Brookfield Renewable Partners L.P.

2016 Third Quarter 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 2016 Third Quarter 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 third 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 EDGAR, SEDAR, and on our website.

The business continues to perform well, and as we approach the end of 2016 we remain on track to achieve our objectives that we set out at the start of the year. In the first nine months of this year, we've invested approximately $1 billion of equity, alongside our institutional partners, to acquire over 3,000 megawatts of renewables in North and South America. We've also acquired, with our partners, a 35% interest in the public float of TerraForm Power, a publicly listed company with a 3,000 megawatt portfolio of high-quality solar and wind assets. Finally, we have deployed $120 million this year to build out 200 megawatts of our late-stage development projects that will deliver premium returns over time.

During this year, we've seen renewable assets across our core markets transact at premium valuations. In this environment, we remain disciplined with our acquisitions in order to continue to deliver total returns to our shareholders of 12% to 15% annually. To do this, we have focused on investments where our operating expertise and countercyclical approach enable us to secure growth at attractive returns. Moreover, we continue to identify a range of new investment opportunities with the potential for significant cash flow growth over the long term.

The investment environment remains attractive across all of our targeted markets. In North America, we are looking at opportunities to acquire hydro, wind and solar across multiple markets. All of these potential opportunities reflect themes that we've discussed in the past: a prolonged period of low energy prices across most North American power markets, and balance sheet distress leading to companies in need of both strong financial sponsorship and operational expertise to optimize cash flows.

As I mentioned earlier, we have a significant investment in TerraForm Power. We believe that we are best suited to provide TerraForm with strong operational and financial sponsorship, given our global presence, internalized operating and development capabilities, and power marketing expertise, as well as our balance sheet strength and liquidity position. We look forward to agreeing on a path forward with the company shortly.

Renewable and clean energy policies continue to gather momentum, with individual states and companies primarily driving the agenda. New England's recent tri-state Clean Energy RFP, Massachusetts' clean energy legislation, and New York's Clean Energy Standard Program which calls for 50% of generation to come from clean sources by 2030, are examples of large-scale procurement activity in the Northeastern United States this past year. Numerous other initiatives to address climate change are also winding their way through the legislative and policy-making process in various jurisdictions and we believe that many of these will be implemented in due course.

While most of the activity around renewable policies have so far been at the state level, the upcoming U.S. Presidential Election will, in part, determine the extent of federal support for incentives and policies like the Clean Power Plan, or something similar to Canada's recently announced Federal carbon price. Needless to say, our business is not built around any specific short-run political cycle and we believe the positive trends we are seeing will continue to advance regardless of the outcome. To that point, there are now 60% of Fortune 100 companies with renewable electricity or climate change policies implemented, and 81 companies globally who have committed to 100% renewable electricity use.

In Europe, we continue to focus on building out our development pipeline to achieve our targeted returns. In Ireland, we recently commissioned a 14-megawatt wind farm and we continue to advance two other projects totalling over 40 megawatts. We also acquired a 19-megawatt build-ready project close to one of our existing wind farms and expect to begin construction by year end, for completion in early 2018. These projects are expected to deliver mid-teens returns in a market where contracted assets and portfolios attract considerable bids at strong valuations. We therefore continue to explore the opportunistic sale of some of our fully contracted operating wind farms in order to surface value and recycle capital into higher yielding initiatives.

In Brazil, we continue to build out three small hydroelectric facilities totaling approximately 70 megawatts of installed capacity, fully contracted for over 30 years. These facilities are expected to generate returns in the 20% range over the life of the asset, with the first of these three facilities expected to be commissioned in the first quarter of 2017.

Finally, in Colombia, we increased our ownership interest in the 3,000 megawatt Isagen hydroelectric portfolio to 99.6%. Our net share in this portfolio is approximately 25%, and this business continues to perform in line with our expectations and has strong long-term growth prospects in an undersupplied market. In addition to the operating plants, we are starting to advance 100 megawatts of development in this market, as we execute our business plan and look for add-on growth opportunities.

I'll now turn the call over to Nick to discuss our financial results and operational initiatives. Nick?

NICK GOODMAN:

Thank you, Sachin. Adjusted EBITDA and funds from operations were $332 million and $73 million, respectively, in the third quarter. We continued to experience improved hydrology in Brazil and strong wind conditions at our European and South American wind farms. In contrast, inflows in North America were lower than average, reflecting the dryer than normal summer in most regions. Hydrology in Colombia was below long-term average, but in line with our underwriting expectations for the quarter.

