Brookfield Renewable Partners L.P.

First Quarter 2017 Conference Call & Webcast

Transcript

Date:	**Thursday, May 3, 2017**
Time:	**9:00 AM ET**
Speakers:	**Sachin Shah, Chief Executive Officer** **Brookfield Renewable Partners**
	Nicholas Goodman, Chief Financial Officer **Brookfield Renewable Partners**

OPERATOR:

Thank you for standing by. This is the Chorus Call conference Operator. Welcome to the Brookfield Renewable Partners, LP First Quarter 2017 Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, simply press star, and one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star, and zero on their telephone.

At this time, I would like to turn the conference over to Sachin Shah, Chief Executive Officer. Please go ahead, Mr. Shah.

SACHIN SHAH:

Thank you, Operator. Good morning, everyone, and thank you for joining us this morning for our first quarter conference call. Before we begin, I'd like to remind you that a copy of our news release, Investor supplement, and Letter to Shareholders 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.

Our results for the first quarter reflect our ongoing focus on operations, generation in line with long-term average, and the contribution of recent acquisitions. We continue to advance our development pipeline and are on track to deliver on our 2017 objectives for capital deployment and cash flow growth on a per share basis.

Our investment pipeline continues to be strong with opportunities in both our core markets and new geographies, as well as across multiple technologies. During the quarter, we announced that together with our partners we reached agreements to acquire 100% of the outstanding shares of Terraform Global and a controlling 51% interest in Terraform Power. On a combined basis, these businesses own approximately 3,600 megawatts of high quality contracted renewable assets with the majority of their cash flow in the United States. Furthermore, with assets and India and China, these transactions provide geographical diversification and represent a meaningful investment into solar, providing a platform for future growth.

Turning to our operating businesses, in North America, hydroelectric generation was above long-term average, led by strong inflows in Canada and the U.S. Northeast. Our Operating Teams are actively managing our reservoirs to optimize generation and prepare for the spring season, which brings with it increased flows. In the quarter, we successfully cleared all of our eligible capacity into the recent capacity auction in New England at a price of approximately $5.30 a kW-month and we continue to sell energy, capacity, and related products at premiums to market prices and in excess of our underwritten values.

Our European operations continue to meet expectations and deliver an attractive mix of new growth, project development, and capital recycling opportunities. We continue to build on recent contracting successes and are advancing discussions with a number of large multinationals to supply them with clean energy from our wind fleet.

The sale of two wind farms in Ireland, totaling 137 megawatts during the quarter, has crystallized a return of approximately 35% for BEP Shareholders and generated net proceeds of approximately $60 million, which we can now recycle into new accretive growth opportunities.

In Brazil, we continue to benefit from our high-quality assets and deep local operating expertise. The country continues to emerge from recession and its economic outlook has brightened with the expectation of a return to growth in 2017. Power prices in the country remain volatile, ranging within R$200 to R$300 a megawatt hour during the quarter, which has allowed us to capture premium pricing through our marketing capabilities.

In Colombia, we completed the privatization of our 3,000 megawatt Isagen portfolio and delisted its shares from the Colombian Stock Exchange. We continue to progress our business plan of improving operating efficiencies and advancing the development pipeline, including two new hydro projects totaling 100 megawatts.

Over the last five years, we have added approximately 6,000 megawatts of capacity to the business, or 2,000 megawatts on a proportionate basis to BEP shareholders, and we have deployed 2.5 billion of BEP equity through a combination of acquisitions and project development. By maintaining financial and underwriting discipline, we've been able to invest capital at premium returns and deliver per-share cash flow growth consistent with our long-term targets.

Based on our current operating plans, we anticipate that by the end of 2017 we will have delivered compounded FFO per share growth of 9% since 2012. This cash flow growth, derived from our portfolio of long duration assets, underpins our growing distributions and gives us confidence that coupled with our current dividend, we can achieve our longer-term total return objective of 12% to 15% growth on a per-share basis.

