Brookfield Renewable Partners L.P.

2016 Fourth Quarter and Year End

Conference Call Transcript

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Speakers: Sachin Shah, Chief Executive Officer
Brookfield Renewable Partners

Nick Goodman, Chief Financial Officer
Brookfield Renewable Partners

OPERATOR:

Welcome to the Brookfield Renewable Partners LP Fourth Quarter and Year End 2016 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'd 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 fourth 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 our website.

In 2016, we achieved a total return of 20% for our shareholders, in excess of our long-term targets. We deployed approximately $1 billion of equity into hydro, wind, and solar-based initiatives. We advanced 300 megawatts of projects through construction and late-stage development, and continued to expand our geographic reach. Looking ahead, we see a positive investment environment in all of our core markets and believe that our patient approach to acquiring wind and solar assets over the last five years is starting to bear fruit and will lead to significant opportunities for the business over time.

Hydro, wind, and solar portfolios continue to trade hands at premium valuations across our core markets. The levels at which these assets are transacting speaks to the continued value proposition of renewables, while highlighting the intrinsic value of our own portfolio. In that environment, we are being highly selective in pursuing those investment opportunities with strong return potential and where we possess competitive advantages. We remain focused on opportunities that require operating and development expertise, access to large-scale capital, restructuring capabilities, and a long-term counter cyclical investment approach.

The recent U.S. election has highlighted a number of issues in the renewable power sector that could evolve over the next four years. This includes the potential cancellation of the Clean Power Plan, breakaway from global initiatives to establish carbon targets such as the Paris Agreement, and cutting of federal subsidies for wind and solar. We don't expect the first two changes to have a meaningful impact on our business as U.S. renewable policy is largely set at the state level, and participating in global initiatives such as the Paris Agreement will not change the long-term trend of decarbonisation globally.

Reductions or cuts to federal subsidies for wind and solar, however, could change the investment prospects for these assets making them more attractive to investors like ourselves at the expense of low cost of capital, financial or tax-driven investors who were previously actively pursuing these assets. U.S. federal subsidies for wind and solar are expected to diminish by 2021 and 2022 respectively unless policy makers decide to extend them as they have in the past.

These subsidies have generally had the effect of providing additional compensation to an asset class that was not naturally competitive, and therefore facilitated the replacement of thermal coal generation with non-carbon emitting technologies. For example, it was only a few years ago, when stalled utility-scale PV solar costs exceeded $3 per watt prior to incentives. Today, utility-scale PV solar costs have declined to approximately $1.10 to $1.20 per watt in the U.S., making the technology cost competitive with traditional thermal generation, meaning that federal subsidies are not needed as much as they used to be.

Looking ahead, we believe that installed solar costs will continue to decrease, trending into the range of $1 per watt by the end of this decade. This is relevant for two reasons. First, as mentioned earlier, it will mean that even without politics, subsidies will likely naturally fade away. Second, without subsidies, investors who will generate the greatest risk-adjusted returns will be those who can enhance margins through operational expertise rather than chasing government incentives.

It is in that environment that we are best suited to invest capital, and as a result we expect wind and solar to be areas of strong future growth for us and a natural extension of our generation diversification strategy. We have spent the better part of the last two years looking at a number of wind and solar opportunities to begin our growth into these areas. One such opportunity, which materialized from capital market volatility and balance sheet stress was TerraForm Power. Over the last year, we and our partners acquired an interest in 34% of the public float of TerraForm Power as its sponsor, SunEdison, filed for bankruptcy protection. TerraForm Power, and its sister company, TerraForm Global, own and operate nearly 4,000 megawatts of contracted wind and solar across the globe, with the bulk of the assets located in North America.

We are currently working with the Board and Management of both TerraForm companies under an exclusivity arrangement to help the companies, their employees, and all stakeholders move forward with a growing, viable business once again. We believe these companies, partnered with Brookfield, can stabilize their operations, strengthen their balance sheets, restore access to capital, and commence growing again in what we believe will be an improved investment environment for operationally focused and broadly diversified power companies.

Turning to South America, we continue to see gradual improvement in the Brazilian economy. The pace of GDP contraction has slowed, and we believe the economy will resume growth in 2017. In addition, monetary policy is easing as inflation comes under control, and investment is now starting to take hold. From a power market perspective, we expect demand to begin rising again at approximately 1% to 1.5% annually and wholesale market prices to continue to rebound. Current spot prices in Brazil are in the range of 150 reais a megawatt hour versus the lows of approximately 50 reais a megawatt hour observed in early 2016. With the currency still weak and capital scarce, we continue to see a very attractive investment environment in that country.

In Colombia, the government has begun implementation of a revised peace agreement with the FARC that should further improve the security environment and accelerate investment and growth. While GDP growth has slowed recently, it remains positive despite low oil prices, due to the country's strong economic foundation. Furthermore, inflation has fallen sharply recently, which will support continued interest rate cuts, stimulate demand, and boost investment.

