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TERP - Q1 2018 TerraForm Power Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2018 / 1:00PM GMT

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the TerraForm Power 2018 First Quarter Results Webcast and Conference Call for investors and analysts. (Operator Instructions) As a reminder, this call is being recorded. I would now like to turn the conference over to Chad Reed, TerraForm Power, Inc. Director, Investor Relations. You may begin.

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**Chad Reed** - *TerraForm Power, Inc. - Director, IR*

Thank you, operator. Good morning, everyone, and thank you for joining us for our 2018 first quarter results conference call. I'm joined today by John Stinebaugh, our Chief Executive Officer, and by Matt Berger, our Chief Financial Officer. Before we begin, I'd like to remind you that a copy of our press release, investors 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're encouraged to review our regulatory filings available on EDGAR and on our website.

With that, I'll now turn the call over to John.

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Thanks, Chad. Over the past quarter, we continued to execute TerraForm Power's business plan, which we believe will be largely resilient to changes in macroeconomic conditions. Since February, there has been a marked increase in the volatility in the equity and debt markets. The VIX stock market volatility index increased by over 40% in the first quarter compared to its average for 2017. With greater uncertainty, companies that rely on open access to the equity market to achieve their growth targets have fallen out of favor. As an example, the master limited partnership sector has declined by 21% from its 52-week high versus a decline of just 6% by the S&P 500. Concurrently, the prolonged growth of the U.S. economy has recently begun to instill concerns of inflation amongst investors. With the yield on the U.S. 10-year treasury nearing 3%, investors have started to rotate out of yield-oriented securities in favor of those that offer total return. We witnessed the beginning of this change in investor sentiment during the fourth quarter of last year, when Brookfield completed its investment in TerraForm Power. As a result, we developed a business plan that will be primarily driven by executing on cost savings and organic growth initiatives over the next 5 years, including approximately $25 million in annual cost savings achieved over the next 2 to 3 years, CAFD per share accretion from the expected acquisition of Saeta and a modest amount of organic growth and add-on acquisition opportunities.

Importantly, since our 5-year business plan only requires the issuance of up to $100 million of equity following the expected close of Saeta, it is not dependent on favorable equity market conditions. Further, given that approximately 85% of our existing debt is either fixed-rate or swapped, TerraForm Power is largely insulated from interest rate risk. With our current dividend yield of around 7% and a target growth rate of 5% to 8% per year, TerraForm Power is well-positioned to deliver a low to mid-teens total return to our shareholders, irrespective of macroeconomic factors or capital market volatility.

Now, I'll spend a few minutes and talk specifically about progress on our growth initiatives. Over the past few months, we have made significant progress executing an outsourcing agreement for all of our wind fleet. We're currently in advanced negotiations with an original equipment manufacturer to provide a full-wrap long term service agreement. The scope of the LTSA would include comprehensive wind turbine operations and maintenance as well as other balance of plant services for a term of 10 years, with flexibility to terminate early. The agreement will also lock in pricing and provide availability guarantees that are consistent with our business plan. We anticipate finalizing the agreement within the next few weeks. While we expect a modest amount of transition costs in order to implement the agreement, we should begin realizing cost savings in the second half of 2018. Combined with the $10 million in cost savings, we expect to achieve a run-rate basis by the end of the second quarter. We are confident we will realize approximately $25 million in annual cost savings over the next 2 to 3 years.

In April, we received approval from Spain's National Securities Market Commission of the prospectus for a tender offer to acquire Saeta, including approval of our EUR 12.20 per share offer price as a fair price for a delisting tender offer. Saeta is a European renewable power company with 1,000 megawatts of wind and solar capacity, that has an average remaining life in excess of 23 years. It has historically produced very stable cash flow with an average contract and/or regulatory life of approximately 14 years. Commencing this week, we will launch a voluntary tender offer to acquire 100% of Saeta, which is supported by irrevocable commitments to purchase over 50% of Saeta's shares. To the extent we acquire over 90% of Saeta in the voluntary offer, we will immediately proceed with a merger to acquire the remainder. If we acquire less than 90% of Saeta's shares, we will be able to delist Saeta by means of a purchase order at the approved price of EUR 12.20 per share, which we anticipate launching shortly after the close of the voluntary offer. In either case, we're very confident we will acquire the vast majority of Saeta's shares through the tender offers by mid-summer.