The third quarter is seasonally our lowest from a generation perspective and, as in prior years, we take advantage of lower inflows and our storage capabilities to perform a majority of our sustaining capital and asset optimization work. All projects are proceeding on scope, schedule and budget.

In North America, power markets continue to show signs of dysfunction, as the cost of large-scale emissions reductions, especially in regions with low access to renewables, continues to exceed the wholesale market signal or spot prices. In New England, for example, we are seeing clear signs of a market that appears to be dysfunctional. The recent Clean Energy RFP in New England failed to get close to its 5-terawatt-hour per year target by selecting less than 1-terawatt-hour of projects, despite incentives. This is also reaching where, despite winter pricing that is still in the region of $75 a megawatt hour, nuclear facilities are facing closure due to a lack of revenue. This situation is unsustainable and is also reflected in the continued strength of capacity prices, which we have seen rise in the last few years in response to depressed wholesale prices. All of this points to higher power prices in the future to incentivize the new supply that is required.

In Brazil, we are beginning to see signs of economic improvement, which is leading to an increase in both power demand and wholesale market prices, compared to earlier in the year. Current spot power prices have rebounded to roughly 150 reais a megawatt hour from recent lows around 50 reais a megawatt hour, while reservoirs are now approaching only 40% of their long-term average heading into the rainy season. Commercial and industrial customers continue to work with us in contracting opportunities, and during the third quarter we successfully secured three- to four-year contracts with an average price of 230 reais a megawatt hour.

In Europe, our build-out of a marketing group is progressing well, with revenues of over €2.5 million generated in 2016. This is being achieved by selling power over the Ireland/UK interconnector, allowing us to capture higher prices at times of peak demand in the UK. A significant portion of value is being surfaced through optimizing revenue contracts and through the sale of green credits into higher value markets. Further work is underway to develop these activities across other European jurisdictions.

Our liquidity position at quarter end remained strong at $1.3 billion. We completed a number of financing initiatives in the third quarter, including the issuance of a 10-year CDN$500 million medium-term note issuance at a coupon of 3.6%. In addition, we raised 300 billion Colombian pesos, or approximately US$100 million, of bonds at Isagen at a lower rate than our underwriting assumption. The proceeds will enable us to repay maturing borrowings, while surfacing additional funds for future growth.

In the months ahead, we will look to advance our growth plans by progressing on our transaction pipeline, building out our hydro and wind development projects, and pursuing capital recycling activities on an opportunistic basis.

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.

Thank you. The first question today is from Nelson Ng with RBC Capital Markets. Please go ahead.

NELSON NG:

Great, thanks. I had a clarification on the TerraForm process. I think that during the September Investor Day, Sachin mentioned that you didn't sign the NDA because the terms are too restrictive, since you guys were a large shareholder. I'm just wondering whether anything has changed since then and whether you're formally participating in the process or not.

SACHIN SHAH:

Hi, Nelson, it's Sachin. I'd say we continue to be on the outside, although we maintain a constructive dialogue. We are the largest shareholder, from a Class A shareholder perspective, with the company, so we're constructive, we maintain a dialogue, but we're not in the formal process. I think that's just a function of, given our shareholding, we want to maintain flexibility, and our considerations are unique relative to others who might want to bid. That being said, we like the company, we like the assets, we're going to be a shareholder a very long time, and we think that we can work constructively with the company, its board, and the bankruptcy estate, to come to a resolution in the near term.

NELSON NG:

Okay, thanks. Then, just switching over to Isagen, I believe the MD&A indicates at the Isagen level, that has a weighted average cost of about 11.4%. I think, Nick, you mentioned that you recently raised about $100 million at the Isagen level. Is that consistent with the weighted average debt? Could you talk about the cost? Also, given the relatively high costs in Colombia, what are your longer term financing plans at the asset level and whether it will remain under-levered, or what's your plan going forward?

NICK GOODMAN:

Sure, Nelson, yes, it's Nick, I can take that, and, Sachin, you can add anything, if you want. That is the right current weighted average in the portfolio. I'd remind you that most of the debt in Colombia is floating rate debt, and so they're in a reasonably high interest rate environment right now, so it's a low spread, and as we see the economy improving over time, we do expect that interest rate to normalize, along with the lowering interest rate. The debt that we refinanced recently would have been done at a discount to that. We locked in at about 8.5%. We did fixed a rate note for seven years, which is a developing market in Colombia, where we did manage to outperform the current average weighted debt with the recent issuance. I think we've outlined in our objectives for the portfolio that it is very conservatively levered, in our mind, and there is opportunity over time to rebalance that leverage, with a half to another turn of leverage potential. That would be done over time, as we see that interest rate normalize.