In Europe, we continue to look for tuck-in, operating, or development stage wind, solar, and hydro opportunities to take advantage of our operating scale in that market. Returns for operating assets reflect a very low-rate environment, and as a result, we remain focused on building out our wind-development pipeline and opportunities that, again, require substantial operating expertise.

Looking ahead to 2017, we are well positioned to continue growing the business in a prudent manner with a focus on the long term. Accordingly, our strategy remains the same, to deliver 12% to 15% total returns on a per-share basis over time.

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

NICHOLAS GOODMAN:
Thank you, Sachin. We reported Adjusted EBITDA of $1.5 billion and FFO of $419 million during 2016. While our assets in North America continue to perform at industry-leading availability rates, inflows in the United States were below average in 2016, disproportionately impacting results. The impact was partially mitigated by our Canadian portfolio, which performed in line with our long-term average.

Over the last 10 years, generation from our North American portfolio has been within 1% of the long-term average. Generation variability is a normal part of our business and we continue to manage our operations, capital plans, and growth based on how the business performs over the long term, and as a result, we're able to grow the business while maintaining a strong balance sheet and healthy liquidity position.

Assuming normalized long-term average generation, EBITDA and FFO would have been $1.6 billion and $527 million respectively. Results going forward will be further enhanced by full-year contributions from 2016 growth, expected to contribute approximately $30 million in incremental FFO in 2017, and the build-out of our development pipeline, expected to contribute an incremental $45 million to $50 million to FFO when commissioned.

We currently have 300 megawatts of assets under construction or in late-stage development, representing additional approximate $700 million of growth capital, or approximately $240 million of BEP equity on a proportionate basis. These projects are spread across North America, South America, and Europe. Currently, 150 megawatts of these projects are under construction, scheduled to be commissioned by the end of 2018. All projects under construction are progressing on scope, schedule, and budget.

In Brazil, we have now commissioned a 25-megawatt hydro facility, and continue with the construction of two other hydro projects, totalling 47 megawatts. In Europe, we continue to advance two wind projects, totalling 43 megawatts in Ireland, and are also moving our first 19 megawatts of wind in Scotland, and a further 19 megawatt wind project in the Republic of Ireland towards the construction phase. In addition, in the fourth quarter we agreed to acquire two early-stage greenfield solar development projects in North America, representing an aggregate 120 megawatts, and continued to advance 100 megawatts early-stage development in Colombia. Our operating platforms outside of North America also continue to deliver strong asset performance and advanced revenue growth initiatives.

In Europe, our wind assets performed well in 2016 with production at 95% of long-term average. During the year, we continued to progress our power marketing business, entered a power supply agreement with Facebook, and we remain in advanced discussions with other major global companies to supply them with green energy. We are also advancing with the potential sale of approximately 130 megawatts of contracted wind farms from our Irish portfolio. These projects were part of the development pipeline that was secured during our acquisition of the 700 megawatt Bord Gáis portfolio in 2014. We are advancing plans to sell these assets at compelling returns and recycle most of the capital into new growth opportunities.

In Brazil, our operations are performing well, with hydrology continuing to improve and wind generation exceeding the long-term average for the year. We are seeing a gradual improvement in the Brazilian economy, which we expect to be reflected in rising power demand and wholesale market prices. We are patiently looking for opportunities to capture premium pricing from the un-contracted portion of our output and continue to engage with many commercial and industrial customers seeking contracting opportunities. Over the course of the last year, we signed 15 contracts to sell power at prices in the 200 reais to 270 reais per megawatt hour range for the next two to three years.

It has been a year since we made our initial investment in the 3,000 megawatt Isagen portfolio, and we are extremely pleased with the quality of the assets, management and operating teams. In our first full year of operations, we were able to increase our consortium’s ownership to close to 100% and have started the process of delisting the company from the Colombian Stock Exchange. Results have modestly exceeded the Company's budget and are at underwriting expectations.

Turning to the balance sheet, we maintained high levels of liquidity throughout the year, and ended 2016 with approximately $1.2 billion of available liquidity. In 2016 we successfully accessed the debt and equity capital markets raising $1.2 billion in new funding and completing over $2.7 billion in non-recourse financings. This included successfully refinancing all of our outstanding 2016 debt maturities. We have extended the duration of our debt portfolio and locked in rates in this continued low interest rate environment.

With our predominantly fixed-rate financings and our weighted average duration of approximately nine years on a proportionate basis, we are well insulated from interest rate fluctuations. In light of the significant potential growth in front of us, we have increased the dividend by 5% to $1.87 per unit and will assess our dividend rate throughout the year based on the success of some of our near-term growth initiatives.

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:
Thank you. We will now begin the question-and-answer session. If you'd like to ask a question, please press star, and one on your touchtone phone. You will hear a tone to indicate you're in 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. There will be a brief moment while we poll for questions.