Since February, it has become apparent to us that the volatility in the capital markets will likely continue for some period of time. As a result, we believe it is prudent to consider increasing the equity to fund the Saeta transaction from $400 million up to $650 million, which is consistent with our initial underwriting and target returns. If we do so, we believe this would further strengthen our balance sheet and ensure that we have ample access to liquidity. The remainder of the $1.2 billion purchase price would be funded with $350 million in nonrecourse debt raised from TerraForm Power's unencumbered assets and $200 million of cash released from Saeta's balance sheet. With the incremental equity, the Saeta acquisition would still be very accretive to TerraForm Power's CAFD per share. And we expect our pro forma corporate debt-to-cash flow ratio will decline to within our 4x to 5x goal, furthering our long-term plan to establish an investment grade rating. With a strong balance sheet and nearly $1 billion of available liquidity under committed facilities after the acquisition closes, we would be well-positioned to make opportunistic acquisitions in this period of market turbulence should they arise. In addition to opportunistic acquisitions, such as Saeta, we are looking for ways to take advantage of investment opportunities within our existing portfolio and to build our pipeline of organic growth opportunities. We are in late stage negotiations to acquire a 6 megawatt portfolio of operating distributed solar generation assets located in California and New Jersey, pursuant to a right of first offer associated with a prior acquisition. Expected returns are at the high end of our target range with potential upside from executing our business plan. We have a ROFO on an additional 15 megawatts of operating distributed solar assets with the same seller, which we may be able to exercise in phases over the next 9 to 18 months. We are also progressing a number of opportunities to establish relationships with developers in North America and Europe, whereby we may provide capital to fund their pipeline of shovel-ready development projects or add-on acquisitions. We are in discussions with a renewable power developer in Europe in which we would commit capital to fund a strategy to consolidate small regulated solar facilities in Spain. We are targeting returns on this program that would be accretive to our target return from Saeta.

With regard to operational updates, in mid-January, the failure of a single faulty blade caused the collapse of a tower at our Raleigh wind facility in Dillon, Ontario. While the incident did not cause any injuries or impact to the broader community, it reduced our CAFD for the quarter by approximately $6 million. In an abundance of caution, we removed from service all 70 turbines at Raleigh and Bishop Hill that utilized the same blades prior to determining the root cause of the blade failure. After a thorough investigation and rigorous inspections of the blades, all turbines were returned to service between mid-March and the end of April. Excluding outages related to Raleigh, our fleetwide performance was in line with the same period in the prior year.

In addition to the wind outsourcing agreement, we are making progress on our plan to enhance availability at our solar sites. We are in the process of evaluating each of our solar assets that have been below average availability to determine the root cause of the underperformance. This will result in a performance improvement plan that should increase availability to our target of 97% and enhance the cash flow of our solar fleet. Finally, the replacement of the battery energy storage system at one of our wind farms in Hawaii is progressing on scope, schedule and budget.

With that, I'd like to turn the call over to Matt Berger.