SACHIN SHAH:

Nelson, the only other thing I'd add to that is that is one of the opportunities we saw in this portfolio, is that as a domestic entity really constrained to the domestic bond market, they had a cost of capital that we think we can actually improve. So, a couple of things we've done—as Nick pointed out, we're now able to issue—with our sponsorship, we're able to issue debt domestically at an 8.5% coupon fixed. That's obviously a tremendous uplift for the company. It just brings, one, more capital to the company and at a better rate. Two is that they were limited to about two times debt to EBITDA, historically. We think, with our global banking relationships, with our access to capital in external markets, we can take that two times and get to 3.5, maybe even four long term, which is still investment grade, but it's just a whole new source of capital the company really never had. So, we've been able to do that currently through holdco leverage that we have in place, and that holdco leverage immediately took them from two to about just over three times, but we see further room for improvement. So, I think what you'll see over the next five years is their cost of capital will come down, their spreads will come down, and their access to capital will grow significantly, and we've already made tremendous inroads into that.

NELSON NG:

Okay, thanks, Sachin, and then just a quick question on your capital recycling initiatives. I think you previously mentioned that you're looking at, potentially, divesting the Canadian wind portfolio, and also some European wind assets. Is there anything else you can say and are there any updates on timing?

SACHIN SHAH:

Yes, look, I think we've been pretty clear from the beginning that we have a strong balance sheet, we have a great liquidity position, we don't need to raise capital, but we see an environment where multiples for the assets that we own, whether that's wind or hydro or solar, are trading at high valuations. So, in that environment, we are looking at some pieces of our portfolio and contemplating selling them, and we are in the midst of various processes around that. I'm not going to comment on specific processes, but if we can surface value for our shareholders, lock in really exceptional returns, well above the target that we strive for over the long term, then we should do that. The two areas that we've identified to date have been some wind farms in Canada and certain of our wind farms that we've completed and are now operating in Ireland.

NELSON NG:

Okay, thanks. Just one last kind of housekeeping question. In terms of the 127 megawatts of hydro and biomass under development in Brazil, what's Brookfield Renewable's ownership interest in those projects, and then I presume you have a 40% interest in the 43 megawatts that's under development in Ireland?

SACHIN SHAH:

Yes. So, Ireland, you're correct. On Brazil, the simplest way to think about it is 30 megawatts of that development is 100% ours, it's part of our historical development pipeline. The balance is all 40% ownership. It's through our fund investment.

NELSON NG:

Okay, thanks. Those are all my questions for now.

OPERATOR:

The next question is from David Noseworthy with Macquarie. Please go ahead.

DAVID NOSEWORTHY:

Thank you. Good morning.

SACHIN SHAH:

Good morning.

DAVID NOSEWORTHY:

I was just wondering if you could comment briefly about the hydro assets that ArcLight bought from TransCanada. These assets look a lot like other assets you have in the area. The valuations, from what I can tell, look similar to what you paid in the past for, say, Talen Energy's assets. What is it about these assets that prevented you from being the top bidder?

SACHIN SHAH:

Hi, David, it's Sachin. So, first, look, I'm not going to comment on ArcLight specifically, but these are very good assets. They are assets we would otherwise be interested in owning. It simply came down to valuation. Obviously, the surface-level analysis is what it is, but when you're in it and you have assets like this and you know the business, and you understand the various revenue streams, the various generation issues around shaping, around optimizing a portfolio, we obviously had a different view. Would we have liked to own these at the right value? Absolutely. Do I think ArcLight will have a great investment and make a great return? Absolutely. We just weren't successful on this initiative.

DAVID NOSEWORTHY:

Okay. Just with regards to your comment about the dysfunction of the New England market, can you comment on what you think will trigger some more rational behaviour?

SACHIN SHAH:

Sure. You mean in terms of the divergence of views between buyers and sellers?

DAVID NOSEWORTHY:

Well, that, and I was also thinking along the lines of prices that are getting bid in relative to the cost of new capacity.