The first question today comes from David Noseworthy of Macquarie. Please go ahead.

DAVID NOSEWORTHY:
Thank you very much and good morning gentlemen. Just maybe starting off with your comments on TerraForm, can we take from those comments that with regards to the TerraForm opportunities, is there a preference amongst the various stakeholders to see Brookfield as a sponsor for these companies as opposed to an outright takeout?

SACHIN SHAH:

David, it's Sachin. I'd say obviously different constituents have different preferences. I think the most important part, and really all I can say given that we are in a process here, is that we're highly flexible. We, as an organization, have always demonstrated significant flexibility, and are able to and prepared to move under either scenario, which is why, as you've seen from a public disclosure perspective, we have a number of different alternatives open to the Board to assess, and the Board will have to assess them taking into account all of the various constituents who have a say in the process.

DAVID NOSEWORTHY:

Okay, fair enough, and then just in terms of the process and timing itself, is there an expectation that an agreement can be reached before the expiration of the exclusivity agreements, or do you anticipate those agreements to kind of be extended as needed?

SACHIN SHAH:

Yes. Look, I think we're all working very hard to make progress prior to the end of the exclusivity agreement, and obviously, that's the objective that's there in front of us, so I would say we're working towards having finalization and clarity prior to exclusivity terminating, and I give credit to the Board and Management as well. Everyone's working on the same page, and we're all trying to get there as fast as we possibly can, so I think the answer is yes, and obviously, there's a lot of work to do.

DAVID NOSEWORTHY:

Fair enough, and then just with regards to the $770 million of financing associated with hydro and wind in North and South America, how much of that was incremental to what you previously had those projects, i.e. just refinancing versus taking cash out of those businesses to be redeployed elsewhere?

NICHOLAS GOODMAN:

Sure. Hi David. It's Nick. I would say that we probably up-financed in those specific projects about $100 million net to BEP that was able to be recycled into growth in the year.

DAVID NOSEWORTHY:

Perfect, and has that cash already been accounted for or is there some of that ready to go for future needs?

NICHOLAS GOODMAN:

That would have been deployed largely last year as part of our growth.

DAVID NOSEWORTHY:

And then looking forward, what's the expectations in 2017?

NICHOLAS GOODMAN:

I think we continue to benefit in our portfolio where we've seen—in North America we've seen rising capacity prices, more favourable investment community on the debt side in the institutional market for hydro investment, and I think we've seen the successful private placement of our Safe Harbor merchant facility last year, which was a Triple B rated loan, and it was very well received by the rating agencies and by the institutional investors and we're seeing a positive environment, and so we should be able to, as we look to refinance our maturing ones this year, we should be able to raise incremental debt. The exact amount, not sure, but it could be in the range of a further $100 million that we could raise in the next 12 months.

DAVID NOSEWORTHY:

Perfect. Thanks for that, and then one last question, just with regards to—you made mention of Facebook and entering a supply agreement and I was wondering, in that context can you talk a bit about your re-contracting outlook over the next five years, specifically in Northeast U.S., and perhaps just how some of these agreements, whether it be with Facebook, I know that was more Europe, how you see that playing into the re-contracting strategy?

SACHIN SHAH:

Sure. I think it's not a surprise to anyone on the phone that corporate procurement of renewable power is starting to grow as a trend and almost a requirement for many companies, based on their own sustainability policies, based on their customer base or their shareholder base who demands a high level of renewable content in their own power consumption. And it's all part of the global trend we talk about around decarbonisation and really, society demanding it, so you're seeing a lot of companies that just five years ago would have not even thought about where they buy their power from, all of a sudden establishing procurement departments, setting policies, and targeting green power as a way to service their businesses, and for us, we think that that's a great potential growth avenue. We've obviously established a number of relationships with large corporations, and we have the benefit in the broader Brookfield where we already have pre-existing relationships with many corporates because we're in a large-scale power business.

We have a large-scale real estate business where often many of them are tenants, and so there's many touch points across the broader Brookfield organization where we have already pre-established relationships, and I think what we've been spending time on is trying to work with these organizations to help them procure long-term green power that can meet their sustainability policies, and obviously it's still early days, but the Facebook contract was really just one indication of being able to do something that's a little bit more bespoke for an organization, leveraging a reason where they were making an investment into in Ireland with a data center, and I'd say that I think you should see this as something of a trend that will grow and we're really well positioned. I think, in the next five years given our combination of technologies, our combination of base load, providing green power through hydro, our storage capabilities of reservoir and pump storage, and then, obviously, with wind and solar providing sort of newer forms of intermittent green power, we can kind of provide the full broad sweep to companies to meet that requirement and that's going to be one of the differentiating features of this business longer term, but it's still early days.

OPERATOR:

The next question comes from Ben Pham with BMO Capital Markets. Please go ahead.