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

Thanks, John. Today I'll be covering our financial results for the first quarter of 2018, as well as recent financial disclosure enhancements. Beginning this quarter, we will report CAFD, using the definition we disclosed last year, which we believe will provide a more meaningful measure for investors to evaluate our financial performance and our ability to pay dividends. As compared to preceding periods, CAFD has been revised to exclude adjustments related to deposits into and withdrawals from restricted cash accounts required by project financing arrangements, replace sustaining capital expenditures made during the quarter with the average long-term sustaining capital expenditures necessary to maintain the reliability and efficiency of our assets, and levelize debt service payments paid during the year rather than including the cash principal and interest payments made during a given quarter. For consistency purposes, we will also be reclassifying into adjusted EBITDA, certain capital expenditures that we expect will be covered under our long-term service agreement and will be reported as O&M expense prospectively. As a result of these changes, we expect less volatility in our quarterly CAFD than previous years. During the first quarter, our portfolio performed broadly in line with expectations, excluding the impact of the outages related to Raleigh, delivering adjusted EBITDA and CAFD of the $102 million and $29 million, respectively. This represents a decrease in adjusted EBITDA of $1 million, but an increase in CAFD of $10 million compared to the same period last year. The decrease in adjusted EBITDA was largely attributable to the transmission outage at Bishop Hill, which was partially offset by stronger resource at our utility scale solar facilities compared to the same period in the prior year. The increase in CAFD resulted from reduced interest expense that more than offset the decline in adjusted EBITDA. Interest savings were driven by the attractive senior note, Term Loan B and corporate revolver refinancings completed in Q4 2017 as well as lower debt balances.

For the first quarter, our total operating expenses on an annualized basis were $181 million, compared to total operating expenses of $191 million in 2017, for a difference of $10 million. This illustrates the efficiencies from our new organization structure and other cost savings initiatives. Deducting the nonrecurring lost revenue of $6 million related to Raleigh, adjusted EBITDA was $96 million and CAFD was $23 million, representing a decline of $7 million and an increase of $4 million for the quarter, respectively, compared to the same period in the prior year. We also recorded a non-cash asset impairment charge of $15 million due to the rejection of a solar renewable energy credit contract with FirstEnergy Solutions, which recently filed for bankruptcy.

Note that we have also enhanced our supplemental reporting package to better facilitate the assessment of our business by investors. Going forward, we will be providing an estimate of long-term average annual generation, or LTA, by segment, which is defined as energy at the point of delivery, net of all recurring losses and constraints. Our LTA represents the level of production we expect to achieve by 2019, as we improve the performance of our fleet. In the short term, we recognized that wind and irradiance conditions will vary from one period to the next. However, we expect our facilities will produce in-line with their long-term averages over time. We believe that comparing actual generation levels against LTA will enable investors to better assess the impact of an important factor that affects our business results.

I'll now hand the call back to John for closing comments.

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Thanks, Matt. I'd like to close by providing a few comments on the outlook for TerraForm Power for the remainder of the year. Looking forward, all of TerraForm Power's turbines at Raleigh and Bishop Hill have returned to service, which will benefit our financial results for the remaining 3 quarters of this year. We expect to close Saeta in June/July and realize the accretive benefits of this transaction for most of the second half of 2018. The addition of Saeta's assets to our existing portfolio will provide TerraForm Power an impressive level of resource and geographic diversity, including 1 dozen different geographic subregions. Since the majority of Saeta's revenues are driven by the Spanish regulatory framework rather than variable production, this will further reduce the impact of solar or wind resource on TerraForm Power's results. Recent actions at the corporate, state and local levels demonstrate the continued momentum of the renewable power industry in the United States. Industry analysts estimate that 9 corporate-signed PPAs or nearly 2 gigawatts of renewables in the first quarter of 2018. These high levels of corporate procurement should bolster our repowering efforts. Given the recently passed renewable portfolio standard in New Jersey, which requires procurement of 50% of power from renewable sources by 2030, and many other states considering similar RPS levels, the demand for renewable power is poised to continue growing. With the control of high resource sites in attractive markets, TerraForm Power is well-positioned to capture long-term value from its existing asset base.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Nelson Ng of RBC Capital Markets.

**Nelson Ng** - *RBC Capital Markets, LLC, Research Division - Analyst*

In terms of the Raleigh blade failure, can you give a bit more color as to the cause?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Sure. It's John. What happened is, there basically, was a crack at the root of the blade, and it was caused because there wasn't sufficient adherence between the skin of the blade and the structure. And that because, basically, the blade to -- when it was spinning, hit the tower and shear the tower and cause the tower to collapse. So in an abundance of caution, we basically shut down 70 turbines in our fleet, that had turbines with that same blade manufacturer, and did so until we did a thorough inspection to determine the root cause of the failure. And after determining the root cause and doing a thorough inspection of those 70 blades, we gradually returned to service those blades at Raleigh as well as Bishop Hill and they're back online now.

