities? Or is it that the market has rebounded a little quicker than you anticipated?

Sachin Shah

Yes, look, they did rebound quicker than we anticipated, without a doubt. So, the short answer is we're pretty disciplined as an investor group, and we will sell out if we don't see the room to keep acquiring for value. From a total strategy perspective, it's always been a core part of our -- the way we originate transaction flow.

Look, ironically, while we were selling out securities this quarter, we completed the final stages of the TerraForm merger, which it also started out as a toehold strategy four years ago. So, I think what you should expect is that it will always be a part of our strategy. We'll always be in the market looking for deep value. But from time to time, if we can't secure it, we'll sell out and hopefully realize some gains for shareholders.

Operator

Our next question comes from the line of Mark Jarvi with CIBC Capital Markets.

Mark Jarvi

You guys have sort of been involved in advocacy for maybe looking at a carbon tax in the U.S. market. Do you guys have any updated thoughts on that in light of maybe a change in administration or a preferred structure on what you'd like to see if they went forward with the carbon tax?

Sachin Shah

Look, we don't get too up or down based on changes in politics or regime or governments. When Trump came into office, we were -- we continue to be bullish on the sector, recognizing this trend that we're investing into is a multi-decade global trend and really politics can't stop it based on all the things we've talked about over the years.

Obviously, if you get a government coming in that is supportive, that's always good, but we're not banking on anything that is in the form of a subsidy or carbon tax to drive our business, nor are we investing -- assuming those things come into place. So, if they do, and it's helpful, great. But we have a good business, and we know how to invest through different governments and whether we're supported or not, we just think that these technologies make sense today, and therefore, they're going to survive much longer than people's views.

Mark Jarvi

Okay. And then as you continue to grow the solar business, just curious how that changes how you guys think about financing your business? Does it change your view on access to medium-term notes or green bonds? Or how does that change if the mix changes a little bit from less hydro and a bit more solar over time?

Wyatt Hartley

Yes. Thanks, Mark. It's Wyatt here. So, in terms of the majority of our financing, as I mentioned in my comments, more than 80% of our financing is at the project level. It's financed on a matched maturity basis. So, it is reflective of the underlying asset. If it's hydro, it's a perpetual asset. So, it

will be reflective of that. If it's wind or solar, it's a finite life asset, so it would be an amortizing structure. So, the majority of our financing won't change. It will be just reflective of the underlying asset.

In terms of the corporate level, we've always been aware that when we issue medium-term notes that we were doing so on the back of a perpetual hydro business. And so over time, we may look to moderate our overall issuance of MTNs to reflect the fact that they are a more finite business. But that's a long way off. We continue to have a very strong base hydro business. And, so, for the most part, we don't really see it overall impacting our financing strategy.

Sachin Shah

The only thing I would just add is that one very significant change that's occurred in the last five years is that wind and solar, in particular, solar, has a much longer lifespan than the lender community would ascribe to it. And what we're seeing play out in our wind fleet and in our solar fleet, is that when these things were typically being underwritten for 25 years, the technology is now being built, the manufacturing specs for the technology are now being built for 35 to 40 years, and it's just getting better and more robust. And once you get out to that level, it's largely a perpetual asset. I mean there's component parts in our hydros that also need to be replaced in 40 years.

So I think what's going to happen in our sector, and I could be wrong, but I think one of the great potential value drivers that changes our business is that, over time, wind and solar financings start to reflect a more perpetual asset base. And what happens is if you're running a solar project for 40 to 50 years and you're just replacing component parts over that period, it effectively turns the asset into a perpetual asset. And therefore, it's going to start to look and feel a lot more like our hydro business.

And once that happens, and there will be an inflection point when this happens, the banks, insurance companies and all the lenders who lend in the space will start to gravitate to longer duration interest-only financings, and you will see the next leg up in cash flows in our business. And we think that, that will happen sooner than people think, almost similar to what happened with our hydro business just 15 years ago when people put their mind to it and realize these are very, very long duration assets that ultimately properly maintained with the right sponsor, can act, look and feel like a perpetual asset base.

Mark Jarvi

That's interesting. And maybe just follow-up on that. Two things. One, how does sort of resource stability, maybe solar or less variable than hydro or wind factor into how you think we're financing them longer term? And then on the perpetual perspective, how does sort of jurisdiction and maybe access to different markets and liquidity from an energy marketing perspective really change how you think about what your dollar should be spent on solar going forward?