BEN PHAM:

Okay. Thanks. Good morning everybody. I wanted to ask about the dividend increase and the thought process, I guess, interpretation I had from your investor session a few months ago, was that you felt confident about delivering to the midpoint of your range and it's still early in a year, but has anything really changed the last three months that maybe you have less conviction in the midpoint, that range for this year?

SACHIN SHAH:

No, Ben. If you look at our comments, no change. Look, the difference between five and seven is pretty immaterial broadly. I think the difference that we have right now is we just have a lot more growth in front of us and we just want to be able to ensure that we see clarity through the balance of the year on how much growth is successful, how much growth doesn't happen, and then as we've said, we'll revisit our distribution rate at that point in time, and if we are successful and we have added cash flows, we're going to continue to grow the distribution, and if we don't, at least we have some cushion and some room to assess what our distribution growth rate for the year is.

BEN PHAM:

Okay, and are you perhaps anticipating maybe below average conditions this year? I know that you think more longer term, but at least for near term is that a consideration in how you think with the dividend?

SACHIN SHAH:

No, we don't look at generation. I'd say it's obviously very early in the year. We've only had one month. So far, the year looks very normal. Reservoirs are at normal levels. The draw downs are normal, consistent with the early part of the winter, so we don't have any preview into what generation will look like, nor do we plan for that or factor that into our distribution. Like I said, it's largely a function of having significant growth in front of us and recognizing that with that growth we want to do two things. We want to retain cash right now to make sure that we can fund all of that growth in the least dilutive manner possible, i.e. not having to issue equity or not having to dip into our liquidity in any meaningful way, and two, making sure that if there is growth, then we can reset the distribution if it's warranted at that time.

BEN PHAM:

Okay, and then my second and last question is on TerraForm Global. I'm just wondering your thought process of including it in your potential acquisitions. I mean there's countries there, they operate in Brazil, China, India. You've mentioned that before in terms of what you're looking at, but there's also assets in South Africa a year ago, and Malaysia, which you haven't really talked about before, so I'm just curious about why that was included in the overall acquisition analysis, or targets.

SACHIN SHAH:

Sure. On TerraForm Global I'd say you're right. Those are the countries that are there. I think we are uniquely positioned to be able to actually make investments in all of those markets, and if you actually look at the company's disclosures the substantial portion of its investments are in Brazil and India, two markets that we are currently in from a broader Brookfield perspective. We're obviously a very large investor in Brazil, so we understand that market. We understand the challenges of that market, the nature of that market needing to take a very long-term view, and we understand that with wind in that market and solar in that market, there's certain local requirements that you need to have a local presence on the ground, so we think that we're ideally suited to put our arms around the Brazilian business, the India business. Like I said, we have a large office from a Brookfield perspective in India. We have substantial investments in India, so again, we'll be able to bring operating expertise to the assets in India, and the other markets are generally pretty small, but given that we have a footprint, really globally, today, having operating people in those markets for what is arguably a very small portion of that business is not an insurmountable task for us and something that we think we can do fairly easily.

BEN PHAM:

Okay. Thanks a lot, everybody.

OPERATOR:

The next question is from Sean Steuart with TD Securities. Please go ahead.

SEAN STEUART:

Thanks. Good morning guys. Just a few questions. Twenty sixteen overall aggregate generation was 15% below LTA, but Sachin, in your comments in the shareholder letter you suggest that Adjusted EBITDA, the EBITDA variance was about $100 million, which would suggest about a 6% gap. I'm just wondering if you can reconcile the below average generation this year with the EBITDA gap you referenced there. I would have thought it would have been a little bit wider.

SACHIN SHAH:

Sure Sean. Why don't we do this? Why don't we call you afterwards and walk you through the reconciliation, just because it obviously involves us going through the math, which is probably better constructed for a conversation outside of this call.

SEAN STEUART:

Fair enough. On the 120 megawatts of North American solar you're looking at, can you give us a little bit more context on location and potential development pipeline for that capacity?

SACHIN SHAH:

Sure, so this is a development portfolio that we've been able to secure in the Northeast, close to hydros that we have also in the northeast in the PJM market. It's a good portfolio. It's one where somebody, I think it was David who asked earlier about just contracting and corporate procurement, and this would be an example of, again, one of the unique things we have as an organization is this ability to do development, to bundle products where we can bundle solar and hydro and provide a more of an all-hours product to the market and corporate customers, so as we think about development and development of solar and wind, there is a strategy that we are pursuing where we're making sure that there is some synergies that we can bring from the regions that we select between our existing hydro and potentially new development opportunities for wind and solar that are in markets we like, and markets where we can then provide products to either corporate customers, utilities, load-serving entities, or governments. And that just gives us maximum flexibility, so this 120 megawatts that we were able to secure, that would fit the bill. It's in PJM. It's a very high-quality site. It's one that's close to our hydro generation and one that we could bundle together to provide an all-hours storage-based product to customers.