**Nelson Ng** - *RBC Capital Markets, LLC, Research Division - Analyst*

I see. And then in terms of, I guess, repairing or rebuilding that tower and wind turbine, will you be doing that? And -- or would you just be operating with 1 less tower? And I guess, the other question is, are you able to put, like, a larger tower or larger turbine to replace that?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

We are planning on replacing that tower, that will be covered by proceeds from insurance. We expect, at this time, that we'll probably replace with a similar configuration.

**Nelson Ng** - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. Got it. And then I guess, my next question was in terms of the realized power price, I noticed that for Texas wind, it was about $14 per megawatt hour, which is down from about $20 in the Q1 '17. Like, are those projects merchant or are hedges in place or were there some constraints that cause the lower power price?

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

Sure. This is Matt. So those are projects, we have financial hedges in place. There is some basis differential between the price paid and received, based on prices at the hub versus prices at the node. So there is some negative bases that we experienced in the first quarter and then that can vary from year-to-year and quarter-to-quarter depending on the supply-demand dynamic in that particular market. So that's really what drove that differential from one year to the next.

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**Nelson Ng** - *RBC Capital Markets, LLC, Research Division - Analyst*

I see. So are you expecting the, I guess, the differential to improve or narrow later in the year? Or is $14 to $20 what you would expect to realize this year?

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

The price changes quarter-over-quarter. I mean, Q1 is a high wind low demand quarter for that region and as the year progresses, that dynamic changes. So the pricing will definitely vary from -- over the course of the year. So I wouldn't expect it necessarily to stay at this level throughout the year.

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**Operator**

Our next question comes from Colin Rusch of Oppenheimer.

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**Kristen E. Owen** - *Oppenheimer & Co. Inc., Research Division - Associate*

This is Kristen on for Colin. Just wanted to get started off with the LTAs. I appreciate you providing that incremental disclosure. But can you talk about -- sort of your performance relative to those expectations over the long-term and how you expect to bridge that performance?

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

So it's John. The LTAs represent the level of production that we expect our fleet to be able to generate in normal wind conditions, factoring in things such as constraints. So over the long-term, we would expect to be able to produce at the LTA level. But on a periodic basis, if there's better resource or worse resource, that there may well be deviations. But we expect that to be basically the -- represent the cash flow generating capability of our fleet. Did that answer your question?

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**Kristen E. Owen** - *Oppenheimer & Co. Inc., Research Division - Associate*

Not exactly. I think, we are looking for any repowering or anything that would help enhance, you talked about what you are doing on the solar side to improve availabilities to really looking more operationally for how that gets achieved.

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Okay. The -- as we alluded to in the letter, the LTAs do reflect a level of availability in -- of the fleet. And we expect to improve availability such that in 2019, we're operating at the availability level. So as an example, the outsource agreements that we're working on the wind farms has got availability guarantees that are consistent with the LTAs and with respect to the solar fleet, we do think that with the performance improvement plan that I talked about, we can increase availability up to the 97%, which is consistent with what's in the LTA as well. So we do expect to be at that level, starting in 2019, going forward. But we do have some work to get there from where we are right now. And things like repowerings as well as any other investments we make in the fleet, we would then update the LTAs to reflect those new investments.

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**Kristen E. Owen** - *Oppenheimer & Co. Inc., Research Division - Associate*

Okay. That's helpful. And then I wanted to dig into the upsized offering. You mentioned the equity market volatility. But sort of in light of the Saeta transaction, now that you're developing this [fleet] head in Spain, are you seeing increased opportunities for acquisitions in that region? And can you talk about some of the economics there in light of the regulatory environment?