I will now turn the call over to Nick to discuss our operating results and our financial position. Nick?

NICHOLAS GOODMAN:

Thank you, Sachin, and good morning. Adjusted EBITDA and funds from operations were $453 million and $166 million respectively for the quarter. Performance was driven by generation in line with averages from our fleet. Strong inflows in North America were complemented by improved conditions in Colombia and Brazil. Our Wind portfolios in Canada, Europe, and Brazil also delivered strong output in the quarter.

We continue to deliver organic growth at 15% to 20% equity returns by developing and commercializing renewable power projects across our portfolio. In Brazil, we commissioned a 25-megawatt hydro facility during the quarter, which, together with construction assets planned to be completed over the next two years, are expected to contribute approximately $20 million in incremental FFO on an annualized basis. Additional projects in 2019 and 2020 are expected to add another $25 million to $30 million to FFO once completed.

Our development and construction work is advancing on scope, schedule, and budget. In Europe, we substantially completed a 50-megawatt wind farm, and are in advancing construction on three wind projects totalling 66 megawatts in Ireland and Scotland. In Brazil, we are advancing the construction of another 47 megawatts of fully contracted hydro.

As we build out and commercialize greenfield development assets, we're also replenishing our organic growth pipeline and recently agreed to acquire a 16-megawatt construction-ready wind project with an option to purchase another project totalling 23 megawatts. As Sachin mentioned, in the first quarter we entered into agreements to acquire Terraform Power and Terraform Global, representing a total equity investment for BEP of approximately $500 million which we expect to fund from existing liquidity. This will provide us with-forma basis.

Our liquidity possession at quarter-end remained strong at approximate $1.6 billion. In addition, our financial position continues to strengthen with strong operating cash flows, low-cost financing, and capital recycling initiatives. We completed a C$250 million offering of preferred units in the quarter and are working on a number of refinancings with a potential to surface an incremental $100 million of net proceeds to BEP.

We increased our distribution by 5% in the first quarter to $1.87 per unit on an annualized basis. In the current low power price environment, we expect our distribution payout ratio to remain above our long-term target of 70%. We would expect this to normalize over the medium-term, however, as we continue to deliver both organic and acquisition cash flow growth. In the meantime, given our robust operating cash flows, investment-grade balance sheet, and strong liquidity position, we continue to have ample resources to fund our growth, capital expenditures, and development program, and grow distributions by 5% to 9% annually.

We are pleased with the progress we have made in the first three months of the year. Our near-term priorities are to progress our active transactions and growth initiatives, maintain high levels of operating availability, and advance our development pipeline on scope, schedule, and budget. We remain focused on delivering annualized total returns and distribution growth in line with our targets and believe this is achievable in the current environment and in light of our business prospects.

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

OPERATOR:

We will now begin the question-and-answer session. If you would like to ask a question, please press star, and one on your touchtone phone. You will hear a tone to indicate you are in the queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two.

Our first question comes from Nelson Ng with RBC Capital Markets. You may go ahead.

NELSON NG:
Thank you. Good morning, everyone. Could you give a bit more colour in terms of the timing for the TERP and Global transactions — for the various approval processes and timing?

SACHIN SHAH:
Sure. I'd say first our expectation is that transactions should close by the end of this year. That's generally been the target that was set out when we signed the transactions. The steps along the way are a bankruptcy court approval, shareholder vote, and then obviously regulatory approvals, and all of that is tracking on plan today.

NELSON NG:
Are there kind of any specific dates set out in the calendar for any of those items?

SACHIN SHAH:
Not at this stage. Once they are, it would generally be very public given the nature of the transactions and what was involved with the various stakeholders. So, it would be public once it is known.

NELSON NG:
Okay, thanks. Then just a few questions on Colombia. I'm not sure if my math is right, but were power prices about 50% lower this quarter compared to Q1 2016? I just noticed that the revenue and EBITDA for Colombia was pretty consistent year-over-year, but the generation was a lot higher for the quarter?