SEAN STEUART:

Got it, and then lastly, I just want to revisit Brazil. You mentioned all the other reasons you remain positive on the market over the long term, but the government cancelled a wind and solar auction in December due to the ongoing surplus, I guess. Have your thoughts changed at all on the margin with respect to that market, just in light of how tough it's been over the last few years now?

SACHIN SHAH:

No. Look, I think investing in Brazil as long as we have we recognize its cyclical market. They have had a very deep recession, and that was then exacerbated by a very long and protracted drought, and I guess my view would be that if you look at their long-term supply of power and the population of that country, and even modest demand growth on energy that's correlated to modest GDP growth in that country, there is really no scenario where they have an excess of power, or even enough power to service the country's needs over the long term and grow the economy at the clip that they want to grow it. And on that basis they might cancel an auction because they've got hydros coming online in 2017 and 2018, but the bottom line is the country needs power long term, so a year or two for us has never been something that we've been overly fussed about, and we continue to take a very long view on the country, recognizing though that it is cyclical.

SEAN STEUART:

Got it. Okay. That's all I had. Thanks guys.

SACHIN SHAH:

Thanks Sean.

OPERATOR:

The next question is from Nelson Ng with RBC Capital Markets. Please go ahead.

NELSON NG:

Great. Thanks. Just a follow-up question on TerraForm, or TerraForm Global. Can you kind of walk us through the timetable — I guess you guys are doing due diligence to confirm your price prior to the exclusivity period, and then if you do that, does the Board make a recommendation to shareholders and then—is that kind of the process?

SACHIN SHAH:

Yes, Nelson, all I can say is what's public, which is we have an exclusivity period for TERP that goes until the end of February. We have one for Global that's an additional two weeks beyond that. We've made that public, but we really can't speak to the timeline that the Board has set, and we can't share that kind of information externally, given that we are subject to a CA.

NELSON NG:

Okay. Are you able to provide any colour as to why there's two different exclusivity periods?

SACHIN SHAH:

No, we can't. They're separate companies and they have separate Boards and they have separate fiduciaries, and so recognizing that, they are going to make their own decisions.

NELSON NG:

I see. Okay, and then just another follow-up question on the payout ratio. When you look at the payout ratio and the normalized FFO, even adjusting for, let's say $50 million of FFO uplift in the future, the payout ratio still seems pretty high, like somewhere in the 90s compared to, I think your long-term target is around 70%. I was wondering are you kind of relying on higher merchant power prices to bring down the payout ratio longer term?

SACHIN SHAH:

Yes, so Nelson, what we have said in the past and that we continue to say is that if you factor in normalized generation, the full-year contribution of growth that's already occurred, and the normalized contribution of our development pipeline that's underway today, the under-construction assets, we can show you the math on that. We're generally coming back to kind of mid 80s as a payout, which is higher than the 70% we target, and what we've said is that we're going to run in the 80s while power prices are low. Obviously, as you've read in previous letters, power prices have stayed lower longer than we would have ever expected. I don't think if you had asked us five years ago, that we would have thought power prices would have been this low, and so that's not something that we or anybody has been able to accurately forecast. With that being said, we're still pretty comfortable being in the 80s during this period and we have an ample amount of cash, a very strong balance sheet, we're investment grade, we've got over $1 billion of liquidity, and it's never really been a problem for us to fund growth, fund the CapEx and continue to build out the business, and longer term would we like to be in the 70 range? Absolutely, but we're going to do that once power prices normalize in our view, and we continue to assess the price share with all of those facts in mind.

NELSON NG:

Okay. Thanks, and then just a quick question on Brazil. I think in the first nine months you guys were tracking about like 8% below average, whereas in Q4 it was about 42% below average on hydrology. I was wondering whether there was something that took place in Q4, anything specific or whether it was government related or anything?

NICHOLAS GOODMAN:

No, Nelson. It's Nick. Yes, in Q4 we had an outage at one of our large hydro facilities that largely would have contributed to most of the negative. If you back that out, actual generation was, I think 93%, 94% of LTA, so in line with the rest of the year, and for that outage we actually expect to receive business interruption insurance, so most of that loss will be recovered in 2017.

NELSON NG:

Okay. That's good, and a quick question on Irish wind. You mentioned that you're looking to sell 130 megawatts. How big is your entire Irish wind portfolio? I was just wondering how you settled on the 130 versus the rest?

SACHIN SHAH:

Sure, sure. First of all, today if you take Ireland, the Republic of Ireland, and Scotland, which really makes up our—the region that we invest in, we have almost 2,000 megawatts of either operating or development-based assets, and when we started in Ireland we had about 300 megawatts operating. So first and foremost, we're absolutely committed to the region, and it's a region that we think is highly attractive given its proximity to, obviously, London and the huge power demand that comes out of the population base in that market. Over the last four years since we've invested in that region we have built out probably another 300 to 400 megawatts through construction and bringing them online. We currently have another 50 or so that's in advanced-stage development, so I would say that we're just building out that region. We're committed to the region. We think it's a great place to invest.