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

We are seeing increased opportunities. After we announced the transaction, we had reverse inquiries from a number of parties that -- some who own assets, have held them for a while but aren't necessarily long-term owners, where there might be an opportunity to add some additional assets to the portfolio. In addition to that, as we alluded to in the letter, there are some developers who have been embarking upon consolidation strategies, buying small, primarily solar projects from private developers and aggregating portfolios. Those are at pretty attractive price points. So we are looking at selectively increasing the amount that we have invested in the Iberian region. But we are mindful and don't want to overweight the portfolio to Iberia.

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**Operator**

Our next question comes from Jason Mandel of RBC Capital Markets.

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**Jason Mandel**

Just wanted to understand the potential increase in the equity as part of the acquisition to $650 million, would that also include the same backstop from Brookfield and the same 51% commitment?

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Brookfield has agreed to backstop the $400 million. It has not increased the size of its backstop. As we alluded to in the letter, when we were initially underwriting the transaction, we were planning on investing $650 million to fund the Saeta transaction. When we announced the deal, it was, as you recall, beginning of February, during a period of pretty significant market turbulence. So we thought it was very important to announce the transaction with the financing side of it, de-risked. So Brookfield agreed to put a backstop in place at the $10.66 per share in order to provide downside protection regarding the equity issuance. But the returns that we underwrote and accretion that we underwrote during our investment committee process were based on $650 million. So at this point, what we alluded to in the letter is, we're seeing volatility in the market that we think's going to continue for some period of time. And we do have an objective of continuing to deleverage the balance sheet and think that it's prudent to consider increasing the size of equity up to $650 million, the transaction still will be very accretive and that will enable us to get to our goal of corporate debt to cash flow of 4 to 5x pro forma for the Saeta transaction within the first year after operations. So we think it will significantly strengthen our balance sheet.

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**Jason Mandel**

Great. And on the 51% that was previously the goal to maintain the equity ownership? And then lastly on ratings, there was some commentary in there about continuing to try and get ratings higher. Any conversations with the rating agencies or impact you'd expect from -- as a result of the deal?

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

Regarding 51%, I think Brookfield has indicated in the recent proxy statement that was filed that it does have an interest in maintaining 51% in future equity offerings. So that's something that we'll consider. With respect to the rating agencies, we have not had conversations with them regarding increasing the amount of equity to the $650 million. But what I can say is, they thought that Saeta on balance was a positive with the $400 million of equity to the overall credit profile of TerraForm Power. So we think that if we do decide to invest more equity to fund the -- or raise more equity to fund the transaction, that would be positive from their perspective.

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**Operator**

Our next question comes from Mark Strouse of JPMorgan.

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**Mark Wesley Strouse** - *JP Morgan Chase & Co, Research Division - Alternative Energy and Applied & Emerging Technologies Analyst*

So in your letter, you mentioned some developer relationships that you are pursuing in North America and Europe. Just curious if that will subject TERP to any kind of development or construction risk or how should we think about that?

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

It's John, Mark. We haven't made any decisions on that. TerraForm Power is designed to be an entity that is investing in stable cash point businesses. It's got a pretty high payout ratio. So I don't think we're ever going to take on a lot of early-stage development risk. What we are seeing though is that within the renewable power sector, that development is becoming more capital-intensive. And there is a number of developers that are looking to align themselves with people who've got greater access to capital. And there's a number of different ways that we are exploring to do that. But I don't think that would include taking on the overhead and establishing a development platform that's included a significant amount of early stage development.

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**Mark Wesley Strouse** - *JP Morgan Chase & Co, Research Division - Alternative Energy and Applied & Emerging Technologies Analyst*

Okay. And then I know you don't guide quarterly, but just kind of curious how we should think about 2Q given the blade failure in Ontario. It sounds like some of those turbines were still out of service in April. So just any commentary there would be helpful.