NICHOLAS GOODMAN:
Yes, Nelson. I think your math is broadly right. I think if you remember, when we acquired Colombia last year, the country was going through a period of low hydrology and dry conditions, and being a system that's heavily reliant on hydro, that drove prices higher. As we've seen hydrology return this year, it's similar to what happened in Brazil when you come out of a period of low hydrology and high prices when people get conditioned to using less power. As hydrology returns, demand is taking a little bit of time to return, so prices were lower in the first quarter, but we expect that to recover to

normal levels during the course of the year and we still expect strong demand growth this year in the country.

SACHIN SHAH:

Nelson, the only thing I would add just on Colombia in general, and the reason we were excited about the investment last year, was one thing we had seen historically in that market is this amazing resilience from the company that even if water levels were low and prices were high, or, conversely, water levels were high and prices were low, that the revenue EBITDA and cash flow profile of business was very stable. So it had a very good infrastructure type of nature to it. It didn't have volatile earnings. You're seeing that play out this year and what we liked was we saw a tremendous opportunity to buy a business where you could drive operational efficiency, reduce costs, improve productivity, which would then drive bottom line results, which we feel we're good at, rather than buying a business that was solely predicated on power price growth and growth of the headline revenue.

So, I think it's kind of neat that you're seeing in two years that just play out in front of your eyes which is that stability of the revenues in spite of a very different year from a hydrology perspective.

NELSON NG:

I see, and in terms of contracting strategy, I know in Brazil you try to enter into more contracts when power prices are high. I think in Colombia the average contract term is about two years. Will you be looking to kind of implement a similar strategy in terms of contracting as much as you can if and when the prices pick up?

SACHIN SHAH:

Yes. I think that dovetails a little bit with my earlier remarks is that it's a much newer market than Brazil in terms of the depth of counterparties and contracting structures. Brazil is a very mature market. You can go and sign 30-year contracts with the Government, you can sign 8- to 12-year contracts with commercial counterparties. Colombia, it's just newer. They only deregulated in the last 10 years. The economy is smaller. I'd say, in the near-term—it comes back to my earlier comments, which is we like the very stable nature of this business and the fact that hydrology swings wouldn't impact its earnings capacity. Longer-term, with the amount of GDP growth in that country, with power demand growing at 2% to 3%, and with further industrialization, we believe a contracting market will open up. We're actually pushing on that, but that will take some time. What we're seeing is the early stages of distribution companies looking beyond two years and saying it would be good to have five-year contracts.

We're just being patient in Colombia because we think that simply its supply shortage and new generation that's needed will drive prices higher from where they are today and we'll then take advantage of that structural change to put on longer-term contracts. So, it's not a situation like Brazil where volatility allows you to. We need that structural change to evolve such that we can lock in longer-term, higher-priced contracts.

NELSON NG:

Okay. Thanks, Sachin. Then just one separate question. In terms of the developments in Europe, is there any reason why the wind facilities are generally in the kind of 15- to 30-megawatt range? Are there kind of structural impediments for larger projects?

SACHIN SHAH:

In Europe, I'd say this isn't just an Irish phenomenon. I'd say generally in most of the countries in Europe what we've seen is smaller-sized wind farms relative to North America, and even relative to parts of Latin America, like Brazil. I think it's in part because of how the interconnection agreements are handed out, what they call grid. It's also in part just due to geography. Many wind sites are put up in smaller areas where you just don't have the capacity to put very, very large fleets up. So, it's a little bit geographic, a little bit of how grid connections are handed out, but across Europe you'll see this. You don't see the large 150-, 200-megawatt type portfolios that are being developed in bulk in one site like you do in, for example, California or in parts of Latin America.

NELSON NG:

Thanks.

OPERATOR:

Our next question is from David Noseworthy with Macquarie. You may go ahead.

DAVID NOSEWORTHY:

Great. Thank you very much and good morning. I just wanted to start off on the Terraform acquisition—and if this is too early, just let me know. In terms of the management team for the Terraform entities, would they be the same as what BEP has, or is it looking to be a different group?