SACHIN SHAH:

Right. So, look, I think we've just been in an environment where you've got sort of two really important factors that have been at play. One is that underlying fuel costs for largely gas plants has been very, very low, and so it's made gas highly competitive, to the point where it can economically displace coal. That's sort of factor number one, and that's really a function of the advances in fracking technology. Then, factor number two is, from an investor perspective, we've just been in this protracted low-return, low-rate environment for eight years now, where long bonds in the U.S. are at 2%, are zero in Europe, and in that environment, we've seen consistently, year-over-year, returns trending down on new investment. So, what we're seeing is just an environment where people are willing to earn less in spite of taking the same risks, and that's not an environment generally that we at Brookfield have a competitive advantage.

We have a 12% to 15% return threshold, we generally like to look for situations where we can surface value through operations, and we are a long-term owner and operator. So, when it comes to just people bidding, whether it's on development or operating assets at lower returns, we can't compete, but what we can do, and what you've seen us do, in terms of capital deployment over the last five years, is look for unique situations, where we can bring all of that expertise that we have in-house and use that to drive to our long-term return targets. I think, until you start to see risk being priced in properly, or some structural changes on the fuel side, we'll probably be in this for a few more years, and that's okay, because we've been able to continue to grow the business in that environment. It just means that we have to do it a different way.

DAVID NOSEWORTHY:

Okay, and maybe just one last question on Ireland. I see that you're able to acquire assets in the Irish market for returns that you like. Can you just talk quickly about some of the characteristics of the 19 megawatt wind farm that you bought versus your comment that you're looking to recycle and you're seeing great returns, like perhaps the spread between ready-for-construction assets versus operating, and the assets that you bought, are they contracted?

SACHIN SHAH:

Yes, they are, and I'd say where we're successful in buying in a market like Ireland—and I would apply this to all markets. One of the great advantages we have as a scaled business, is what we've historically referred to as tuck-in acquisitions, and what that means is, given our platform, our operating people, and our ability to manage assets without adding people or infrastructure, we can often buy something even in a market where valuations are frothy, but have a competitive advantage around the cost structure of those facilities. So, the 19 megawatts would reflect that. It's adjacent to one of our wind farms in Ireland. We could, effectively, just buy it with no people, no infrastructure, from an independent owner who needed capital quickly. I'd say those situations are unique, they're rare, but when they happen—you know, we've made a living off of doing that in North America, in Brazil, and now we're seeing the benefit of our scaled portfolio in Ireland. I wouldn't suggest that that's just a normal-course transaction that was run through sort of some broad auction. This is something that was unique and just had the tuck-in value for us that few others could compete with.

DAVID NOSEWORTHY:

Thanks for the colour. I'll get back in queue.

OPERATOR:

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

BEN PHAM:

Okay, thanks. I have a couple of questions on the quarter. On Colombia, can you comment on pricing in the quarter? Is there a bit of seasonality also in pricing in Colombia?

SACHIN SHAH:

There is seasonality. It's a hydro-dominated market. So, early in the year, when we saw water levels very low in the country, we saw prices spike tremendously, and since then, I'd say, really, mid-second quarter, coming into the third, the rain has started again, reservoirs are replenishing, prices have come back down, and that's pretty normal course. I think the bigger takeaway for us is that we went in with this thesis that the market was short power, distressed, and I think, even to our surprise, the volatility in the market is higher than we probably would have expected, and that's good. It just means that the value of what we bought and the ability to optimize what we bought, at least in early days, is very high, and this is a really tight market. If you on the supply side in any business and you're in a tight market, that's generally a good thing, and that's what we see in Colombia, and I think what that means is the development pipeline will be very valuable, our reservoirs will be very valuable, our ability to set the commercial strategy and optimize revenue will be very valuable, and it's going to be a great growth market long term.

BEN PHAM:
Okay. Just sticking with Q3, in particular, so hydro conditions were below, and was pricing well above your expectation, that you picked up some benefit on the uncontracted portion, the 20% or so?

SACHIN SHAH:
You're talking about in Colombia specifically, Ben?

BEN PHAM:
Yes. It seems like implied pricing is above your implied contracted prices in Colombia.

NICHOLAS GOODMAN:
Yes, I would say there was marginal pickup in price. The other thing we had in the quarter, Ben, was just an FX implication, so converting back to U.S. dollar. We saw some strength in the COP quarter-over-quarter, so a large driver of that would be FX.

BEN PHAM:
Okay, got it. Then, what are your thoughts about Colombia, the river systems, six in particular? Can you clarify, are those systems connected, or do you feel like having six systems, just how that's set up, there's ample diversification in the country for you?