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

Sure. This is Matt. So I said there will be some small impact. I wouldn't call it material. So I think, just a matter of a few weeks and it's not for the entire 70 turbines that were -- that they were off-line in the month of April. So I think there will be a relatively minor impact in Q2. And I will point out that, as you'll see from our LTA disclosure, that across the fleet Q2 tends to be a higher resource quarter than Q1 in terms of the overall generation of LTA, and certainly its impact on our CAFD. So just broadly speaking, to give you a feel for Q2 relative to Q1. But as it pertains specifically to the blade outage, or the turbine outage, it should be relatively minor.

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**Operator**

Our next question comes from Brian Lee of Goldman Sachs.

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**Brian K. Lee** - *Goldman Sachs Group Inc., Research Division - VP & Senior Clean Energy Analyst*

Just to maybe round out the discussion on the Saeta acquisition and the change in funding. It looks like the $450 million in holdco borrowing that you had been assuming at 4% when you announced the deal, that's what's really falling on here. So John, fair to say that, that's -- one, that's what you're referring to as the capital market's volatility specifically. And then maybe just digging deeper into it, were you not able to access this funding or were you getting indications it wouldn't be at 4%? And that's sort of the volatility that you're referring to here?

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

The amount that you're talking to, the $450 million, refers to the slide that we have in the presentation on Saeta that is on our website. And that was basically bridged capital. In the first year, we are planning on raising the $350 million of project financing. But the remaining $450 million is capital that we were going to have on some combination of our revolver or sponsored facility. And then we're planning on taking it out with, first of all, there's $200 million of cash that we plan on freeing up from Saeta. And when we published that, the remaining $250 million, we were thinking it was going to come from project financings -- up-financing specifically of Saeta assets. So it's the $250 million of that $450 million that we now are saying that we may replace that with additional equity. So that would provide us with future debt capacity within the Saeta portfolio, that we could free up over the course of time to invest in other investments.

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**Brian K. Lee** - *Goldman Sachs Group Inc., Research Division - VP & Senior Clean Energy Analyst*

Okay, a helpful bridge. And then just to follow on to that. You mentioned this is still highly accretive. But can you quantify that to some degree? I know at the time, same slide deck we're referring to here, you talked about a 24% accretion in the first full year from -- on a pro forma basis, based on the original funding scheme. How should we be thinking about that with this new funding scheme?

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

So it still is a highly accretive deal. It's probably more in sort of the mid-teens with the funding, or mid-to-high teens. And really, the thing that I'd point out and just to follow-on with what John said is the long-term financing plan of project financings, the original or what was articulated in the original presentation. The long-term financing plan using project financing at the Saeta level would have a, call it, cash cost of 8% to 9% when we take in the coupon plus the impact of the amortization against the contract life. So that compares not too unfavorably with the cost -- what we would consider the cost of equity. So really, the overall impact to the accretion is not maybe as great as what might meet the eye when you take that into consideration.

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**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

In factoring that in, we are still reiterating that we will be able to hit the 5% to 8% dividend growth and we expect that the payout ratio at the outset will be below our 80% threshold. And towards the end of that period, we'll get within that 80% to 85% range. So a little bit higher than it would have been had we executed the Saeta project financings. But nonetheless, we still reiterate that growth guidance.

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**Brian K. Lee** - *Goldman Sachs Group Inc., Research Division - VP & Senior Clean Energy Analyst*

Okay. Last one for me, and I'll pass it on. And we haven't heard additional color, but curious if maybe you guys have any updates or have on-the-ground color with respect to the Spanish regulated return reset? And if there's been any new thoughts around what you're budgeting for in terms of the new secure rate to be set next year?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

We don't have any additional updates on that. The process is largely going to play out in 2019. So we maintain the comments we've made previously about it. The way that -- we think that because the framework for renewable power is on very solid financial footing right now. And in fact there is a surplus. We think that the regulators will be constructive and we think that as a result of that, on a downside case, that the returns on Saeta with $650 million of equity would be within TerraForm's target range of 9% to 11%. And if we do better than the downside case and our base case, we think the returns would be in the low teens.

**Operator**

Our next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

So perhaps just a follow up on the last question here. A couple of questions about the incremental equity. First, is it being backstopped as well here in terms of Brookfield's commitment?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Brookfield's backstop is for $400 million.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Okay, so the incremental is...