SACHIN SHAH:

Yes. David, look, that's a separate public company. It's not our place to talk about the management team of TERP and Global at this stage. They're public companies. Nothing has been approved and it would just not be appropriate.

DAVID NOSEWORTHY:

Okay. So then with Global, would that fall under BEP?

SACHIN SHAH:

Well, no. Global is a public company today, David, so, again, no transaction has been approved by anybody. All we've done is signed deals and it's just not appropriate to have that conversation for two public companies that are being traded today in the marketplace.

DAVID NOSEWORTHY:

Okay. Fair enough. I understand you have sufficient liquidity to fund the $500 million. Is the intent—the long-term funding, is the intent to have a different financing for that or is it just you're, over time, going to pay down that, what would be on your line of credit?

SACHIN SHAH:

Are you talking about specifically for the announced acquisitions or just more broadly our funding strategy?

DAVID NOSEWORTHY:

Specifically, for the $500 million for the acquisitions.

SACHIN SHAH:

I see. So, I would say there is no difference between this deal and previous deals. We generally use our lines and keep a healthy amount of availability on our lines to fund growth. We generally use operating cash flow to fund existing maintenance capex and our distributions, and then from time-to-time we issue out of the capital stack, whether that's debt, preferred shares, equity. We do a lot of upfinancing in the business.

I think one of the real advantages we have in our portfolio is just the sheer long-duration nature of hydro, and the fact that it's largely seen as a perpetual asset class by capital providers means we have far less, on a relative basis, debt amortization than most organizations in our space. And where we do have amortization even on hydro, we have the benefit of being able to refinance that just because of that permanent capital that we've put to work.

So, I think in this situation we have the liquidity largely available on our lines. We have some cash as well that we will use to fund the TERP and Global deals, or other deals that happen to come along, and over time we make an assessment about the level of liquidity that we feel we need to replenish with some fundraising initiative, whether that's debt or equity or project-level finance.

DAVID NOSEWORTHY:
Okay. Thank you. If I may on the tax, when I think about your new assets all being brought on or kind of this co-owned with the Brookfield funds, and then some of your wholly-owned assets are kind of getting older and those tax-shelters are getting depleted, how should I think about your cash taxes going forward and the fungibility of your different entities to shelter your earnings?

SACHIN SHAH:
Sure. So, I think if you look at the legacy assets in the business, many of them—about a large portion of them were in Canada where you're correct, depreciable asset base is declining and we don't have the same tax-shelter. That being said, in Canada we actually benefit from the largest pool of what I call NOLs or tax losses, in part because of our funding structure. We issue corporate debt in Canada. We generate Part 6 Tax in Canada. We have most of our people from a G&A perspective in Canada, so we generate this natural shelter in Canada which, if anything, is actually meaning that we are more than offsetting the annual tax depreciation in our assets. We're actually generating net positive tax-shelter. So, in Canada, we're in great shape.

In the U.S., we've generally been the benefactor of buying assets in situations where we could get a step up on the tax basis, and we've been using that step up to then shelter ongoing income, or we've got accelerated depreciation. A lot of the wind fleet that we've acquired has been in the United States where you get the cash grant, you get a step up, and you can accelerate your depreciation, and so we benefited from that. But for sure in the U.S., I'd say we're pretty comfortable for the next five to seven years, and then after that we need to keep being thoughtful about how we manage tax, and whether that's through additional debt issuances in the country. Whether that's just buying in a more distressed way where you pick up some tax losses along the way, like we would potentially be doing in these announced transactions, or whether it's corporate tax rates in the United States, which are just decreasing, those are all good things that will be additive.

Moving to Brazil, we pay a flat tax in Brazil, so shelter is not something that we have to worry about. We just play a flat tax which is the regime we're in. And in Colombia, we just bought the business. We have very, very meaningful tax shelter and we have obviously, a step up on basis there. So, I'd say generally we're in pretty good shape from a tax perspective.