SACHIN SHAH:
Yes, look, it is one country, so I don't want to overstate the diversity, but it is six systems, and the assets are spread out throughout the country, so there is diversity. I don't want to overstate it, because it is one country, but that being said, I think the real benefit we have is our storage capability. We can store power for 14 months. We have a gas plant where we have access to firm gas supply and firm transmission. So, where volatility will exist through weather patterns, one of the value drivers that we saw in this was the ability to store and actually capture higher prices, and I think that's the offset to an investment in one country.

BEN PHAM:

Okay, and my last question. There's a couple of comments on capital recycling. I'm just wondering, on the U.S. hydro merchant business, is there a point where you guys would look to sell that, or pieces of that merchant portfolio? You had some pretty high multiples in your Investor Day and then there's some recent transactions that look pretty conducive. I mean, could you create some value that way and possibly even benefit your multiple with reducing the merchant component?

SACHIN SHAH:

Yes, look, it's an interesting question. I think we're value investors and we're not wedded to any particular asset. I think the answer is, yes, we would always consider selling our hydro assets, a partial interest in our hydro assets, bringing a partner in. It would obviously depend on valuation. I'd say in the current environment, where prices are very low, it would be tougher for us to wrap our mind around giving up back-end value, but I look at it like we've put $3 billion to work in merchant hydro in the last four or five years and what we're seeing now is valuations keep trending higher and nothing has fundamentally changed in the price environment. I think we bought well. I think what we bought in the last four or five years, if you take the current valuations, we've done tremendously well, and I think the prospects for revenue growth out of those plants continues to be very good in light of the distress we're seeing in wholesale markets, and combining that with higher multiples means there's lots of potential value growth in this business.

BEN PHAM:

So it seems like today's conditions, there's higher multiples, but it's on an historically trough EBITDA and cash flow number, and you think that there's a lot more value for you guys to retain that, when you do the math on a longer term perspective.

SACHIN SHAH:

Yes, absolutely.

BEN PHAM:

Okay, great. Thanks a lot.

SACHIN SHAH:

Thanks, Ben.

OPERATOR:

The next question is from Rupert Merer with National Bank Financial. Please go ahead. Rupert, your line is open.

RUPERT MERER:

Thanks. Looking at the TerraForm Power auction again, have you had any changes to your thinking on potential structures for Brookfield's involvement in TerraForm? Would you consider acting as a sponsor for TerraForm as a yieldco or you only contemplate purchase of those assets into Brookfield Renewable?

SACHIN SHAH:

Hi, Rupert, it's Sachin. You know, we're flexible as an organization. I think that's actually one of our strengths at Brookfield, is that we're flexible, we listen to what investors, stakeholders, shareholders want, and we've got a history of being able to provide tailored solutions to counterparties. This situation is no different, and so I think we're open to all of the above.

RUPERT MERER:

Okay, very good. There's been some news tying Brookfield to a Continuum wind portfolio in India that could be up for sale. Can you give any more thoughts on investing in India relative to the attractiveness of that market, returns or legislation, growth potential?

SACHIN SHAH:

Sure. I won't speak to the specific company there, just because we don't do that with any company, but we like India as a market. It's a great market from a power perspective. Obviously, everyone knows it's got a very, very large broad infrastructure deficit. It's been constrained of capital for decades. It's deeply undersupplied in almost every sector that Brookfield is strong at, the broader Brookfield, and I'd say power is no different. There's 1.5 billion people that are being served by almost 200 gigawatts of power, and then if I add on to that the fact that they have a very large coal supply component to their supply stack which will need to get addressed as the country continues to grow its GDP and get wealthier, people will demand a better standard of living. It has natural untapped hydro resources both in the north of the country and in the south of the country. It has a strong history of hydro development, which we think again we can tap into. It's got government support for wind and solar, which play to our strengths, as well. So, there's a lot of development work you can do there, M&A work you can do there, and you're in a market that's undersupplied, which gives you a lot of wind at your back.

So, for us, it's a country that we like, we want to invest in. We might look back in 15 years on a call like this and it might look like Brazil to all of our investors, where we've just been slowly building out, adding projects here and there, and have a nice platform there that allows us to grow at what I call high-teens to low-20s returns.

RUPERT MERER:
You've talked about lower returns in the market and the low rate environment, and we've seen increased competition in developed economies. Are you seeing that competition spilling over into markets like India and Brazil increasingly, or still seeing much higher returns in those markets?