Sachin Shah

So first of all, wind, I would say, wind tends to be the most variable resource, then hydro, then solar. Solar is the most stable resource. And that stability should drive a lower cost of capital in the financing markets. I also think that because of that, my comments around being able to finance them with interest-only long duration bonds, that could be the technology that leads the charge with wind pretty closely behind. In terms of your question around markets and energy marketing, obviously, for us, it's a huge advantage to have energy marketing capabilities in LATAM, in Europe, and in North America because as these projects increasingly age and PPAs fall off, there will be sellers who really just cannot operationally commercialize the back end of these projects. And if we can do it with our marketing capabilities and our ability to invest the capital needed to bring another 40 years of life to the site, that's a real advantage.

So again, it all speaks to why we really prioritize building and investing in our operations. And my comments around these assets starting to look and feel more perpetual in nature. Our view is just that this is sooner than people think, and the technology has really, really matured, as has the entire

apparatus that supports the technology from an ongoing maintenance and operations perspective. And therefore, as always, the financing markets should follow. And if that happens, again, we've never factored it into our business, but it will be a very meaningful driver of value going forward.

Operator

Our next question comes from the line of Ben Pham with BMO Capital Markets.

Ben Pham

I just wanted to touch base. First question is some of your commentary around just where you are right now. I think Wyatt mentioned you're seeing a ton of growth opportunity – the best positioned in the cycle. So does that mean when you think about all the tailwinds that maybe just not Brookfield but the renewal energy that – you're at the cycle where the growth rates are more at the upper end of your targeted range rather than mid to low point?

Sachin Shah

Look, what I would say is our view on this sector hasn't changed in a long time. I know that maybe if we were on a call five years ago or 10 years ago, people were still unsure whether or not this business could grow in size or scale. But the perspective we've always taken is that the electricity markets around the world represent trillions of dollars of investment opportunity. Generation alone is the largest component of that and has the most transition that it has go through because it represents significant carbon dioxide output.

And, so, we're in the sweet spot of that because we are global, we can invest across multiple technologies and the disruption and transition in the entire energy supply stack is going to be most felt on the generation side. So, we have believed and continue to believe that this is an enormous opportunity that we are building our business into, and that opportunity will last for 25 years, at least.

So, I wouldn't say we think it's bigger today. We thought it was big for many, many years. And what you've hopefully seen is that we've been able to deliver and we'll continue to employ the same strategy and playbook as we build out the business around the world.

Ben Pham

Okay. And maybe related to that, when you think about achieving your payout ratio target that 70% of FFO, I think a few quarters ago, you mentioned that would probably take a few years. But really, when you think about the TERP transaction and some of these other initiatives that you've done have -- are you of the view now that maybe reaching that payout ratio target is a bit quicker than what you thought six months ago?

Sachin Shah

We're not stressed at all about our payout ratio. Candidly, we weren't stressed when it was 100%. We have always said, it's just one indicator of financial health. The more important indicators of financial health are having an investment-grade balance sheet, having a high degree of liquidity, having very stable assets that produce consistent cash flows. It's nice that our payout ratio is down into the high 70s. It gives people lots of comfort. And we'll continue to chip away. But it is not the driver of what we're trying to achieve.

And over the years, if I look out over the next 10 years, there will be times where it's 80%. There will be times worth 70%. There might be times where it's 90%. Most importantly, though, we will make sure that we have an investment-grade balance sheet with a very high degree of liquidity. We obviously have very strong sponsorship with Brookfield Asset Management owning a very large stake in the company. And therefore, it's one indicator of financial health that we obviously pay a lot of attention to, and it's in a great place, but we're not overly focused on it.

Ben Pham

I know you had a lot of questions on solar. But I was wondering, can you remind me, when you look at solar versus offshore wind. And you mentioned that offshore wind, you didn't want to get into it because of the high subsidization, the cost curve has gone down dramatically. So, you don't want to get caught in a situation in 10 years, pricing drops and you get some pressure on the other side. So, is solar a bit different here where the levelized cost is also dropping, pricing could drop, as referenced by an earlier question? Is that compare and contrast a little bit different there when you look at the two?