DAVID NOSEWORTHY:
Thank you.

OPERATOR:
Our next question comes from Sean Steuart with the TD Securities. You may go ahead.

SEAN STEUART:
Thanks. Good morning, everyone. A few questions. With respect to the agreement you reached in December regarding the hydro portfolio in Europe, are you guys at a point where you can give us a little bit of detail on the operating parameters for those assets? Any detail you can provide there?

SACHIN SHAH:
Sure. So, these are the Spanish hydro assets that we agreed to acquire subject to regulatory consents. I'd say at this stage, Sean, the regulatory consent process is actually being handled by the seller, not by us. Obviously, they keep us in the loop, but it was one that we always knew had many hurdles in front of it just given the historical dynamic between the company, the various unions involved, and the region in the country in which that the assets were located. So, I'd say it's going slowly and we are hopeful that we can resolve the regulatory approvals in the next few months. But at

this stage, there's no near-term catalyst to get approvals in place and we would expect to give you an update likely next quarter on that.

SEAN STEUART:

Okay. You noted the sale of the Irish wind assets, what looks to be really compelling returns. Can you speak to any thinking on other potential asset sales in the near- to mid-term, or do you wait for Terraform to close and work through the ROFO structure that you guys envision for that transaction?

SACHIN SHAH:

Yes. I'd say I would almost put the transaction aside and say we have a business to run, and part of our strategy to raise capital and to crystallize value for our shareholders is to sell smaller discrete portfolios of assets, in particularly where we see valuations above a level where we'd be a buyer. So, we've been saying now for two years that wind fits that category. Completed, contracted wind in good markets fits that bill and so we would continue this strategy where we find smaller, discrete parts of the business that we could sell.

For us, the criteria involved not only just creating value, but having a place to put that capital into accretive growth. We want to see shareholder capital compound at the returns that we're talking about. So, what we don't want to do is just take the capital and return it back to everybody; we actually want to put it back to work in a new investment that could generate the type of returns that we target as opposed to where many of the financial investors today are targeting and, hence, that's the buyer universe.

So, I would just detach that completely from the transaction and say that, one, are we looking for other places to sell down, yes; two, it's likely in our wind fleet; and, three, we're being very careful about it, though, because we want to make sure that we have places to put the money to work such that we can create accretion.

SEAN STEUART:

Okay. One last question. The contract profile you guys give notes some larger hydro portfolios with contracts that expire in 2020 and 2021. It's a few years out, but can you give any context on those contract expiries and your thoughts on re-contracting options there?

NICHOLAS GOODMAN:

Yes. Hi, Sean. It's Nick. I think we touched on this last quarter. I think the major contract in there that's really rolling off would be one large contract. In Québec, we have a contract with BAM which is about 1.4 terawatt hours a year, and that's like a C$65, C$70 contract a year. So when we look at that contract today, that power is sold largely into New England for all products, energy capacity ancillaries, and our view is that even today with that contract, we would be able to breakeven. From a price perspective, we don't believe there's a lot of price risk when that contract expires and, obviously, we'll work to re-contract in the meantime, but even right now we don't see there being significant risks to the revenue for the business, and we're working hard to look at re-contracting opportunities.

SEAN STEUART:

Okay. Thanks, Nick. That's all I have, guys.

OPERATOR:

Our next question comes from Rupert Merer with National Bank. You may go ahead.

RUPERT MERER:

Good morning. Relatively speaking, how interesting are markets like India and China, to BEP and could we see much of your future growth come from those markets with or without the acquisition of Terraform Global?