SACHIN SHAH:
No, I think capital flows now across the globe in various cycles, and what we've generally tried to maintain discipline on is focusing on areas where capital is scarce. Anybody who's followed our power business over the last five or seven years, from 2011 or 2010, call it, to 2014, we did nothing in Brazil. We did one small 30 megawatt project, and that was it. Not that we weren't trying, but there was a lot of capital in that country chasing transactions, returns were low, and all of a sudden, in 2015, we did two transactions, we started to build out five development projects, and we secured excellent contracts for our portfolio. We did that all because there was a gap in the capital in the country, we had a competitive advantage with our platform, currency had devalued, and we think we'll make excellent returns on that. India is the same way. There will be times in India where you should invest, now is one of those, and there'll be times where a lot of capital flows in and we'll take a pause, and when you're building a business, taking a pause is okay, as long as you have good assets and a strong balance sheet.

RUPERT MERER:
Great. That's all my questions. Thank you.

OPERATOR:

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

JEREMY ROSENFIELD:

Thanks. Good morning, guys. Just a couple of short questions. Just in terms of the Irish wind opportunities, the mid-teen returns I think you mentioned off the top, Sachin, you were referring to, I think, equity returns there, and should we assume sort of project-level financing is the way that you're going to go with those assets?

SACHIN SHAH:

Yes, hi, Jeremy. Yes, we financed at the project level in Europe, and in Ireland, in particular, non-recourse, similar covenant pattern to what we do in North America, so we're quite happy with that, and Nick can obviously elaborate on that. In terms of returns, we target as kind of build and hold to maturity returns, in euros, of mid-teens, which is quite attractive relative to where assets trade in that market. If we obviously did that and then sold, the returns at value that people acquire assets today, generally high single-digits, then the returns get far more attractive and you start to get into the mid-20s in terms of your crystalized returns. So, it is an advantage for us to have a great development pipeline, and that's why we keep building in that market.

JEREMY ROSENFIELD:

Okay, it makes sense. Then, just another little clean-up. On the settlement payment that you received in quarter—I think you were referring to the OEFC settlement, or the OEFC payment—can you give a breakdown in terms of where you've recorded that in this segment, I think maybe partially in the hydro segment and partially in corporate?

NICK GOODMAN:

Yes, that's right, Jeremy. About $3 million to $4 million would have been associated with a Canadian hydro asset and the balance would have been other related to one of our gas plants, our LSP gas plant, which has since been sort of decommissioned, but that would be in the other asset segment.

JEREMY ROSENFIELD:

Okay, perfect. Then, I think, more broadly, Sachin, not to take away, obviously, from your focus on hydroelectric power and hydro assets, but if you think about the dysfunction in the U.S. Northeast markets and you think about where different types of assets are trading in terms of valuation, do you think at all about becoming more opportunistic and adding fuel diversity in the U.S. Northeast, maybe looking at some co-gen assets or some assets that are really undervalued, that could be in the line for strong capacity payments, and becoming more opportunities just on that side of things?

SACHIN SHAH:

Yes, it's a good question, Jeremy. Look, we debate gas and co-gen facilities all the time internally. We keep an eye on who's building. We've seen a lot being built in PJM, in particular, close to the Marcellus. We've seen private equity funds move into that space. So, we obviously pay attention. We see the near-term returns there. I'd say we're still not there institutionally on the longer term returns. I think the part that nags away at us is just whether this heat rate arbitrage between market-implied heat rates versus near-term heat rates on gas plants will last, and whether or not the capacity payment is something that you can—you know, a single-year capacity payment is something that you can make a 30-year capital bet on. We might be wrong and we may have missed an opportunity in not doing that, but I think for us, we generally struggle with putting that level of capital to work on that long-term an asset without, I'd say, better conviction around the value drivers.

JEREMY ROSENFIELD:

Okay. If you were to, let's say, think about adding that type of diversification to the overall portfolio, what do you think might be your max comfort level as part of the whole portfolio, like 10% or something like that, just in terms of fuel diversity?

SACHIN SHAH:

Yes, look, I mean, it wouldn't be a big piece of the business. We have a couple of gas plants in the portfolio today, we have the ability to dispatch gas facilities, we know how to procure the fuel, but I don't want to mislead you into thinking this is going to be a big part of the business, and as I said, today, we're still not comfortable that the value drivers exist long term. The other part I didn't say is that today most of those folks who are going into it really need to use significant amounts of leverage to drive the returns. We are an investment grade issuer, we maintain investment grade project-level financing and corporate-level financing. It's likely that it's not going to be a great segment for us, that we think we can build out meaningfully over the long term.