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Yes, Brookfield has not agreed to backstop anything over $400 million at this time.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Got it. And just to be clear about this, I mean, this isn't a shift in your long-term leverage target. This is a shift on the specific financing. When you think about getting to that longer-term leverage target, what's the time frame as it stands today or more importantly or specifically, is that reflected in your guidance expectations for dividend growth here?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

What we have talked about is, over a 5-year period, getting the corporate debt-to-cash flow ratio down to between 4 to 5x, and in the absence of the Saeta transaction, it would've taken towards the outer years of that 5-year plan to get to those targets. With the Saeta transaction, with the $650 million, of equity, as opposed to $400 million, we think that we should be within that 4 to 5 range, towards the higher end of it in the first full year on a pro forma basis for the transaction. And that is embedded within the 5% to 8% dividend growth guidance. With $650 million of equity, we are confident, we still will be able to maintain that 5% to 8% growth.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Got it. All right, excellent. And just keep it on going here, when would you expect or do you anticipate providing 2018 CAFD guidance at some point?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

We don't plan on giving specific 2018 CAFD guidance. We have put out the LTAs, which we think will enable people to have better visibility in terms of the normalized production levels of the fleet. And In addition to that, we do have the 5% to 8% dividend growth guidance as well as the 80% to 85% of CAFD payout ratio guidance. So that gives you some tools to sort of triangulate regarding CAFD and our business plan over a 5-year horizon.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Got it. So you would say that there's a de facto 2018 range based on this grossing up your dividend here and applying the relevant factor?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Well, what we said though, is that with the Saeta transaction, because it is very accretive, it will be below the 80% to 85% in the near term. So I would expect that it will be somewhere between 70% to 80% in the first couple of years after the transaction and then over the back end that 5-year period, we'll get to within 80% to 85% range.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

Right. So to be even clearer about this, just because we're talking about it. So '18 and '19, you're saying that you should apply the 70% to 80% as a de facto kind of guidance thought process?

**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

We're not providing de facto guidance. But what I am saying is that we think pro forma for Saeta, so if you pro forma Saeta on a full-year basis for '18 and then '19, and you look at our dividend as well as the dividend growth target, we would expect that the payout ratio would be below 80%.

**Julien Patrick Dumoulin-Smith** - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities, & Alternative Energy Equity Research*

And just a quick clarification on the new European investments that you are contemplating. Would those be above the 9% to 11% range when you talk about target returns, given your commentary about Saeta? And then separately, would those be exposed to the tariff reset in 2020, or are those in a different investment renewable scheme?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

They are in the same regulatory scheme. And we are only going to do it if it's going to be accretive to Saeta. So it would be accretive to the 9% to 11% target return.

**Operator**

Our next question comes from Ben Kallo of Robert W. Baird.

**Benjamin Joseph Kallo** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Just as far as diligence, when you guys made the investment, is this -- should we take this as a complete outlier with the problem you have with the turbine and tower? And I guess, what are you doing to proactively not let things like that happen in advance? And then my second question is, just -- could you just walk us through some of the repowering efforts you're underway with. And how we should think about that as far as the capital needs as well as the timeframe and the return on those projects?

**John Marcus Stinebaugh** - *TerraForm Power, Inc. - CEO*

Sure. In terms of the tower, we do think it is very much a one-off situation. In the rigorous inspection that we did of all 70 turbines in our fleet, which is a very small percentage of the total number of turbines that we've got in our fleet. So we don't have a very large exposure to the blade manufacturer, that -- where there would be defect in the blade. But because of that, we did the inspections and did not find any similar issues with any of the other turbines that we inspected and then subsequently brought back online. But out of caution, we are increasing the rate of inspections for the turbines from this manufacturer, in order to make sure that if there are any issues, that we identify them early and prevent any future issues from happening. Your second question regarding the repowerings, we continue to pursue repowering opportunities. As I've mentioned before, the ones that we are pursuing most at this point in time would be price considered in the Northeast as well as we do think there's a lot of repowering opportunity in Hawaii with the [scare] sites that we can drive. The work that we have done, we're very confident that there is repowering value, meaning that we can produce megawatts at a discount to greenfield cost. So the question continues to be being able to negotiate long-term contracts in order to derisk the revenue side of the equation. And once we are able to do so, then we will deploy capital. So it's a little bit hard to give sort of a timeline as to when we think we're going to be able to deploy capital into repowerings because it is going to be predicated on being able to execute long-term contracts.