SACHIN SHAH:

Hey, Rupert. I'd say India, first and foremost, we've now been spending two years there on the power side, studying the utilities, studying the regulatory framework, understanding the Government incentive structures, the feed-in tariffs. Credit quality from utility off-takers is a big issue there, operational inefficiencies is fairly pervasive. But values are decent. So, what we see in that market is very similar to at various points in the history of Brazil, what we saw there: a very large population base, a very undersupplied market, a country in India that imports much of its coal, much of it highly polluting coal to power its grid and is looking for a way to create both domestic sources of power and to reduce pollution in the country, and so you've got strong Government support. So, all of that fits in with our thesis that it could be a really great market for us to invest in over the next 50 years, like Brazil.

But given its risk profile—it is an emerging market—we would be cautious and we would be careful and we would grow, I think, like you see us do in Brazil, at a modest pace, and making sure that we have a very strong local operating team. We can pursue development and attract higher returns, and then be in a position to obviously, repatriate capital and provide us with a really good geography to build upon. So, I'd say in India we're more advanced and I think you will see us investing there irrespective of the current transaction, and we've been trying to.

China, I would say is still earlier days for us. Very good market, of course; more advanced than India. They have a much more, much larger installed capacity base, but also one where thermal coal is a very, very prevalent part of the supply stack and that they want to diversify away from. I'd say with China, some of the issues that we're more mindful of is just property rights and ownership, and contractual rights longer-term, but we are seeing a healthy level of foreign investment in that country and I'd say, we're just a couple of years behind versus India in terms of our research and knowledge of that market. So, we won't take it off the table, but it's a little bit earlier days there.

RUPERT MERER:
If you invest in India, are you leaning one way or another as far as looking at organic developments or M&A?

SACHIN SHAH:
I think in all of these markets, our preference is always to start with M&A through an operational business. One, it just brings cash flows in the door on day one, it allows you to pay for seats. Two, you can then use it and use that platform to then drive a two-pronged growth strategy with a combination of M&A and organic development.

A real luxury we have in BEP is that we have all of our developments internalized. We have somewhere in the range of 100 people who all they do every day is development work for us around the world, and we can send people to India, we can then work with the teams there, and build that capability there. So, I think our preference would be to buy into the country an operating business, buy-in small, and then use that and grow a platform, similar to what we did in Ireland, similar to how we started in Brazil. Colombia is a bit of an outlier just because what we bought was such large-scale, but the concepts were the same.

So, I think you'll see more of an M&A strategy at the outset but development will surely be on the table in India and it will be a way for us to differentiate ourselves and generate outsized relative returns.

RUPERT MERER:

Okay. Great. I'll leave it there. Thanks.

SACHIN SHAH:

Thanks.

OPERATOR:

Our next question is from Andrew Kuske with Credit Suisse. You may go ahead.

ANDREW KUSKE:

Thank you. Good morning. Maybe just a question on the un-contracted portion of your portfolio, which obviously grows over time, and keeping in mind that you've obviously got a lot of contracted. But when you look at the market today and all the markets you touch, what are you seeing from really underlying economic activity driving good power demand and maybe, ultimately, prices versus just say near-term weather-related impacts?

SACHIN SHAH:

Yes. I'd start with just the risk profile to our business and then we can get into sort of the structural elements of the market. As Nick alluded, we have the contract coming due in 2019. Then in 2020, 2021, and 2022 we have two contracts coming due from our Maine assets. Great Lakes Hydro America was the acquisition we made many, many years ago that was in the Fund. Those contracts are all priced in the range of the mid-30s, so I'd say we have the benefit that the contracts that are coming due in the next five years are very, very low priced and, if anything, we're actually earning more by selling the power into the market and selling the ancillaries and capacity plus energy than just earning a single price for all three or all four products.

So, we're comfortable that the risk profile for the business is sound. Then when you actually get into the market—we've now been in, what, seven years of very, very low gas prices, thermal coal retirement, and a low growth period in the United States. So, I'd say what we've seen in our business is a tremendous level of resiliency and we've used it, rather than sitting tight, we've actually used it to our advantage to go and buy assets and underwrite them on a merchant basis at this level.