JEREMY ROSENFIELD:

Okay, great. Thanks.

SACHIN SHAH:

No problem.

OPERATOR:

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

ANDREW KUSKE:

Thank you. Good morning. Maybe a point of clarity just on TerraForm to start. So, you stated—and I think in the letter—that you've got 35% of the equity between yourself and partners. What is BREP's portion of that? Then, the second question is do you own any other securities in the capital stack of either TerraForm or SunEdison?

SACHIN SHAH:

So, BREP's share—Andrew, it's Sachin here—BREP's share is 30% of that, and I'm not going to comment on other securities we own, just in light of where we are with that—in talking to the companies and just in light of where they are, I don't think it's prudent to comment on that.

ANDREW KUSKE:

Okay, and then maybe more just an operational question. When you look at the situation in the Northeast and your portfolio there, and just the commentaries that we've seen on transmission infrastructure, whether we look at electricity transmission or natural gas transmission, and then real legitimate concerns about what happens in peak weather conditions, whether it's very hot summers or very cold winters, how do you think about your portfolio positioning in an environment where we could see, say, super spikes in pricing, and how do you think about your portfolio positioning from an optionality standpoint, given that you've got a lot of hydro reservoirs that sit there with great optionality, and how do you marry that up with your trading business?

SACHIN SHAH:

Yes, look, it's been part of our thesis for a long time. Unfortunately, we've just been in this kind of malaise for four or five years now, but there will come a point where having a dispatchable bulk, carbon-free power facility is very, very valuable. I think you're seeing more and more people have that view, with an earlier comment about where transactions are trading today for assets that we've generally been buying at relatively better returns. So, I think the stress that you point out to, Andrew, is real, it's growing, volatility is increasing. I think as long as gas prices are low and the weather has been mild, you're not seeing that really manifest in terms of, you know, large, large spikes, other than what we saw in the Polar Vortex a couple of years ago in New England, where you all of a sudden saw how distressed or constrained the system was, but you have a few more incidents like that and I think this failed RFP that we saw in New England, those things, I think people come back to the table to try to figure out how to build added transmission to de-bottleneck constraints, and how people start to think about intermittent technologies and the role they play relative to other technologies.

ANDREW KUSKE:

Okay, that's very helpful. Thank you.

OPERATOR:

The next question is from Sophie Karp with Guggenheim Partners. Please go ahead.

SOPHIE KARP:

Hi, good morning, and thank you for taking my question. You made a comment a little bit on the process in New York State, where you're involved with a number of other parties in the treatment of hydro facilities here, and kind of where do you see this going from where you are right now?

SACHIN SHAH:

Sure. Hi, Sophie, it's Sachin. I think what you're commenting on is just around the desire of New York State to procure carbon-free generation, the incentives they've been providing to nuclear facilities, and us, effectively, advocating for ourselves and other hydro owners to say that, you know, we're in the exact same boat, which is—today, policy-makers are picking and choosing between carbon technologies and which ones should receive certain compensation benefits and which ones should not, and I think nuclear owners are feeling that pain. I think for the first time in probably the history of the supply stack in the U.S. Northeast, we're seeing nuclear operators facing potential shutdown threat because they can't cover their marginal costs, and that's just never happened before. So, you're starting to see some subsidies being provided. I think our only angle in the whole thing is just that the treatment of carbon-free generation should be fair and consistent across all technologies, and if you provide carbon-free power and you are important to renewable power standards, to ensuring that we continue to clean up carbon emission in the environment, then there just needs to be a level playing field, and that's why we're involved in that. We also advocate in all markets were in, for hydro being treated as something that's additive to states trying to reach their renewable power standards. It's important, from a sustainability perspective, that we don't just keep building new things, but we preserve those carbon-free technologies that exist and can exist for many, many decades to come. So, that's just part of our advocacy effort.

SOPHIE KARP:
Thank you.

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

FREDERIC BASTIEN:
Good morning, guys.

SACHIN SHAH:
Good morning, Frederic.

FREDERIC BASTIEN:
So, you've had your hands on Isagen for a number of months now. Have there been any major surprises, good or bad, that you've come across since acquiring the assets?