Ireland, in particular, because we have a interconnector that allows us to sell power into the U.K., is a market that we find very, very attractive. Selling 130 is really just us being opportunistic in this environment to see if we could secure some value to continue to realize proceeds and recycle that capital back into further growth in that region, then we should do it. If not, it doesn't move the dial for us, but it's something that we do from time to time as another way to source capital, but also to show shareholders and to show the realization of value that we can secure, through our development-oriented activities, because we do pride ourselves on being good developers and it's something that if we can then surface some value, we think is a good use of shareholder time and money.

NELSON NG:

I see, and then just one last question, just to follow up on the divesting wind. I think in the past you mentioned that you're also looking to divest some wind in Canada, but you didn't mention it in this last letter. I was wondering whether things have changed in Canada, or you've only highlighted Ireland because that's newer.

SACHIN SHAH:

No, we've only highlighted Ireland currently because it's one that we are working on currently. On Canada, we had contemplated it. We had looked at it. I think we're still assessing it, and we've had some interest in the portfolio at values that I think we would be comfortable transacting at, however at this stage we still think that there's more value to that portfolio and we believe that holding onto it would make more sense, so at this stage I'd say we're still assessing it, but we are talking to various counterparties who have expressed strong levels of interest in some of our Ontario wind assets in particular.

OPERATOR:

The next question is from Jeremy Rosenfield with Industrial Alliance Securities. Please go ahead.

JEREMY ROSENFIELD:

Thanks. Just a couple of follow-up questions. Just first on the greenfield solar opportunity, just curious if you can offer a estimate of the potential size of that investment, what it would be and the timeline for when you would like to begin construction, essentially put that into operation.

SACHIN SHAH:

Yes, Jeremy it's Sachin here. It's still a fairly early stage greenfield project. There's permitting work to do. There's site assessment, so I would say that it's still a few years away from getting to the advanced stage and there's a lot of work to do. But this would be one of those where it's in our more greenfield stage and we obviously need to do work to advance it along the various development phases before we can even consider construction. Most importantly we're not even thinking of a PPA at this stage. We're looking to still continue to get permits and get it to the right stage where we can then secure financing and get a PPA.

JEREMY ROSENFIELD:

Okay, so if I can just turn attention to then, I guess, the construction-ready projects which are much closer to development, or closer to operation, do those specifically need PPAs and that's the last remaining hurdle prior to making a final investment decision on that?

SACHIN SHAH:

Yes, they're—that's largely the only remaining requirement, so if you look at them, they're mostly in Brazil. We have one in North America. The ones in Brazil are ready to be sold into the auctions and we're always pretty patient around the auctions. If we feel the auctions are not going to clear at levels we're happy with, we just wait. And the one in North America, again, we would look to secure a longer-term capacity contract for new build, which this would qualify as, and once we have those contracts secured, then we would line up and get ready to start to build those assets out.

JEREMY ROSENFIELD:

Okay, and in terms of the size of the investment, were those included within the 300 megawatt portfolio and the total $700 million of growth CapEx? Is that still part of that?

SACHIN SHAH:

Yes, that would be our backlog of what we'd call development or under construction assets. Correct.

JEREMY ROSENFIELD:

Okay. Perfect. Just one final question, just maybe I think typically you usually sort of offer up where you think the Brazil reservoir levels are and I'm just curious if you can add that comment here?

SACHIN SHAH:

Yes, sure, so we're still in sort of a mid 30's in the southern part of the country where most of the load is, which is why we continue to see volatility in pricing. The rainy season has been average I'd say, so we're not seeing a significant amount of increase to the reservoir levels, but it's far, far better than the 12% to 15% to 17% we saw in the last two to three years. It's double what we saw in the last few years, and that gives us a lot of confidence that the year should shape up to be reasonably good from a generation perspective.

JEREMY ROSENFIELD:

Okay, great. Thanks for the answers.

OPERATOR:

The next question is from Frederic Bastien with Raymond James. Please go ahead.

FREDERIC BASTIEN:

Good morning. You reaffirmed your constructive view on power prices longer term, but I would welcome any comments you may have on pricing dynamics for the next year or two, and I guess the big question is when would you expect power prices to normalize?

SACHIN SHAH:

Yes, look, I think pricing for the near term will continue to be low, and we don't see any real major catalyst for significant upswings in pricing, and when I say pricing, I mean energy pricing. What we are seeing is that capacity pricing has gone up over the last couple of years and it has stayed at elevated levels, so when I think about all-in pricing, I would say if you took energy and capacity, we're generally earning on any of our merchant facilities somewhere in the range of $60 a megawatt hour, and we would have underwritten these on an all-in basis in the mid 40s, so we're definitely seeing an improvement over where we acquired most of the merchant facilities that we have in the last few years, but it's largely a function of the fact that although energy prices have actually decreased during that period because of very, very cheap gas, capacity prices have gone up in the markets that we operate in and that all-in price that we're getting is slightly better than what we would have underwritten at.