So, what we're very confident in is that if power prices just were to remain low and be in the cyclical low for a protracted period of time, then we would earn the lower end of our underwritten returns, which I would say generally would be low double digits, and we'd be fine and that would be definitely accretive to the business. Would it be in the mid-teens that we target? No, but that's also why we've geographically diversified. We have a development business and we would use all those other things to blend our returns and get into that mid-teens return range.

That being said, we have a tremendous warrant in this business. The warrant is that if power prices go up, even by a very modest amount—$5, $10 a megawatt hour—and you saw a little bit of that warrant play out during the polar vortex two winters ago—the sheer impact to our bottom line is significant and so we feel very confident that, if all else being equal nothing changes in this marketplace, we'll earn low double-digit returns on U.S. assets that are very safe that have 100 years in front of them to generate income, have high cash flow margins. If you get just a modest increase in power prices, whether that's because natural gas demand grows through pipeline interconnectivity, though growing demand, through cost of capital going up with interest rates going up modestly in the United States, all of that will be net additive to the business and it doesn't take a lot then to turn those assets from 11% or 12% returns to 15% to 17% returns, and so we feel very pretty good that we have that wind at our back.

But definitely it's something that we're mindful of and I'd say, Andrew, it's also the reason why we're progressing a contracting strategy that looks beyond the utilities and looks to corporate off-takes, because we recognize the need to build out the business and actually build a capability to have multiple contracting streams, again, to bring diversity to your off-take structure. So, there's a lot of thought we're putting into it, but I think we're in a fortunate position relative to many of our peers where we've actually been able to buy in this environment rather than worrying that our contracts are falling off.

ANDREW KUSKE:
That's helpful. Maybe just one follow-up just on a quick hydrology update around the portfolio and the expectations for this year; any major deviations from LTA or not?

SACHIN SHAH:

That's a great question. All we ever do is plan for average. Weather patterns change so quickly. To date, reservoirs are in good shape. The spring is evolving the way we saw it. We expect strong inflows through the spring melting season at least in Canada and the U.S. in the North and the Northeast. So, it all looks pretty normal right now, but as we've seen in previous years—and I think just in light of the last two years we've had with very, very low hydrology—I'd be reticent to say that you can kind of bank on long-term average for the year. It all just looks pretty good right now but weather patterns change—we could be above and we could be below—but we've clearly for a couple of years, been in a low cycle.

ANDREW KUSKE:

Okay. That's great. Thank you.

OPERATOR:

Our next question is from Sophie Karp with Guggenheim Securities. You may go ahead.

SOPHIE KARP:

Hi. Good morning and thank you for taking my question. A couple of questions maybe, first on the M&A side, with the TERP in the pipeline, do you feel that you have room for another deal this year or is that sort of it for 2017?

My second question, if I may, is on the regulatory side. We've heard some rhetoric coming out of Washington that the Federal Government needs to make bigger efforts to preserve base-load generation and maybe override states on that? Where do you see that progress, and then maybe are you monitoring that and how do you think that potential regulatory change may impact your business?

SACHIN SHAH:

Sure. I'll start with your first question. Yes. As Nick outlined in the prepared remarks, we have $1.6 billion of liquidity. We have debt capacity. We have obviously capacity to issue preferred equity and common equity. So, I think our access to capital is very strong. We don't have plans to issue any paper in the near term, but we have the capacity from a ratings perspective from just a share price perspective, and we've got ample liquidity today. So, I think our focus right now on further growth is really looking for opportunities that are unique where we don't have to participate in auction, where we can create meaningful accretion to our shareholders. And if those types of opportunities come on, then we will access the relative markets or just use our existing liquidity position, which is pretty healthy and continues to be of above $1 billion even post the funding of the two Terraform companies. So, I think on the liquidity side and the funding side, we're in very good shape.

On your question around base-load generation, I don't think of that as a political Washington thing. I think that's just more an obvious by-product of many years of investing in intermittent technology, like wind and solar, while retiring base-load coal. Simply put, that equation just cannot last and it's why, in addition to us taking a broader macro view on power prices and asymmetric risk profile in investing in hydro, it's also why we always felt that hydro was a great investment, because of its base-load nature, and as base-load resources decrease and that scarcity of base-load grows, then the value of what we acquired should increase and we should be able to monetize that.