Sachin Shah

They are different. Look, both are mature, both are very good technologies. The difference being on solar, what I would say is, typically, the contract structures on solar almost everywhere around the world have been much longer than what we've seen in offshore wind. Offshore has typically had 15 years in the beginning, in many jurisdictions, it's 10 years of contract life and very, very high PPA prices that it's tough to make the bet that they will persist post the PPA environment. It could happen, but it's a tough bet for us to make.

The second thing that we wanted to see in that sector is just a little bit more time to understand just some of the impact and implications around the operations of running deepwater or offshore generation. And I would say the market has really matured. It's done a good job. Would we invest in offshore? Absolutely, we would. It would have to be under the right conditions and at the right returns. And what we don't want to do is invest in offshore wind with a bet on the future power price. We'd rather invest in a way where we can drive operational value to create the returns we need to create. If we find that opportunity, we will absolutely invest in offshore wind.

Operator

And our next question comes from the line of Nelson Ng with RBC Capital Markets.

Nelson Ng

I just had a few questions on the development pipeline. So, in Brazil, now that you have about three good-sized solar developments. And I think for the 1,200 megawatt solar facility, you mentioned that 75% is contracted. Could you just give a bit of color on the term that that one is contracted for and whether the other two, the 210 and 270 -- sorry, 278 megawatt projects, whether those are fully contracted or not?

Sachin Shah

Yes. So, all three projects have contracts in the range of 20-plus years. And the first two are contracted. The second one is 75% contracted, and we will use our client base, our customer base in the country to contract out the balance, which to remind you, we have around 600 customers in the country that buy power from us through all of our facilities and very strong ongoing relationships that we can use to lay off the final 25%.

Nelson Ng

And then can you talk about -- given that you have a sizable footprint in Colombia as well, are you seeing the same type of wind or solar opportunities in Colombia, where even if it's not fully contracted, you can leverage your footprint to derisk those projects?

Sachin Shah

Similar. I'd say the big difference in Colombia is the contract market isn't as long as you see in Brazil. Brazil is just much more mature. So, you can sign with a counterparty a 12-, 15-year contract, and that happens on a regular basis. In Colombia, it's more difficult. And therefore, when you're doing development, you're typically looking for a government PPA to start out with. And then if you have a little bit of exposure left, maybe you don't get a full wrap, we then have a very large marketing group, and we are probably one of the only ones in the country signing 10-year PPAs. So, it is certainly an advantage we have, but the depth of the market is just not as strong.

So, I would say we probably are -- we're just being more careful in Colombia, and you'll see more development in Brazil than you would see in Colombia from our perspective.

Nelson Ng

And on that point, I think two of those Brazilian assets you bought into an advanced development. Is that the strategy, whether it's in Colombia or Brazil to get involved at a later stage of development?

Sachin Shah

Yes. Typically, that's been our strategy for many years, is anywhere in the world, we're looking more at later stage opportunities. They tend to have the best risk reward paradigm for us. And look, the strategy ebbs and flows. For a few years in Brazil, it was more of an M&A strategy when we felt that there was a scarcity of capital on M&A transactions. Right now, we see a scarcity of capital on the development side, and therefore, that's been our focus. We'll always be nimble around those types of things. But in general, we prioritize late-stage development, and we're not going to burn a lot of capital on early-stage greenfield type transactions.

Nelson Ng

And then just one last question. The projects to be completed over the next few years, I think the FFO contribution is about \$53 million. Roughly what's the investment required to achieve that? Should we be thinking that you invest at 7x to 8x FFO multiple to get a mid- to low-teen FFO yield?

Sachin Shah

Less than that. This is going to be a 20% return on the development stuff, it will be a 20% return target. So, you should -- Wyatt can follow-up, but your investment sounds a little high.

Wyatt Hartley

Yes. The basic math, I would think about, Nelson, is that our proportionate capacity on that under construction is around 700 megawatts, assume 1 million per megawatts less than \$700 million of total capital. You get 60% leverage on that and then a 20% FFO yield on that. That's going to drive you to your \$50 million to \$55 million FFO contribution.

Operator

Our next question comes from the line of Andrew Kuske with Credit Suisse.

Andrew Kuske

Sachin, you mentioned earlier on about partnering and partnerships. Given some of the comments that have come out earlier from, let's call them, conventional energy producers about their aspirations in this cycle for renewable investment, how do you think about alignment for Brookfield on a bigger picture basis with either conventional energy producers or really offtakers and the technology industry is one -- another example where there's a lot of demand for renewables.