I think the catalyst will continue to be a little bit about my prepared remarks, where if we see wind and solar start to move into the normal wholesale market environment without the benefit of subsidies, and you start to see them have to compete based on wholesale market pricing, I think that will be a catalyst for pricing to improve because people will need to bid these assets into the market. Obviously gas is always a large driver of power prices, and if gas prices go up as we've seen in the last six months, a modest increase in gas prices, then that will be a driver and if you start to get more pipelines approved in the U.S., you start to get gas flowing into offshore export terminals, all of that will be additive to gas demand, and obviously gas pricing, and you should start to see a new floor pricing on power, but we're not predicting a short, quick uptick in power pricing. We think this will be gradual and it will take time, and the last thing I would add is obviously interest rates matter.

In a low-rate environment, cost of capital is cheap. It keeps prices low, and if rates start to go up, in particular in the U.S., again you'll see added pressure from a cost of capital perspective, which will drive higher return requirements across the board for people who invest in power, in gas, in renewables, and we think all of that will then drive higher pricing, and what we've always said about our business is that what we were trying to build was a real return business that if those prices do go up and that cost of capital goes up, our shareholders will get the benefit of that from the option that we've put in place in the business, where we can capture that rising price environment, and so what we think is we're well insulated from increasing costs and increasing interest rates because we will get the benefit of rising revenues in that environment.

FREDERIC BASTIEN:
Thanks Sachin. That's helpful. You also gave some colour on reservoir levels in Brazil, but I was wondering if you could give us any indication on how wind conditions and hydrology are so far in the quarter. I guess, in particular in North America.

SACHIN SHAH:
For the first month, they've all been at normal levels. What you would normally expect in North America, Frederic, is that most hydro assets, you would start to actually draw down the reservoirs in the first few months of the year to make room for water from melting snow and from rain in the spring so that you can replenish your reservoirs, so at this stage we're drawing down our reservoirs normal course because we're seeing a pretty normal course environment. There's nothing to suggest that we don't have the normal levels of precipitation that we can forecast, but it's one month, so I don't want you to take a lot of stock in that. It would be hard to sort of extrapolate one month into the broader year.

FREDERIC BASTIEN:
Fair enough. Thank you.

SACHIN SHAH:
No problem.

OPERATOR:
The next question is from Andrew Kuske with Credit Suisse. Please go ahead.

ANDREW KUSKE:
Thank you. Good morning. My first question's probably for Nick, and it just relates to the supplemental on the contract profile on Page 13, and maybe you could just give us some clarity on

any FX hedges you have, or just a composition of the contracted generation when we look out the next few years.

NICHOLAS GOODMAN:

Sure, so I mean our FX hedging program, Andrew, is largely unchanged. We continue to hedge the Canadian dollar and the Euro. I believe in the Euro we're around 80% hedged for roughly two years at about between 1.13, 1.14. In Canada, we're about 40% to 50% hedged for the same duration, at around 1.27, so we have those FFO hedges. Our hedging approach to Brazil really hasn't changed. We don't see any advantage from a cost perspective of hedging, and we have the natural protection in that country through the inflation linkage in our contracts, and the same view would be for Colombia, so our approach to hedging really hasn't changed. As we look at our contract profile as it rolls out, I think the main, as we've discussed in the past, the main contract we have maturing is the Lièvre contract at the end of 2019, 2020. That's a contract, Lièvre, in Quebec that sells most of its power into New England, so that contract would be around US$50, and today that contract is with Brookfield Asset Management and today you're probably making money to break even on that contract, so while you see a dropdown in the contract profile as we look out, we wouldn't see any potential impact to our revenue profile. We would expect to be able to break even or exceed that price in the open market.

SACHIN SHAH:

Andrew, just to be clear on that contract that we have with them, that contract is a Canadian dollar contract, but if you look at it in U.S. dollars, it's in the low 50s as Nick said, but it's for all energy, capacity and other ancillaries, so it's at all-in price, and so our view would be as of today you're likely going to do better if you were to sell those plants' power and various products into the wholesale markets.

ANDREW KUSKE:

Okay, helpful, and here's just a bigger, broader question on the balancing act between building new stuff and then capital recycling, and I guess just philosophically, what's the pivot point on that decision process and what are some of the drivers, because if you're bringing on about 150 megawatts of power right now, and you've obviously got a big pipeline of opportunities you can do, but to the degree that you capital recycle, it effectively lowers your overall portfolio size. Just how do you think about it? Is it more opportunistic on, we have a financing need, or we want to prevent going to the equity market so we'll capital recycle at a healthy price versus just expanding the overall size of the portfolio?