So, I think the fact that Washington is speaking about it now means that what everyone is seeing at the various state and local levels has now made its way up to the Feds and it's a function of reliability of supply, which is what regulators worry about, and so that means a few things. It means that base-load resources should get additive compensation over time to incentivize the build-out of base-load resources. It means that storage will become really important and continue to increasingly become important, whether that's pump storage like we own, or batteries that many jurisdictions are now procuring. Those are all going to be very important. And it just means that we're in the next stage of the evolution of the power market, which was previously simply just de-carbonize to now how do you build a reliable grid with a largely renewable and base-load gas resource, and that's something everyone's thinking through now.

SOPHIE KARP:

Thanks, you.

OPERATOR:

Once again, if you have a question, please press star, and then one. Our next question comes from Frederic Bastien with Raymond James. You may go ahead.

FREDERIC BASTIEN:

Hi, Sachin and Nick. I'd like to push you a little further on the M&A front. Just wondering if you could tell us where you're seeing the best potential for M&A opportunities in the next couple of years. You touched on India and China, but it didn't sound like they ranked high on your target list, so wondering if you could provide a bit of colour there.

SACHIN SHAH:

Hi, Frederic. It's Sachin. We're seeing a lot of opportunities in the U.S. still, which I think is great because just the risk profile of investing in domestic transactions is low and we're finding opportunities with excellent returns in North America, the U.S. and Canada I'd say, but in North America.

I'd say Europe is tough just because of how much capital is chasing the transactions there and it's grinding returns down.

Brazil is still a really, really strong market, and the aftermath of the recession and the political scandal there is still leaving many, many balance sheets in distress and many sellers looking to shore up their liquidity positions such that they can just run their businesses as opposed to grow, and that means the competition and the field there is still very thin, which is great for us.

I'd say India is only a little bit slower today, not because there is not a lot of growth, but because we've seen so much competition in that market, many foreign Investors went in and so it's more how would we position ourselves in that environment to not just compete on a cost of capital basis but to buy accretively and to build accretively. So, India is just a different dynamic; it's one that's very healthy, competitive, and many, many people competing, in particular foreign capital coming in, so we're just being patient more than anything.

So, I'd say that that's sort of the lay of the land for us. But the North American markets still look very, very strong.

FREDERIC BASTIEN:

That's great to hear. Conversely, I guess I can probably conclude from your remarks here, which regions may contribute to your recycling initiatives? It sounds like Europe might still be an area of where you could source some of those initiatives.

SACHIN SHAH:

Yes. On a very select basis, Europe, a little bit in the U.S., but I'd say those are really the markets where you see the most significant, today, low cost of capital chasing deals. The only other market I would add that we are spending a lot of time on and I glossed over it because I think of it as North America, but Mexico. Mexico, again, we're just seeing a lot of opportunities to acquire wind, solar, with strong development pipelines, and this is just all part of their policy that they set in place two years ago around deregulating their power market, bringing in foreign capital. So, we actually have people on the ground now in Mexico looking at opportunities, and the benefit of Mexico, setting aside proximity, is just the fact that many of their contractual structures are denominated in U.S. dollars and so they do have a really good risk profile as a country to invest in, and in light of the elections that we saw in the U.S. in November, it's a market that I think has taken a few knocks from an investor appetite perspective.

FREDERIC BASTIEN:

Awesome. Thanks for the colour.

SACHIN SHAH:

No problem.

OPERATOR:

There are no more questions at this time. I will now hand the call back over to Sachin Shah for closing comments.

SACHIN SHAH:

Okay. Thank you, Operator, and thank you to all of our participants on the call today and everybody listening. We appreciate your support, as always, and we will talk to you in the second quarter of 2017. Thank you.

OPERATOR:

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.