**Operator**

Our next question comes from Angie Storozynski of Macquarie.

**Angieszka Anna Storozynski** - *Macquarie Research - Head of US Utilities and Alternative Energy*

I actually have a bigger picture question. So when you guys acquired, the premise was to focus mostly on operational efficiencies, streamlining the business, deleveraging and just sticking to this non-M&A driven growth story, a simplification that was supposed to resonate with investors. Since then, it seems like you have changed your focus. There's lots of discussions about M&A even though your cost of capital is still very high. I mean, especially now, you notice the volatility in capital markets. Why not just go back to basics and as you promised us initially, you could deliver your dividend growth expectations without necessarily going after development stage assets, which add risk to your business?

**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

That's a great question, Angie. As we have articulated before and what I tried to articulate in this letter is that we have a stand-alone plan, where we can deliver for the next 5 years, the 5% to 8% dividend growth maintaining our payout ratio target of 80% to 85% on the backs of cost savings. And initially, we were looking at a modest amount of organic growth to do that. And that's very important to us because that does enable us to be patient. We don't feel that we have to go out and do anything, in order to be able to deliver that return to investors. When we then looked at the Saeta transaction, we basically said we don't have to do this deal, but if it's accretive to our business plan, then it will add incremental value to shareholders. So we ended up negotiating a deal that was accretive to our standalone business plan and on the back of that, we increased our dividend from the target of $0.72 to $0.76. And once again, as we sit now, we think that we can execute for the next 5 years and deliver without having to rely on any meaningful of external M&A. We are looking at opportunities because to the extent that we can develop opportunities that are good investments that are accretive to the plan, we will continue to look to do so.

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**Angieszka Anna Storozynski** - *Macquarie Research - Head of US Utilities and Alternative Energy*

Okay. And then my second question, you -- I agree, we seem to see a change in the amount of capital that is needed for development of renewable assets. Then we see a seemingly rush from developers to add a number of new -- [special] wind facilities in the U.S. Do you think that you basically need to participate in this development pipeline right now because going forward, the margins for developers will be even thinner than they are right now and your ability to pick up assets will be somewhat diminished? Or is it just very project specific dynamics that you see that would allow you to participate in these projects that doesn't have -- it's not in any way reflective of what you think is happening in the -- especially North American wind and solar development market?

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**Matthew Ethan Berger** - *TerraForm Power, Inc. - CFO*

Yes, and to reiterate what I said before, we have the ability to be patient because we don't need to do any significant at acquisitions to hit our 5% to 8% growth targets. We always are going to be in the market developing relationships with developers and seeing what kinds of opportunities are out there, to the extent that we are able to find opportunities or develop relationships that lead to opportunities, that -- where we can invest at accretive returns, we will do so. So in terms of the outreach effort that we've got, we think that's just a part of being a market participant, developing relationships, which could lead to future deal flow if it's accretive. I do agree with your point that development is becoming more capital-intensive and there has been some fits and starts in terms of development activity because of tax reform and the tariffs. And we do think that could lead to some interesting opportunities for some developers who may overlever themselves, that bootstrap themselves a bit too much, that could need somebody to come help invest capital to help build themselves out. So that could lead to some attractive opportunities, but we're not interested in participating in the development for the sake of development or acquiring assets for the sake of acquiring assets if we can't hit our returns.

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**Operator**

Ladies and gentlemen, this does conclude our question-and-answer session. Thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.

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