SACHIN SHAH:

Yes, it's a great question, Andrew, and it's something that we're always mindful of and we recognize there's a balance to it. I'd say we're largely opportunistic. We view capital recycling as a way to source capital as long as we believe that we can sell assets at a multiple that's greater than what we could issue our equity at. Obviously, we think of issuing our equity as the last and highest cost of capital that we have in our capital stack, and so we know and we recognize there's certain assets in our portfolio today that could command a higher valuation than our implied equity value, and we see that with private market transactions and public market valuations, and in that context we try to take a very balanced approach by taking selected assets that we think will attract that cost of capital and allow us to use that to source funds in a way that would be more accretive to shareholders than just simply issuing stock, so it is a balancing act, but for us it's a nice feature to have versus just issuing debt, or issuing equity, which we don't want to do unless we absolutely have to.

ANDREW KUSKE:

Okay, great. Thank you.

OPERATOR:

The next question is from Robert Catellier with CIBC World Markets. Please go ahead.

ROBERT CATELLIER:

Hi. I just have a couple of questions on the U.S. I just wanted to follow up on the comments you made during your remarks, Sachin, on the U.S. market here, and do you see a risk, or what is the risk that a weakening federal support for renewable policies will ultimately weaken support at the state level, and then what impact that might have on investible opportunities?

SACHIN SHAH:

Sure, so if you look at the states, and this is even before the elections, they were all different in terms of their policies. California was very aggressive, had the highest renewable power standards, has moved to a 50% carbon reduction target by 2030, and you saw really California and states in the northeast, New York, various states in New England, moving to higher renewable power standards that were all state driven. And then you saw other parts of the country like Texas, like the Midwest, certain Southeast states taking their own view and recognizing that they have very large coal industries and they have their own stakeholders that they had to manage, and their targets were far less aggressive. So our view is that none of that has really changed, and federal policy won't actually change what's going on at the state level because certain states were already far behind from their willingness or desire to adopt stringent carbon reduction targets, largely because of the base of technology they had, the amount of jobs that were reliant on coal or other thermal assets, and if anything they'll continue to be behind, and if you look at how we've constructed our portfolio over the last decade or 15 years, we've primarily focused in the U.S. on those states where we felt they had the strongest carbon reduction targets and where the bulk of the population lived. So we were always focused on the coast, first and foremost because there was a lot of load there driven by both industrial demand and residential demand, and at the same time those places happen to be where they were also the furthest advanced in terms of their carbon reduction targets. We don't think that will change, and in fact a lot of the CapEx you would have seen being pulled away from coal in the last five years has really meant that a lot of that coal wouldn't come back online in any event because companies, and utilities in particular, haven't really supported that asset class in those regions for too long of a period.

ROBERT CATELLIER:

Okay. That's a helpful perspective. Outside of TerraForm, are you more likely to make acquisitions in the U.S. or develop greenfield? You mentioned large-scale opportunities where operatorship helps, but also at the same time you see financial players disadvantaged by some of the evolving market trends, so how do you see, really, the distribution between greenfield and acquisitions?

SACHIN SHAH:

Look, I think we see a great opportunity for both. I think on operating wind and solar, we view that market—it's a pretty mature market. There's been a lot of operating wind and solar built in the U.S. and in Canada over the last five to seven years, and we think that over time, people who've made investments in those assets will want to take capital off the table, will want to recycle capital themselves to go back into their core business. As I said, many investors who went into that were either financial or tax driven, and we're not natural owners of these assets long term, so we think there will be a good opportunity to acquire those assets as an owner/operator, and on the development side, given that wind and solar still represent a very small portion of the overall supply stack in the U.S., you still have close to 40% of supply in the U.S. coming from coal assets. There's obviously going to be a very long-term trend to build out wind and solar, and that will require development expertise and long-term ownership expertise, so we see both as really viable growth markets for us and don't think one will overtake the other in any manner.

ROBERT CATELLIER:
So, pretty balanced right now.

SACHIN SHAH:
Yes.

ROBERT CATELLIER:
Final question here. What's the right level of liquidity for the Company in light of everything that's going on? Obviously $1.2 billion seems like a lot, but you're also very active and you've commented about you've seen the market move in your favour, so is there any change to review as to what you have to have in terms of liquidity?

NICHOLAS GOODMAN:
Hi Rob, it's Nick. No, I think our view of liquidity, if you look throughout last year, we maintained around $1 billion available liquidity and that was as we invested considerable lines of equity through the year in large transactions. So I think as we go forward we're looking to be in that range of $800 million to $1 billion of available liquidity, which allows us on the operational side to absorb any short-term fluctuations in hydrology, and that also gives us a comfort that we can pursue the growth that we have in front of us.

ROBERT CATELLIER:
Okay. Thank you.

OPERATOR:
This concludes your time allocated for questions on today's call. I will now turn the call back over to Mr. Shah for closing comments.

SACHIN SHAH:

Okay. Well once again, thank you everyone for joining us this morning. We always appreciate the support and the interest in the Company. We look forward to talking to you again during our first quarter update early in the new year. Thank you everyone.

OPERATOR:

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