Sachin Shah

Both groups are groups that we are actively talking to, and I would even add oil and gas firms as potential offtakes are also groups that we're talking to. And what I would say is this is all part of an energy transition thesis that's happening or trend that's happening. The technology firms have very stringent carbon reduction targets because of their supply chains and their datacenters, which are heavy consumers of conventional thermal generation. The oil and gas firms, obviously, by the nature of what they do, produce a lot of CO₂. And traditional conventional power producers, which have coal and gas in the ground, are also looking to put capital to work in renewables.

We are actively talking to all three groups, looking for ways to partner to help with the broad thesis around energy transition. I would say, in many respects, that was part of how we got involved with TransAlta last year was to help them with their transition story.

So, I think given our capabilities and given our scale, we could be a really good partner around transition, where it's a big area of focus for us. And I think to the extent that we can do it in a way that our investors understand that there is a bridge to a greener place and that we're part of that story, that could be a really compelling area of growth for us.

Andrew Kuske

And I guess, maybe just the context, it's taken you 25 years to build the company to where it is now. And there are some players out there that have talked about trying to add like 2.5 Brookfield Renewables within a 10-year period of time, which is a big aspiration. Do you see that as a big opportunity? You clearly have, and I'm not trying to be patronizing about it, but you've got a big global footprint, and you could be poised for accelerated development. You're not coming from a standing start, right? And how do you price that in the energy transition for a larger player like in the energy producer space?

Sachin Shah

Yes. So first, what I'd say is that our business, first, from a trading perspective, our business has generally always just reflected the in-place business, and growth has been something that people -- investors have struggled to get their minds around in spite of the fact that we continue to deliver growth. I think what you're getting at is that the growth will not only continue but could accelerate because of the shift that we're seeing from very large corporations that were previously doing things like oil and gas development and exploration, moving into renewables.

I'd say two things. One is, I think it's excellent. It just adds more credibility and capital to the sector, and it will drive increased opportunity for us because there's a lot that we can do that those who are starting from scratch just cannot.

Number two, we could be a great partner to those organizations and do things together so that they're not starting from ground zero, but they're working with somebody, to your point, who's been at it for 25 years.

And number three, if those investors are looking for bulk or scale, we could sell into that trend, mature assets that we have on our balance sheet and continue to build out the business like we always have. So, there's a lot we can do because of that. And to your comments about their aspirational targets. I think they are aspirational. And if they can achieve them, more power to them. This is a tough business. We've said it for 25 years, as you've noted, and it takes a long time to build it properly.

Andrew Kuske

One final one, if I may. And it's just -- you've mentioned solar cost. We've seen it plummet over the last 20, 30, 40 years, if you want. How do you think about battery costs? And how does that fit into your portfolio?

Sachin Shah

Yes. We have a few batteries in the portfolio that we acquired largely in wind projects, actually one also in a hydro facility that we have because either the existing infrastructure reduced the costs and made it competitive or because we had some high-priced PPAs that let us invest in the batteries and secure that PPA price for more hours than we could otherwise achieve. And therefore, the returns worked. But batteries continue to be expensive, and I think will take time to properly commercialize.

The biggest difference that we've seen is that batteries aren't attracting the subsidies that were given to wind and solar in the early days that helped drive capital into manufacturing and R&D. And therefore, what you're seeing on batteries is the vast majority of the R&D and capital going in is really coming from the transportation sector as opposed to from a pure electricity application.

So, I think batteries will absolutely be a key component of generation and stability, 10 to 20 years from now. It's just the path to get there might be slower than what we saw with wind and solar.

Operator

Our next question comes from the line of Anthony Crowdell with Mizuho.

Anthony Crowdell

If I could just follow-up on an earlier comment. If I looked at slide 6 in the deck. You give a percentage by generation, I guess, is there a sweet spot that you're going to manage to? And also if you think about how hydro present this nice natural hedge for declining power prices because of some of the fixed payments or capacity payments, are you limited to how much you could add the other source of generation so that that natural hedge is still sizable for your portfolio?

Sachin Shah

We've got this question a lot over the years. Look, we're not targeting a certain breakout between the technologies. We're a very opportunistic organization. And we will grow all three segments. To the earlier comments, we'll likely add a couple more segments in the future, whether that's offshore wind, whether that's battery storage as those technologies evolve, mature and provide investment opportunity for us.