SACHIN SHAH:
Yes, look, nothing major yet. I think we said a couple quarters ago we're really pleased with the management team, they're excellent operators. We sleep well at night knowing they're looking after the assets. I mean, they do a really, really tremendous job on operations, maintenance, capex, managing stakeholder issues, running the plants properly, and to their credit, they've really shown us their commercial capabilities, as well, looking to optimize revenues, looking to manage the capex profile when water levels were low, so we're really happy with the management team. The assets are extremely high quality. We knew that going in. We'd seen all the assets. We'd done a lot of work on this. So, this wasn't an investment where we had little time to do diligence. We were looking at this

over two years. So, no material surprises. The only one, I would say is maybe a surprise to the positive, which I alluded to in an earlier question, is that the system is tight like we thought, but it could be tighter than we thought, and if it is, then this 4,000 megawatt development pipeline that came along with it, we may be building more than we anticipated, and that's great, if we can.

FREDERIC BASTIEN:

So, maybe another way to say this is that you—are you uncovering potential organic growth opportunities that might have not been apparent at the time of the transaction, or just building on your comment here?

SACHIN SHAH:

Yes, absolutely. We put zero value on that pipeline. We didn't get a chance to see it too much in diligence. It was not something that they provided a lot of information on. They provided a lot on the base business, but not on the development pipeline, and so we had no way of valuing it, and for us, it was just a bit of an option that was out there, but one we weren't sure what to make of, and I think in light of the supply side issues, the volatility in pricing and the quality of the projects they have, we're excited that we can build out a portion of that, and that will all be additive to returns, which were already high-teens, and we think if we build out even a modest amount of development, this could be in the low-20% return range.

FREDERIC BASTIEN:

Great. Thanks, Sachin.

OPERATOR:

The next question is a follow-up from David Noseworthy with Macquarie. Please go ahead.

DAVID NOSEWORTHY:

Thank you. On the operation, we saw Colombia generation relative to LTA was quite low. I was just wondering is that because there's a conscious operational decision there, or—you know, I was under the impression, because you've had 14 months' storage, that we'd see more stability in the generation from those particular assets despite the fact that they are hydro.

SACHIN SHAH:

Yes. So, where you'll see the stability is actually in the earnings rather than the generation. So, first and foremost, when we underwrote the portfolio, just to put it out there, the first year, the 2016 year numbers were given to us by management and we are exceeding those numbers, so we're well ahead of our underwriting, and exceeding them probably in the range of 10% to 15%. The reason that's the case is the budget that was set in our first year of underwriting was really underwritten to a low hydrology year. Given the seasonality of that country, you know by the end of the year where the reservoirs in the country sit and you know what the outlook for the following year will be in terms of generation. What we're seeing as the offset to low generation is that we are capturing higher prices and we're able to optimize the reservoirs. So, although the generation line is somewhat offset by reservoirs, it's never going to be a complete offset, but what you can get is that your revenues can actually get you back onside, where you get a very stable revenue and EBITDA profile in spite of volatile generation, and that's what we would expect to see longer term out of that portfolio.

DAVID NOSEWORTHY:

All right, perfect. Thank you very much.

OPERATOR:

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

SEAN STEUART:

Thanks. Good morning, guys. A lot of my questions have been asked. I just wanted to follow up on the development pipeline in Colombia. Can you give us a little extra detail on the 100 megawatts of development you started to advance there?

SACHIN SHAH:

Sure. It's largely one project. It's just over a 90 megawatt project. There's another small project that we're advancing. Both are still in the permitting stage, but it's a very late stage permitting, in the sense that there's, I'd say, one or two final permits that are needed before we can actually move to looking to sign contracts, looking to hire or engage with an EPC contractor, and actually moving to commercialization. So call it 90 megawatts of hydro. It's a decent size project, but relative to some of the other projects we own, they are small, and based on our assessment of build costs, our assessment of this stage of permitting and what EPC construction cost in the country, we think that we can build these in a low-price environment at a low 20% nominal return. So, our thinking on it is, for a business that we bought at high-teens return, we will only do development if it's accretive to the portfolio, and in the current price environment, these projects, given the head of the rivers, given the inflow data that we have, given the topography and the cost of civil, mechanical and electrical engineering around it, they should be good projects, they should deliver a low-20s return and be immediately accretive to the business.

SEAN STEWART:

Great, thanks for the detail, Sachin. That's all I had.

OPERATOR:

This concludes the question and answer session. I will now hand the call back over to Mr. Shah for closing comments.

SACHIN SHAH:

Okay, well, once again, thank you all for your continued support and interest in the company. We look forward to reporting on our progress now at year end for both the fourth quarter and the full year. Thank you.

OPERATOR:

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