I think what we are more interested in is having the ability to move our capital across the different technologies where the deepest value opportunity presents itself and being able to buy in bulk across portfolios that have different technologies within them. Around the hedging and the diversity, we think that if we keep growing all of our segments, the natural diversity that that presents actually, gives us a higher quality cash flow stream for our investors because you have more things working for you.

But, what I would say is if you look forward, solar will be the segment that should grow the fastest. Wind will be second and hydro will be third. They'll all grow, but that proportion of hydro will likely shrink over time, just on -- not because we're selling the hydro. In fact, it should grow, but it will be growing at a lower rate.

Operator

And our next question comes from the line of Naji Baydoun with iA Securities.

Naji Baydoun

Just a couple of questions. I guess following up on Nelson's question. Outside of Colombia or Brazil, just wondering what markets you think would have the most potential to build out the types of solar projects you're targeting today.

Sachin Shah

Today, we're adding a lot of development through our business X-Elio in Europe. So that's a big area of growth for us, European solar, in particular, in Spain and Southern Europe. We are, obviously, in Latin America, we have active development in the United States.

The emerging markets, I'd say, the biggest two that we focus on are India and Brazil. And both markets have very, very strong solar potential. You're starting to see it in Brazil, but India will quickly get there just given its solar resource, its sun resource. We're focused on all of the markets. They all have different risk-reward profiles, and we want to make sure that we also manage our exposure to emerging markets in the way that we've always communicated to our investors. So, we focus on all the markets to balance out the portfolio.

Naji Baydoun

And I guess, more broadly on your positioning in solar. When you think about transforming or transitioning your business, what does becoming a predominantly solar company mean to you? Obviously, faster and shipper build-out of projects, let's say, versus hydro, taking on maybe earlier

stage projects because the returns you're targeting. And also, maybe, you made a comment about not selling hydro assets. I guess part of your funding strategy is also asset sales. Does that mean we should expect maybe more wind asset sales going forward relative to hydro and solar?

Sachin Shah

Look, again, I'll make a couple of comments. One, just on sales and things like that, we're entirely opportunistic. It doesn't mean we'll never sell hydro. It doesn't mean we'll never sell solar. We're going to sell into markets that we think -- where we think we can sell at a value that goes beyond what we could create being an owner.

In terms of transitioning the business, really, we've already transitioned the business. I think five years ago, we started to -- maybe seven years ago, we really started to focus on building out the operating depth that you need for both wind and solar, hiring people with strong expertise in those areas, taking some of our most well-seasoned engineers and making sure that we had a good handle on the technical issues around those technologies. And then really bringing a lot of our knowledge from hydro operations to bear into wind and solar.

What I would say is today, we have over 3,000 megawatts of solar. If all we did was solar, that would be a pretty large business in its own, right? Similarly, wind, we have almost 5,000 megawatts of wind. If all we did was that, that would be a very sizable business in its own right. So, we've already transitioned and our operations have very, very significant depth. The amount of experience we have in these technologies with our people is very strong. And therefore, we feel very comfortable growing each of those lines of business without the need to hire or build out a certain type of capability.

Naji Baydoun

Maybe just a final question for Wyatt. You've been drawing down your interest expense or your financing costs lower and lower. Just wondering how much more run rate savings do you think you have there or that you're targeting going forward, maybe more refinancing in TERP or other initiatives that you want to conclude over the near term?

Wyatt Hartley

Yes. What I'd say is we're constantly looking to optimize our cost of borrowing. We are also focused on fixed rate borrowing. So, the vast majority of our borrowing in place is fixed rate. So, the opportunity to refinance that. There may be opportunities here and there, but because of the make-whole that would be factored in, it's not something that we would do in broad scale.

But in terms of the maturities over the next three to five years, we're actively looking to push those out, get duration across our portfolio, and, as a result, we would benefit from lowering our borrowing costs. So, we'll continue to see that as a benefit to our business, but I don't want to position it as a sizable drop in our financing costs because of the fixed rate debt we have in place.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back to CEO, Sachin Shah, for closing remarks.

Sachin Shah

Thank you, everyone. We appreciate your ongoing support and your interest in the business. We look forward to giving you an update next quarter. Thank you.

Operator

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